

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

FORM 10-K

☒ **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 _____

Commission File No. 000-25413

China Integrated Energy, Inc.

(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

65-0854589
(I.R.S. Employer Identification No.)

10F, Western International Square
2 Gaoxin Road
Xi'an, Shaanxi Province, China

710075

Address of Principal Executive

(Zip Code)

Registrant's telephone number, including area code: +86-29-8268-3920

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to section 12(g) of the Act: Common Stock, par value \$0.0001 per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer (Do not check if a smaller reporting company) ☒

Smaller reporting company filer ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

The aggregate market value of 22,565,934 shares held by non-affiliates of the issuer, based on the last sale price \$0.80 of the common stock, as reported on the Nasdaq Capital Market on June 30, 2011, was \$18,052,747.

As of January 7, 2014, there were 44,503,379 shares of the issuer's common stock, par value \$0.0001 per share, outstanding.

Documents incorporated by reference : None

EXPLANATORY NOTE

This Annual Report on Form 10-K of the Company is solely for the year ended December 31, 2011 (the “Annual Report”) of the Company. The Company has not yet filed its Annual Report on Form 10-K for the year ended December 31, 2010, nor its interim quarterly financial statements during the year 2011 on Form 10-Q with the Securities and Exchange Commission (the “SEC”). The delay in the filing of the Annual Report for the year ended December 31, 2010 is due to the fact that the Company’s consolidated financial statements for the year ended December 31, 2009, which was audited by Sherb & Co., LLP (“Sherb”), will need to be re-audited as a result of Sherb’s being barred from practicing before the SEC .

For the convenience of the reader, the following items will have to be filed with the Securities and Exchange Commission::

- Annual Report on Form 10-K for the year ended December 31, 2010 and 2012;
 - Form 10-Q for the Quarterly periods Ended March 31, 2011, 2012 and 2013;
 - Form 10-Q for the Quarterly periods Ended June 30, 2011, 2012 and 2013; and
 - Form 10-Q for the Quarterly periods Ended September 30, 2011, 2012 and 2013.
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NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements. These statements relate to future events or our future financial performance. We have attempted to identify forward-looking statements by terminology including “anticipates”, “believes”, “expects”, “can”, “continue”, “could”, “estimates”, “expects”, “intends”, “may”, “plans”, “potential”, “predict”, “should” or “will” or the negative of these terms or other comparable terminology. These statements are only predictions. Uncertainties and other factors may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels or activity, performance or achievements expressed or implied by these forward-looking statements.

PART I

Item 1. Business.

Overview

We are a leading non-state-owned integrated energy company in China engaged in three business segments, the wholesale distribution of finished oil and heavy oil products, the production and sale of biodiesel and the operation of retail gas stations. Our major business segment is the wholesale distribution of finished oil and heavy oil products. We sell primarily gasoline, diesel and heavy oil in 16 provinces and municipalities through seven sales offices located in various regions of China. We also have four oil storage depots located in Shaanxi Province. Of the four oil storage depots, we own one, lease one and have the rights to use two of the depots through oil storage service agreements with the state-owned entities that own such depots. We are one of only four non-state-owned distributors in Shaanxi Province that are licensed to sell both finished oil and heavy oil products, and are a leading non-state-owned distributor in Shaanxi Province distributing all grades of gasoline, diesel and heavy oil. We currently enjoy convenient railway freight access enabling us to reach Sichuan, Guizhou and Yunnan Provinces. As a high volume distributor, we experience high inventory turnover with minimum inventory exposure, and have therefore been able to maintain a stable margin in our distribution business despite the volatility of global oil prices. We plan to grow our wholesale distribution of finished oil and heavy oil business by increasing our coverage area and further penetrating our existing customers and territories.

We operate two biodiesel production plants, one biodiesel production plant located in Tongchuan City, which has a 100,000 ton design capacity, but a 90,000 ton production capacity Shaanxi Province, and another 50,000-ton biodiesel plant in Chongqing City. The Chongqing biodiesel facility uses first generation biodiesel production technology, similar to the production process used in Tongchuan City’s production plant. Our expertise in biodiesel production and established distribution network should allow the Chongqing biodiesel facility to achieve gross margins of approximately 30%. We are also constructing an additional 50,000-ton biodiesel production plant adjacent to the existing plant in Tongchuan City, Shaanxi Province. Due to a catalyst bottleneck that occurred in 2012, currently the new plant is not operational. We are working with a national chemical institute to replace the catalyst and/or find another solution so that we can continue operations at the new plant as soon as possible. We intend to deploy advanced second-generation production technology as a critical component of the new facility and estimate that we will be able to reduce production costs at the facility by approximately 20%.

We believe that we are one of the largest biodiesel producers in China measured by production capacity as of the end of 2011, and the only non-state-owned integrated biodiesel producer with a distribution license. We leverage our wholesale distribution channels to sell our biodiesel to our existing customers and to acquire new customers. We have been awarded four patents relating to the use of multiple feedstock interchangeably in first-generation biodiesel production. Our biodiesel feedstock includes non-edible seed oil, waste cooking oil and vegetable oil residue, most of which have limited alternative uses. Therefore, our biodiesel production is environmentally friendly and does not require valuable farmland to grow its feedstock. In addition to the feedstock used in our existing first-generation facility, the new second-generation facility will be able to utilize a diverse supply of raw materials, such as crop straw (including wheat straw, corn straw, cotton straw and weed), agricultural biomass waste (including tree branches and tree leaves), as well as other organic waste. This feedstock flexibility affords us better input cost controls. The second-generation biodiesel that will be produced at our new facility is expected to meet Europe IV fuel standards and can be mixed with both diesel and first-generation biodiesel at any ratio. Furthermore, the second-generation production technology is expected to allow us to recycle bio-residual and water used in the production process, meeting our environmental goals while delivering further cost reductions. Our biodiesel can be blended with regular petro-diesel and used by existing diesel engines with no change in engine performance.

During 2011, we also operated seven retail gas stations located in Xi'an City and other areas in Shaanxi Province. Of the seven retail gas stations, we own three and lease four. The average annual sales volume of each gas station is approximately 8,000 tons, equivalent to approximately 2.7 million gallons. In 2010, we operated thirteen retail gas stations. During 2010, four gas station leases were cancelled by Shaanxi Highway Services Co., Ltd. as part of the government's effort to reduce the number of gas stations leased to third party operators. The other two leased gas stations were terminated due to the owner's decision to sell the gas station in connection with a project undertaken by the local government to widen the road. With our distribution license and stable finished oil supply, we generate more stable and higher margins from our sale of finished oil at the retail gas stations than from our wholesale distribution of finished oil and heavy oil business, since we sell directly to retail end customers. We plan to continue to expand our portfolio of retail gas stations through leasing or acquisitions. We are continuously looking for high-traffic locations within and outside of Xi'an City to add to our retail gas station portfolio. Due to fierce competition from Petrochina, SINOPEC and Shell in the gas station market, our gas station acquisition target will focus on secondary cities and cities at the county level.

We have experienced substantial growth in recent years. Our sales increased to \$500.0 million for the year ended December 31, 2011 from \$438.7 million in the same period of 2010, representing an increase of 14.0%. Our net income decreased to \$28.7 million for the year ended December 31, 2011 from \$53.8 million in the same period of 2010, representing a decrease of 46.7%.

Our Strengths

The following competitive strengths have been the foundation of our strong performance, and we expect that they will facilitate our future growth:

Vertically integrated business model

We are a leading non-state-owned integrated energy company in China. In 2011, we distributed 351,488 tons of finished oil and heavy oil products, which made us a leading wholesale distributor of finished oil and heavy oil products in Shaanxi Province. We have significant biodiesel production capacity and are the only non-state-owned integrated biodiesel producer with a distribution license in China. We began our retail gas station operations in early 2008 and operated seven retail gas stations by the end of 2011.

We believe our vertically integrated business model has the following benefits:

- Our existing wholesale and retail distribution channels facilitate sale of our biodiesel without sacrificing margin to third-party distributors;
- We have a stable source of supply at lower cost for the production of biodiesel, better profitability, and enhanced control of our supply chain; and
- Blending biodiesel with petro-diesel gives us pricing flexibility and a competitive advantage to gain market share from traditional distributors.

Secured access to abundant, diversified, and low-cost raw materials for biodiesel production

We have access to a stable and diversified source of biodiesel raw materials. In addition to non-edible seed oil, we also use waste cooking oil and vegetable oil residue as raw material for the first-generation biodiesel production. We were awarded four patents for biodiesel production processes that enable us to use multiple sources of raw materials interchangeably. Between 2006 and 2013, we filed the following 14 patent applications listed below with the SIPO, all of which are related to our biodiesel production. The SIPO has approved the four applications for utility model patents and one invention patent, allowed the three invention patent applications to pass preliminary examination and accepted the other patent applications for review. We maintain a flexible procurement model in which we adjust the relative quantities of each type of raw material we purchase, depending on their respective purchase prices, to minimize our raw material costs. In 2011, non-edible seed oil, vegetable oil residue and waste cooking oil accounted for approximately 21.6%, 44.0% and 34.6% of our raw material costs relating to our first-generation biodiesel production in Tongchuan City, respectively.

We are strategically located in Shaanxi Province in the northwestern region of China, where the mountainous terrain and abundant sunlight are especially suitable for planting non-edible oil plants such as Chinese prickly ash, cornel and Chinese pistache. Shaanxi Province has one of the largest areas of cultivation of Chinese prickly ash in China. The local farmers in Shaanxi have planted 2,460,000 mu (equivalent to 405,000 acres) of Chinese prickly ash, and 6,800,000 mu (equivalent to 1,120,000 acres) of Chinese pistache to produce over 430,000 tons of biodiesel. The Shaanxi Provincial Government plans to permit additional forest lands to be used solely for the planting of non-edible oil plants. We currently have secured access to non-edible seed oil for production of approximately 22,000 tons of biodiesel. We believe the abundant supply of feedstock currently available, in addition to the non-edible oil plants the government plans to permit farmers to cultivate, is sufficient for our current needs and will be sufficient for our increasing demands for raw materials after we increase our production capacity as planned.

We also have secured access to vegetable oil residue and waste cooking oil for production of approximately 78,000 tons of biodiesel through annual contracts with vegetable oil factories and waste cooking oil collecting centers.

We believe our biodiesel feedstock suppliers have a strong incentive to sell their products to us at competitive prices given that:

- There are very few alternative uses of non-edible oil seeds, vegetable oil residue and waste cooking oil;
- We are the only non-state-owned biodiesel producer with commercial scale in northwestern China; and
- We provide our suppliers with a legitimate means to dispose of waste cooking oil and vegetable oil residue.

Established relationships with our suppliers and customers

We have been operating in the wholesale distribution of finished oil and heavy oil business since 1999 and have established strong relationships with our suppliers and customers. We believe that we have been one of the leading non-state-owned distributors of finished oil and heavy oil in Shaanxi Province. Our largest supplier, Shaanxi Yanchang Group, is the fourth largest oil company in China with over 10 million tons of refinery capacity. We have a long-standing relationship with Shaanxi Yanchang Group, which includes establishing representative office with three oil refineries owned by Shaanxi Yanchang Group in Shaanxi Province.

We focus on customer satisfaction and believe that we have consistently delivered high quality products and services to our customers. We believe we have established our reputation among our customers and are able to maintain long-term relationships with our customers, as evidenced by our customer retention rate and the increasing number of new customers. Our sales volume has also increased significantly over the past three years.

We believe that both our suppliers and customers prefer to work with us for the following reasons:

- We are an established player with a large-scale operation and stable supply;
- We have a strong financial position and provide flexibility in payment terms; and
- We have a professional purchase and sales team, which are responsive to suppliers' and customers' needs.

Early mover advantages

We were one of the first non-state-owned enterprises to engage in the wholesale distribution of finished oil and heavy oil products in Shaanxi Province. During the past 12 years, we have gradually built up our operational infrastructure, including extensive distribution channels, four oil storage depots, and convenient access to strategic railway lines. We have also obtained relevant licenses to conduct our wholesale distribution business, which has become increasingly more difficult for new entrants in our industry to obtain.

We believe that being an early mover in this industry has provided us the following advantages:

- Sales network. We have sales offices in seven locations with 31 full-time salespersons covering 16 provinces and municipalities in China.
- Storage capability. We currently use four oil storage depots with total capacity of 59,000 m³. We own one of the oil storage depots, lease one oil storage depot and have the rights to use two oil storage depots through oil storage service agreements.
- Access to railway lines. We benefit from convenient access to railway lines that we use to transport and distribute our oil products from Shaanxi Province to Yunnan Province, Guizhou Province and Sichuan Province. We believe that we are currently the only enterprise in Shaanxi Province that has such a capability.
- Wholesale distribution license. In June 2000, we were granted a wholesale distribution license to distribute finished oil products by the State Economic and Trade Commission. We are now one of the only four non-state-owned distributors that are licensed to distribute both finished oil and heavy oil products in Shaanxi Province.

We believe that our wholesale distribution license and the operational infrastructure we have built help us to compete effectively and also form a barrier for any prospective new entrants into our industry.

Experienced management team with proven track record

We have an experienced management team led by Mr. Xincheng Gao, our chairman, chief executive officer and president. Mr. Gao has extensive experience in the research and marketing of oil products. In 1999, Mr. Gao founded Xi'an Baorun Industrial Development Co., Ltd. (Xi'an Baorun Industrial) to process and distribute finished oil and heavy oil products. Prior to founding Xi'an Baorun Industrial, Mr. Gao worked in the Oil and Chemicals Department of Shaanxi Province and Zhongtian Oil and Chemical Group, responsible for research and development and marketing. With Mr. Gao's vision and leadership, we have grown from a traditional distributor of finished and heavy oil products to a leading non-state-owned integrated energy company. Our sales have grown from \$438.7 million in 2010 to \$500.0 million in 2011, although due to net income has decreased from \$53.8 million to \$28.7 million over the same period.

Most of the members of our senior management team have worked together since 2005 and have an average of 10 years of experience in the oil business. We believe our management team's in-depth market knowledge and strong track record in the oil market in China will enable us to take advantage of the anticipated growth in demand in the energy market.

Our Growth Strategies

Our key growth strategies include the following:

Continue to increase our biodiesel production capacity and improve control of the raw material supply

We have increased our biodiesel production capacity by 50,000 tons through construction of a new facility to supplement the demand for petrodiesel. We commenced construction on that new facility in the fourth quarter of 2009. Due to a catalyst bottleneck that occurred in 2012, the plant is not currently operational. We are working with a national chemical institute to replace the catalyst and/or find another solution so that we can continue operations. We have invested approximately \$19 million in capital expenditures to accomplish this goal. In October 2010, we acquired Chongqing Tianrun Energy Development Co., Ltd., a 50,000-ton biodiesel plant. The Chongqing biodiesel facility uses first generation biodiesel production technology, similar to the production process used in the Tongchuan City production plant, which has a 100,000 ton design capacity, but a 90,000 ton production capacity. Our expertise in biodiesel production and established distribution network should allow the Chongqing biodiesel facility to achieve gross margins of approximately 30%. We invested approximately \$16.5 million in cash from cash on hand for the Chongqing biodiesel facility. We expect to benefit from the continued growth in overall energy consumption in China. We believe that we are one of the largest biodiesel producers in China based on production capacity at the end of 2011 and the only non-state-owned biodiesel producer with a distribution license. We continue to position ourselves as a leader in terms of capability, capacity and technology in this young biodiesel industry. Although we have secured abundant feedstock supply to support our current biodiesel production, we will continue to work with provincial and local agriculture administrations and environmental protection agencies for better cooperation and support for priority purchase of agricultural feedstock, waste cooking oil, and vegetable oil residue. We also will continue to work with leading universities and research institutes to develop alternative sources of feedstock to strengthen our supply chain and cost flexibility for biodiesel raw materials.

We have historically been able to secure a sufficient supply of raw materials and we will continue to work towards securing more long-term sources of raw materials and seeking new technology in the bio-energy field to improve production efficiency. We will continue pursuing strategic acquisitions that will quickly provide financial benefits to us. Our mid-term goal is establish a strong technological platform in biodiesel production and occupy more market share in the next few years.

Strengthen our relationship with key suppliers for finished oil and heavy oil and diversify our supply base

Stability of supply chain is one of the critical elements of a successful wholesale distributor of finished oil and heavy oil. We have had a long-term strong working relationship with Shaanxi Yanchang Group, our largest finished oil and heavy oil products supplier. We will also continue to maintain good relationships with other oil suppliers to ensure favorable pricing terms and a stable supply of oil products. In addition, we are also focused on exploring opportunities with new suppliers with significant oil resources and better pricing in different regions to diversify our supply chain and enhance our sales margin. We have found new vendors in Shandong and Xinjian Provinces to support our customers in those regions.

Expand our wholesale and retail distribution network through both organic growth and potential acquisitions

With stable and abundant oil supply, we will continue to expand our wholesale distribution of finished oil and heavy oil products by increasing the number of our regional sales offices and sales staff in various territories to develop new markets and a wider customer base. We will also continue penetrating existing territories to develop new customers and meet increased demand from our existing customers as their businesses grow. We will continue scouting high traffic locations to expand our portfolio of retail gas stations to create additional sales and higher profitability for our overall distribution channels. We foresee industry consolidation and believe that we are well-positioned to benefit from such market trends. We are in the position to acquire distressed competitors with working capital difficulties, if and when opportunities are presented.

Continue application process to obtain oil import/export license

In 2008, we submitted an application for an oil import/export license. By September 2013, we had obtained the pre-approval regarding the fuel oil import license from the foreign trade department of MOFCOM.

Enhance R&D efforts to improve biodiesel production technology and efficiency

We will continue investing resources and working closely with leading universities and research and development institutes that specialize in agricultural research to develop new technologies for more efficient and cost-effective biodiesel production. We will also continue to search for alternative feedstock to enhance the availability of raw materials and reduce costs of feedstock for biodiesel production.

Business Segments

Wholesale Distribution of Finished Oil and Heavy Oil Products

Oil supply

We sell on a wholesale basis a variety of oil products including gasoline, diesel, heavy oil and naphtha. Gasoline and diesel represent the majority of oil products consumed in China. Automobiles are the most important driver of gasoline consumption in China. Diesel is mainly used in vehicles and agricultural machines with diesel engines. Heavy oil is broadly used as fuel for ship boilers, heating furnaces, metallurgical furnaces and other industrial furnaces. Wholesale distribution of finished oil and heavy oil products accounted for approximately 71.9% of our total sales in 2011 and approximately 62.3% of our total sales in 2010.

Based on cost, we purchased approximately 43.7% of our gasoline and diesel oil products from our top five suppliers in 2011. During 2011, based on cost, we purchased approximately 13.0% (compared to 20.3% in 2010) of our gasoline and diesel oil products from Shaanxi Yanchang Group, with whom we have had a strong relationship since establishing Xi'an Baorun Industrial, which included establishing supply and purchasing stations with three oil refineries that are owned by Shaanxi Yanchang Group in Shaanxi Province. While we depend on Shaanxi Yanchang Group for the majority of our gasoline and oil supply needs, we are actively seeking other sources of oil supply and believe that we can find alternative suppliers with comparable terms within a reasonable amount of time without any significant disruption in our operations.

Storage

We use four oil storage depots, which in the aggregate have the capacity to store approximately 59,000 m³ of oil products. We constructed one oil storage depot located within our biodiesel production facility in Tongchuan City, Shaanxi Province, lease one oil storage depot in Tongchuan City and have the rights to use two state-owned oil storage depots located in Xi'an City and Weinan City, Shaanxi Province through oil storage service agreements. The terms of the lease agreement and the oil storage service agreements range from two years to eight years and these agreements are renewable. Average annual rental and service expense of each oil storage depot is approximately RMB 0.7 million (\$0.1 million). Two of the state-owned depots are located on railways that provide us convenient access for distributing our products.

Sales and Marketing

We developed a stable sales network for our products in 16 provinces and municipalities of China covering Shaanxi Province, Henan Province, Hebei Province, Shandong Province, Shanxi Province, Hunan Province, Hubei Province, Sichuan Province, Guizhou Province, Yunnan Province, Fujian Province, Xinjiang Province, Beijing, Guangxi Province, Gansu Province and Ningxia Hui Autonomous Region.. We now employ 36 full-time salespersons in sales offices located in Chengdu City, Yingbuo City in Shandong Province and the cities of Yanglian, Lingtong, Shangqiao, Chengxiang, and Yongpin in Shaanxi Province. As our business expands, we intend to further expand our sales network and develop more sales channels. For our wholesale distribution of finished oil and heavy oil business segment, we plan to increase our distribution to an additional two provinces in the next 18 months, adding additional salespersons and establishing more regional sales offices. We plan to increase our sales volume through increasing our distribution footprint and further penetrating existing customers and business territories.

Customers

We currently sell our finished oil and heavy oil products to regional distributors in China that supply to industrial customers, retail service stations. We also provide finished oil products to our retail gas stations to directly sell to end users. We have adopted different terms for payment based upon the financial strength of the customer. For example, we have entered into agreements with PetroChina, SINOPEC, and other state-owned enterprises whereby we deliver products to agreed-upon locations and these customers agree to pay us after delivery. However, we require partial pre-payment in advance and cash on delivery from our customers that operate distributorships or own and operate private gas stations. These customers typically pay 10% to 15% of the total purchase price of the products to be delivered in advance, and when delivery takes place, they pay the remaining amounts owed. In 2011 and 2010, there was one customer that accounted for 20% or more of our sales. We did not experience any uncollectible accounts receivable or bad debt write-offs over the past three years.

For the years ended December 31, 2010 and 2011, our top five customers purchased approximately \$167.0 million and \$201.1 million of our products, representing approximately 38.1% and 40.2% of our sales during the period, respectively. China Petroleum and Chemical Corporation Chuanyu Trading Co., Ltd., our largest customer, accounted for approximately 25.4% and 26.5% of our sales in 2010 and 2011, respectively.

Competition

We are one of the only four non-state-owned enterprises licensed to distribute both finished oil and heavy oil products in Shaanxi Province. Although barriers to entry in our industry are high due to stringent licensing requirements and the need for significant storage capacity for products, we face competition from companies located in other provinces and within Shaanxi Province that also engage in the wholesale distribution of finished and heavy oils. Such companies may have greater financial resources, sales resources, storage capacity and transportation capacity than we do, and may have exclusive supply and purchase arrangements with suppliers as a result of long-term relationships.

In addition to SINOPEC and Petro China, we estimate that we have approximately ten major non-state-owned competitors in Shaanxi Province that also distribute finished oil products similar to ours, including Shaanxi Dongda Petro-Chemical Co., Ltd., Shaanxi Dayun Petrochemical Material Co., Ltd. and Baoji Huahai Industry Corp.

We believe we have the following advantages over our competitors in this market:

- Oil wholesale distribution license. In June 2000, we were granted a wholesale distribution license to distribute finished oil products by the State Economic and Trade Commission. We are now one of the only four non-state-owned distributors that are licensed to distribute both finished oil and heavy oil products in Shaanxi Province.
- Supply advantage. Shaanxi Yanchang Group, one of the four largest qualified crude oil and gas exploration enterprises in China, is our largest oil supplier. In Shaanxi Province, we are one of the only few entities that have established supplying and purchasing stations with Shaanxi Yanchang Group.
- Railway access. We benefit from convenient access to a railway line in Shaanxi Province to distribute our oil products. We believe we are currently the only enterprise in Shaanxi Province that has railway access to distribute oil products directly to Yunnan, Guizhou and Sichuan Provinces.
- Storage capability. We have an aggregate oil depot storage capacity of 59,000 m³. Aside from the need for strong funding support, new entrants to this industry must also have significant storage capacity to be able to compete, which is a barrier to entry for new competitors.

Production and Sale of Biodiesel

Production

In 2006, we built a 10,000 square meter biodiesel production facility with annual design capacity of 100,000 tons and production capacity of 90,000 tons. We commenced production at this facility in October 2007. The production of biodiesel is achieved through the effective performance of all equipment necessary for production. Initial production in 2008 required adjustments to equipment and a full debugging process. Our achievable utilization rate, after taking into account required periodic maintenance, is 90%. We have increased our biodiesel production capacity by 50,000 tons through construction of a new facility in Tongchuan City to supplement the demand for petro-diesel. We began construction to increase capacity in the fourth quarter of 2009. Due to a catalyst bottleneck that occurred in 2012, this is not currently operational. We are working with a national chemical institute to replace the catalyst and/or find another solution to commence operations. We have invested approximately \$19 million in capital expenditures to accomplish this goal. In October 2010, we acquired Chongqing Tianrun Energy Development Co., Ltd., (“Chongqing Tianrun”) a 50,000-ton biodiesel plant. The Chongqing biodiesel facility uses first generation biodiesel production technology, similar to the production process used in our current 90,000-ton production plant. Our expertise in biodiesel production and established distribution network may enable the Chongqing biodiesel facility to achieve gross margins of approximately 28% in 2011.

Raw Material Supply

Shaanxi Province is one of the largest cultivators of Chinese prickly ash, an oil plant, in China. Together, the local farmers in Shaanxi Province have planted approximately 2,460,000 mu (equivalent to 405,000 acres) of Chinese prickly ash, and 6,800,000 mu (equivalent to 1,120,000 acres) of Chinese pistache. Even though we could satisfy all of our current feedstock demands solely with Chinese prickly ash, we diversify our feedstock supply with other oil plants, waste cooking oil and vegetable oil residue, because the costs of these raw materials are lower than Chinese prickly ash. There is also significant acreage of wild oil plants that grow throughout Shaanxi Province. However, because the feedstock available from the local associations currently satisfies our supply demands, we do not rely on any supplies of wild oil plants for our production needs. We believe that the abundant supply of feedstock currently available in Shaanxi Province is sufficient for our current needs and will be sufficient for our expanded demands for raw material once we expand our biodiesel production facility or acquire a new facility.

We have established cooperation relationships with two pre-processing factories that are affiliated with local agricultural associations for oil extraction from non-edible oil seeds or oil plant seeds. The purchasing contracts obligate the pre-processing factories to first offer to sell the feedstock to us. If the supply of feedstock is greater than our demand, they can then sell any remaining feedstock to other companies. We have access to a range of biodiesel raw materials. Besides non-edible seed oil, we can also use waste cooking oil and vegetable oil residue as raw material for the first generation of biodiesel production.

In addition to the feedstock used in our existing first-generation facility, the new second-generation facility will be able to utilize a diverse supply of raw materials, such as crop straw (including wheat straw, corn straw, cotton straw and weed), agricultural biomass waste (including tree branches and tree leaves), as well as other organic waste. This feedstock flexibility affords us better input cost controls.

Sales and Marketing

We continue to leverage our distribution infrastructure to sell our biodiesel to existing customers and to acquire new customers. The main advantages of biodiesel over petro-diesel are pricing, efficiency, safety (due to a higher flash point) and the fact that biodiesel is environmentally friendly. Our targeted markets are power plants, marine transportation companies, seaport operations and other industrial customers which consume large volumes of diesel fuel.

Customers

We primarily target oil product trading companies in China (i.e., sales subsidiaries of SINOPEC and PetroChina) and end users (i.e., gas stations, electric power companies and shipping companies) as our customers. Approximately 20% of the biodiesel we produce is blended with petro-diesel and sold to next tier oil distributors and gas stations. The remaining 80% is sold to power plants and marine transportation companies. We do not believe that our sales are affected by seasonality.

Competition

Currently, we are the only non-state owned biodiesel producer with a distribution license in China. We may face significant competition from current and future companies that intend to compete in the biodiesel market. In the area of biodiesel fuel production, we are not aware of the existence of any significant competitors in Shaanxi Province. However, we face competition from companies in other geographic areas in China and foreign competitors that export their biodiesel to China.

We believe that we have the following advantages over our competitors in this market:

- **Stable supply of feedstock.** We have a stable source of various types of feedstock for biodiesel production, such as Chinese pistache and Chinese prickly ash. Some local agricultural associations have agreed to first offer their feedstock to us. We have also entered into agreements with four Xi'an City EPA-designated waste cooking oil processing companies to secure needed waste cooking oil at favorable prices.
- **Production capacity.** We estimate that the production output of biodiesel in China will be approximately 800,000 tons in 2010, based on the China Biodiesel Industry Investment Value Report 2008, China Venture. Gushan Environmental Energy and our company are currently the only two companies in China with annual production capacity of at least 100,000 tons. We are currently constructing a new 50,000 ton biodiesel production facility adjacent to our existing biodiesel production plant located in Tongchuan, Shaanxi Province, which has 10,000-ton design capacity and 90,000 ton production capacity. However, due to a catalyst bottleneck that occurred in 2012, the plant is not currently operational. We are working with a national chemical institute to replace the catalyst and/or find another solution to commence operations. In October 2010, we acquired Chongqing Tianrun Energy Development Co., Ltd., a 50,000-ton biodiesel plant. The Chongqing biodiesel facility uses first generation biodiesel production technology, similar to the production process used in our Tongchuan City production plant. We have doubled our biodiesel design production capacity from 100,000 tons to 200,000 tons in 2011. Due to the International Horticultural Exposition (the "Expo") in Xi'an, the plants did not operate at full capacity in 2011.
- **Stable distribution channels.** We have established sales networks and channels and strong industrial relationships with our customers. Under the *Measures on the Administration of the Finished Oil Market*, established by MOFCOM only companies that obtain a Finished Oil Wholesale Distribution License are permitted to distribute biodiesel on a wholesale basis. Because Xi'an Baorun Industrial has a Finished Oil Wholesale Distribution License, we are able to produce and distribute biodiesel on a wholesale basis while other biodiesel producers must rely on distributors that have obtained Finished Oil Wholesale Distribution Licenses to distribute their products. Since biodiesel and petro-diesel share the same market, we can distribute our biodiesel through our existing distribution channels to reduce costs.

Operation of Retail Gas Stations

We sell all grades of gasoline and diesel at our seven retail gas stations. Our customers include automobile, bus and truck drivers. Our competitors are other privately owned and state-owned gas stations. Our advantages are that (i) as a well-established finished oil distributor, we have a stable and sufficient oil supply to support our retail gas station operations at a higher margin; (ii) we sell blended diesel with a blending ratio of 15.0% of biodiesel and 85.0% of petro-diesel to end customers at the same price as petro-diesel, which provides us with additional profitability from our retail gas station operations, and (iii) we maintain competitive pricing to attract customers. We will seek to continue to expand our retail gas station portfolio. Recently Exxon/Mobil and Shell Corporation have partnered with state-owned petroleum companies and one of our petroleum suppliers to aggressively acquire and expand retail gas station market. As a result of intense competition in acquiring private owned gas stations, the cost of acquiring or leasing gas station has significantly escalated. Advanced lease payment for the entire lease term is often required and necessary to secure a long term lease of a gas station.

Other Business Information

Research and Development

We own four utility model patents and one invention patent, we also have submitted nine other patent applications, of which three applications have passed preliminary examination and six applications have been accepted for review. In practice, we propose the subject matter to be researched and pursuant to these agreements we entrust our research and development partners to perform the research and analysis and provide advanced technology services. We incurred insignificant amount in research and development expenditures for 2011 and 2010. We continue working with well-known universities and colleges and research centers to enhance current biodiesel production processes and develop next generation of biodiesel production technologies.

Intellectual Property

Our core technologies consist of: (i) one invention patents related to biodiesel production, and (ii) four utility model patents related to biodiesel production.

Between 2006 and 2013, we filed the following 14 patent applications listed below with the SIPO, all of which are related to our biodiesel production. The SIPO has approved the first four applications for utility model patents and the fifth invention patent, allowed the next three invention patent applications to pass preliminary examination and accepted the other patent applications for review.

- Application No. 200820221671.0 for a new gas-liquid distributor of material filling tower(Approved)
- Application No. 200620137855.X for a new reaction vessel for preparing biodiesel and composite diesel(Approved)
- Application No. 200620137854.5 for a new reaction equipment for preparing biodiesel(Approved)
- Application No. 200820028705.4 for an anti-corrosion device for biodiesel esterification reaction(Approved)
- Application No. 201110044616.5 for a biodiesel processing Method(Approved)
- Application No. 201010294327.6 for a highly efficient synthesizing method and facility for high quality diesel (Preliminary Approved)
- Application No. 201010294330.8 for a water gas transformation method and facility of high quality and efficiency (Preliminary Approved)
- Application No. 201310128973.9 for a facility and method that employ high temperature alternating current arc to produce biomass synthesis gas (Preliminary Approved)
- Application No. 200610152506.X for a new composite catalyst for preparing biodiesel(Accepted)
- Application No. 200610152507.4 for a new technology for processing biodiesel with catalyst or splitting decomposition in liquid or gas face(Accepted)
- Application No. 200610152508.9 for a biodiesel processing technique(Accepted)
- Application No. 20081001784.8 for a new technique for producing biodiesel and its byproducts with molecular distillation(Accepted)
- Application No. 200810017853.0 for a new technique for disposing biodiesel esterification reaction equipment with inert metal lead (Accepted)
- Application No. 200810017849.4 for a new method for preparing biodiesel with supercritical technology(Accepted)

We have patent protection for each of our utility model patents for a period of ten years from the date of filing. If our invention patents are approved, they will be valid for a period of 20 years from the date of filing. Upon expiration, the renewal process requires us to re-apply for patent protection.

Insurance

We maintain property insurance for some of our premises and accidental liability insurance. We do not have any business liability, interruption or litigation insurance coverage for our operations in China. Although it is available, insurance companies in China offer limited business insurance products. We have determined that the risks of interruption, cost of such insurance and the difficulties associated with acquiring such insurance on commercially reasonable terms make it impractical for us to purchase such insurance. Therefore, we are subject to business and product liability exposure. Business or product liability claims or potential regulatory actions could materially and adversely affect our business and financial condition. We maintain director and officer liability insurance for our directors and executive officers.

Environmental Matters

We are subject to numerous foreign, environmental protection and health and safety laws governing, among other things, the generation, storage, use and transportation of hazardous materials; emissions or discharges of substances into the environment; and the health and safety of our employees. The cost of compliance with environmental laws, however, has not had, and based on current information and applicable laws, is not expected to have, a material adverse effect upon our capital expenditures, earnings or competitive position. All of our operations are in the Peoples Republic of China (“PRC”). We believe that we are in compliance with present environmental protection requirements in PRC in all material respects. Our production processes generate noise, waste water, gaseous wastes and other industrial wastes. We have installed various types of anti-pollution equipment in our facilities to reduce, treat, and where feasible, recycle the wastes generated in our production process. Our operations are subject to regulation and periodic monitoring by local environmental protection authorities in the PRC.

Employees

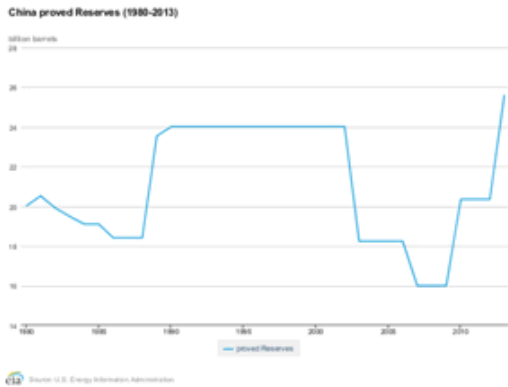
As of December 31, 2011, we had 373 full-time employees. Among them, 85 of our employees worked at our Xi'an headquarters; 82 at our biodiesel production facility in Chongqing City; 83 at our biodiesel production facility in Tongchuan City; 45 at our oil storage depots and 78 at our retail gas stations. We believe we have good relationships with our employees.

Industry and Market Overview

China Oil Markets

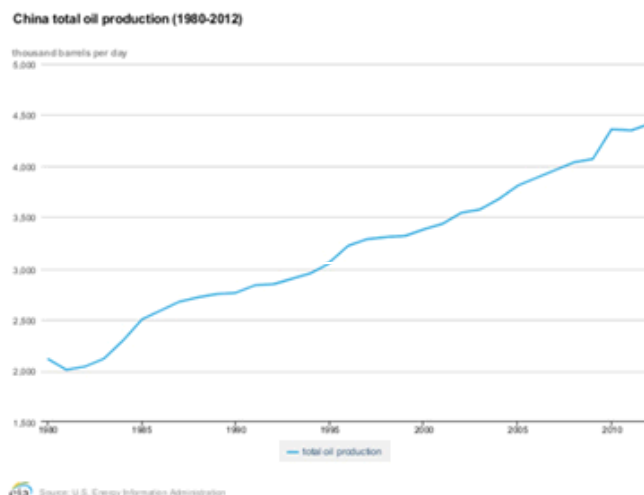
Industry Overview

According to Oil & Gas Journal (OGJ), China holds 20.4 billion barrels of proven oil reserves as of January 2012, up over 4 billion barrels from three years ago and the highest in the Asia-Pacific region. Despite its abundant oil resources, the country faces a huge imbalance between oil supply and demand among its different regions. China’s major oilfields are mostly located in the northeastern and northwestern regions, which together supply nearly 50.0% but consume only 20.0% of China’s finished oil. While the northeastern and northwestern areas have a surplus of refined oil products, the eastern and south-central regions, where 60.0% of China’s finished oil products are consumed, are in shortage of finished oil products, and the southwest region relies on supplies from other parts of the country. As a result, transportation of finished oil products in China is characterized by the “North to South” and “West to East” patterns.



China produced an estimated 4.3 million barrels per day (bbl/d) of total oil liquids in 2011, of which 95 percent was crude oil. China's oil production is forecast to rise by about 170 thousand bbl/d to nearly 4.5 million bbl/d by the end of 2013. Over the longer term, EIA predicts a flatter incline for China's production, reaching 4.7 million bbl/d by 2035.

SINOPEC and PetroChina (CNPC) are the two dominant players in China's oil refining sector, accounting for 46 percent and 31 percent of the capacity, respectively. CNOOC is primarily engaged in the offshore exploration and production of crude oil and sells its products to refineries for downstream processing. SINOPEC and PetroChina are fully integrated energy companies engaged in exploration and production of crude oil and natural gas, refining of crude oil, and marketing and distribution of refined petroleum products. Most of the crude oil refined by SINOPEC and PetroChina is distributed and sold through their self-owned or franchised gas stations while the remainder is sold to third-party distributors to achieve greater sales coverage. Shaanxi Yanchang Group engages in the exploration and production of crude oil and natural gas and refining of crude oil. It relies on third-party distributors like us to market and distribute refined petroleum products.



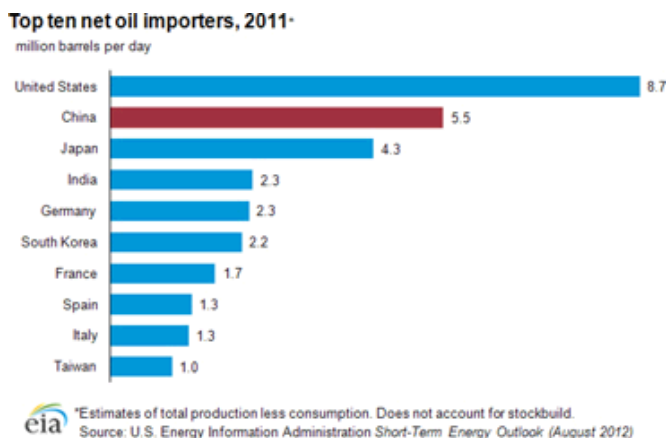
Shaanxi Province, where our company is located, is in proximity to the Changqing oilfield, one of China's largest oil and gas reserves, and to the southwestern region of China, where there is a significant shortage of finished oil products. The annual capacity of Changqing oilfield is about 22.6 million tons. Shaanxi Yanchang Group has built refineries for an aggregate annual capacity of approximately 14.0 million.

Increasing Shortage of Crude Oil in China and New Pricing Regime to Counter Refined Oil Shortage

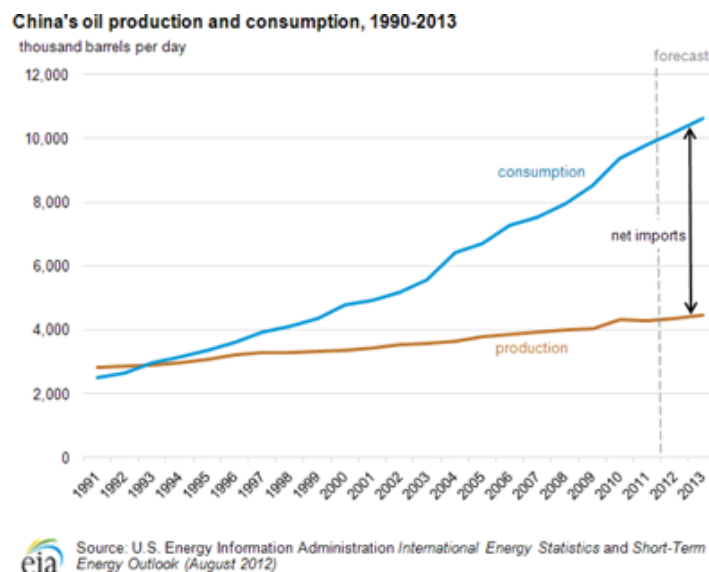
Rapid economic development in China, since the year 2000, has resulted in increased energy demand. The demand for crude oil in China has exceeded the supply, which has caused China to become increasingly dependent on imported oil. According to the U.S. Energy Information Administration, China is the world's second largest oil consumer behind the United States, and the largest global energy consumer, according to the International Energy Agency (IEA). The country was a net oil exporter until the early 1990s and became the world's second largest net importer of oil in 2009. China's oil consumption growth accounted for half of the world's oil consumption growth in 2011.

China's oil consumption growth eased in 2011 from record high growth of 10 percent in 2010, reflecting the impact of the most recent global financial and economic downturn. However, the country still consumed an estimated 9.8 million bbl/d of oil in 2011, up 400 thousand bbl/d, or over 4 percent from 9.4 million bbl/d in 2010. In 2009, China became the second largest net oil importer in the world behind the United States, with net total oil imports reaching 5.5 million bbl/d in 2011. China's oil demand growth, particularly for petroleum products, hinges on several factors such as domestic economic growth and trade, power generation, transportation sector shifts, and refining capabilities. EIA forecasts that China's oil consumption will continue to grow during 2012 and 2013 at a moderate pace. Even so, the anticipated oil growth of over 0.8 million bbl/d between 2011 and 2013 would represent 64 percent of projected world oil demand growth during the 2-year forecast period.

In contrast, China's oil production is forecast to remain relatively flat, increasing by just 0.15 million barrels per day, while the United States is expected to increase its domestic supply by 0.9 million barrels per day. Of course, that latter forecast assumes that the Department of Interior will lift its moratorium on offshore drilling and resume permitting for both onshore and offshore leases at a more normal pace.



For the past nine years, China's refined oil market has been operating as a managed market-based system. China has kept retail prices of finished oil products fixed to protect consumers against rising costs while most Western countries have allowed prices to be set by market supply and demand. The fixed-price system often leads to fuel shortages as the profits of domestic oil refineries are squeezed when the cost of crude oil rises but the selling prices of refined oil products are fixed. Effective as of January 1, 2009, the NDRC implemented a new pricing regime for refined oil products, aimed to link domestic oil prices more closely to changes in the global crude oil prices in a controlled manner. Under this pricing regime, the domestic selling price of refined oil products are determined on the basis of the corresponding international crude oil prices and by taking into consideration the average domestic processing costs, taxes, selling expenses and an appropriate profit margin. There were eight pricing adjustments in 2009 and four pricing adjustments in 2010. NDRC implemented a new pricing regime to better reflect fluctuations in global oil prices effective as of March 26, 2013, the new system will shorten the current 22-day adjustment period to 10 days and remove the 4 percent limit, ushering in a more market-based mechanism that could better reflect production costs and energy shortages.



China's Retail Gas Stations

With China's rapid economic development, continuous improvement in transportation infrastructure and rapid increase in motor vehicle ownership, the number of gas stations in China has been increasing.

As China has gradually opened the retail market for finished oil and for wholesale crude oil since January 2005, the rapid development of private oil companies, foreign-funded enterprises, and second-tier state-owned companies have formed a balance among state-owned companies, private companies, and foreign companies, which are the three strongest powers in the market.

As of the end of 2012, there were 96,313 gas stations in China, an increase of 875 or 0.9% over the previous year. Of those, 51,854 or 53.8% are state owned, 42,425 or 44.1% are privately owned, and 2,034 or 2.1% are foreign capital funded. Of the total, 9,840 or 10.2% were owned or franchised by PetroChina and 30,836 or 32.0% were owned or franchised by Sinopec.

As for the location of the 96,313 gas stations, 3.0% are located on highways, 32.6% are on the national and provincial roads, 26.6% are on county or village roads, 25.5% are in cities, 11.0% are in rural areas, and 1.2% are in water or other areas.

Source: Oil circulation industry analysis report for 2012

To further boost the industry consolidation for competitive resources, state-owned companies, such as Sinopec and PetroChina, accelerated their acquisition of gas stations. At the end of 2011, Sinopec had 30,121 gas stations, with owned and directly operated gas stations increasing by 10,000 since the year 2000. PetroChina had nearly 20,000 gas stations in 2011. The market for private gas stations may keep shrinking in future, driving the private station owners to focus on rural areas and county or village roads.

China's Biodiesel Market

Biodiesel

Biodiesel is a cleaner-burning and renewable fuel produced from animal fats, vegetable oil, and waste cooking oil. The chemical properties of biodiesel are very similar to those of petro-diesel, and biodiesel has the potential for replacing petro-diesel in many applications. Biodiesel is made through a chemical process called transesterification, which separates the glycerin from the fat or vegetable oil. The process generates two products — methyl esters (the chemical name for biodiesel) and glycerin (a byproduct with value for use in soaps and other products).

Biodiesel contains no petroleum, but it can be blended at any ratio with petro-diesel to create a biodiesel blend. It can be used in compression-ignition (diesel) engines with little or no modification. Biodiesel provides a number of benefits compared to diesel, including:

- No sulfur dioxide emission, a major component of acid rain, and emits less carbon dioxide than traditional diesel;
- Reduction of smoke particulates;
- Biodegradable and breaks down as fast as sugar;
- Better lubrication which reduces engine wear;
- Safer to use, handle and store due to its high flash point; and
- Produced from renewable energy sources.

Favorable Market Dynamics Support Long-Term Growth

In response to the rise in global oil prices, global warming and other environmental awareness issues, the PRC government has begun to encourage renewable energy consumption and has implemented various policies to support the production of biodiesel. The PRC government plans to increase its consumption of biofuel, of which two million tons are estimated to be biodiesel, and its proportion of renewable energy consumption to approximately 15.0% of China's total energy consumption in 2020 from approximately 7.5% in 2005. In 2010, the China government also targeted reducing carbon dioxide emission per unit of GDP by 40% - 45% by 2020.

Biodiesel is classified as an “encouraged industry” by the NDRC. Businesses engaged in biodiesel production are entitled to receive certain benefits and incentives extended by the government, such as grants and interest-free loans.

However, China's biodiesel industry is still underdeveloped, which we believe provides opportunities for us in this market. The following table sets forth the production volume of biodiesel in China from 2005 through 2007 and forecasts for 2008 through 2010.



Source: *China Biodiesel Industry Investment Value Report 2008, China Venture*

In February 2005, China enacted the *Renewable Energy Law*, which aims to promote the development and utilization of renewable energy, improve the energy structure, diversify energy supplies, safeguard energy security, protect the environment and realize sustainable development of the economy and society. This legislation states that fuel retail businesses must begin to include “biological liquid fuel” in their sales or they will be subject to fines as China is seeking to reduce its dependence on fossil fuels in its diesel transportation vehicles. In the twelfth five year economic plan, Chinese government also promotes renewable energy industries including bio-fuel industry to reduce dependency of import of crude oil from abroad and improve environmental preservation. As a result of promotion of alternative energy, the China government encourages a B-5 standard blending 5% of biodiesel with 98% of petro-diesel for transportation fuel in February 2011.

The government is preparing to push forward a pilot project in 150 to 200 cities during the Twelfth Five-year period to make better use or proper disposal of the kitchen waste. Experts called for policies to control the disposal of waste cooking oil and to supply the waste oil to biodiesel companies.

In August 2011, the government announced the first group of cities for the pilot project to make better use or proper disposal of the kitchen waste. Included were 33 cities and districts. The plans submitted by the pilot cities aim to: (a) create systems to optimize the process to collect, transport, dispose, and reuse kitchen waste; (b) adopt and apply solutions to dispose of the waste oils and fats, solid waste, and liquids together as a whole; and (c) explore fundamental solutions to achieve the proper disposal and reuse of the kitchen waste. On October 31, 2012, the list of the second group of cities, including 16 cities, for the pilot project was announced to make better use or proper disposal of kitchen waste.

With the government's support and the market as guidance, the biodiesel industry in China is still likely to realize another rapid development during the Twelfth Five-year period (2011-2015).

Governmental Regulation

Finished Oil and Heavy Oil Distribution

We have been engaging in the wholesale distribution of finished and heavy oil business in the PRC since 2000. Prior to 2006, significant gaps existed in the laws and regulations on finished oil markets, and the relevant rules for this industry were, to some extent, inconsistent and subject to the discretion of the relevant government authorities.

In 2006, greater specificity was added to the rules for commercial activities in the finished oil market with the enactment of the *Measures on the Administration of the Finished Oil Market* (promulgated on December 4, 2006 by the Ministry of Commerce of the people's Republic of China (MOFCOM) and effective as of January 1, 2007), or the Measures. This regulation provides comprehensive details on the finished oil wholesale and resale application procedures, qualification requirements, and rules for annual inspections. Enterprises (foreign or domestic-funded) meeting certain requirements can submit applications to the MOFCOM for a certificate of approval to conduct gasoline and diesel (including biodiesel) wholesale, retail and storage businesses.

The first step required in applying to engage in the wholesale of finished oil is a preliminary examination by the provincial MOFCOM where the enterprise is located. Thereafter, the provincial MOFCOM will forward the application materials together with its opinions on the preliminary examination to the MOFCOM, which will then decide on whether to grant the Certificate of Approval for the Wholesale of Finished Oil.

An enterprise applying to engage in the finished oil wholesale business must, among other requirements, possess the following:

- (i) long-term and stable supply of finished oil;
- (ii) a legal entity with a registered capital of no less than RMB 30 million;
- (iii) a finished oil depot, which shall have a capacity not smaller than 10,000 m³, conforming to the local urban and rural planning requirements, and be approved by other relevant administrative departments; and
- (iv) facilities for unloading finished oil such as conduit pipes, special railway lines, and transportation vehicles with a capacity of 10,000 tons or more to transport refined oil on the highway or over water to ports.

In practice, it has become increasingly difficult for enterprises (particularly foreign-funded enterprises) to meet the requirement (iii) above. As both the number of available oil depots and state land and resources are reaching full capacity, it is more of a challenge to obtain a finished oil depot with a capacity not smaller than 10,000 m³.

The application procedure for the retail of finished oil is similar to that for wholesale except that the preliminary examination takes place at the administrative department for commerce at the municipal level, and the certificate of approval is issued at the provincial level.

An enterprise applying to engage in the finished oil retail business must, among other requirements, possess the following:

- (i) long-term and stable channels to finished oil supply and a supply agreement with an enterprise that has been qualified to engage in the wholesale business of finished oil for a period of three years or more in line with its business scale;
- (ii) qualified professional and technical personnel to handle inspections, metrology, storage and fire safety and the safe production of finished oil; and
- (iii) gas stations designed and built to comply with the relevant national standards and approved by the relevant administrative department.

Xi'an Baorun Industrial has the certificates of approval for both the wholesale and retail of finished oil, including for the retail of finished oil at each of its seven retail gas stations. As such, we do not have to rely on other companies to distribute the biodiesel fuel that we produce.

Enterprises possessing certificates of approval are subject to annual inspection by the relevant provincial MOFCOM which will review:

- (i) the execution and performance of finished oil supply agreements;
- (ii) the operation results of the enterprise for the previous year;
- (iii) whether the enterprise and its supporting facilities are in compliance with the technical requirements under the Measures; and
- (iv) the current measures, among other measures, being taken by the enterprise regarding quality control, metrology, fire safety, security and environmental protection.

If we pass the annual inspection, the certificates of approval we hold will continue to be valid. An enterprise failing an annual inspection will be ordered to rectify all deficiencies within a certain time limit by the MOFCOM and/or its provincial branches. If such deficiencies have not been rectified within the specified time limit, its certificates of approval shall be revoked by the original issuing authority.

Pricing for Finished Oil

The NDRC regulates domestic oil prices as part of its macro-management over the economy in order to control dramatic fluctuations in oil prices.

The *Administrative Measures on Oil Prices (trial implementation)* promulgated by the NDRC on May 7, 2009 stipulates that the NDRC will adjust domestic finished oil prices when the international market price for crude oil changes more than four percent over 22 consecutive working days. By contrast, crude oil prices are determined solely by enterprises engaging in this industry.

NDRC implemented a new pricing regime to better reflect fluctuations in global oil prices effective as of March 26, 2013, the new system will shorten the current 22-day adjustment period to 10 days and remove the 4 percent limit, ushering in a more market-based mechanism that could better reflect production costs and energy shortages. Domestic prices will remain unchanged if price changes in international oil markets are less than 50 RMB per metric ton, according to the NDRC.

The NDRC adjusts domestic finished oil prices by modifying the retail price cap for gasoline and diesel in all provinces, autonomous regions, and directly administered municipalities. Thereafter, the administrative authorities at the provincial level adjust the wholesale price caps by deducting RMB 30 per ton from the corresponding retail price caps. Where there are no specific contractual arrangements for a supplier's delivery to a retailer, the wholesale price caps may be further deducted to take into account the retailer's transportation cost among other expenses.

The *Administrative Measures on Oil Prices* stipulates that the domestic finished oil prices shall be calculated according to the normal profit rate for refiners when the crude oil price on the international market is lower than \$80 per barrel. When the international crude oil market price exceeds \$130 per barrel, the NDRC will adopt certain fiscal and tax policies to ensure the continuing production and supply of refined oil products. Further, gasoline and diesel prices will only be increased slightly (if at all) in consideration of manufacturers and consumers, as well as the stability of the national economy.

The exact formula for calculating finished oil prices domestically has not been published. However, the NDRC has stated that such formula is based on the weighted average of the international market prices, together with the average domestic processing costs, taxes, fees incurred in distribution channels, and suitable profits for refiners. Moreover, the NDRC adjusts the cost index seasonally in accordance with the actual situation with respect to prices.

Biodiesel

The Standing Committee of the National People's Congress promulgated the *Renewable Energy Law* on February 28, 2005, which took effect as of January 1, 2006. The purpose of this law is to facilitate the development and utilization of renewable energy, including biological liquid fuel and energy crops. Under Article 16, oil-selling enterprises shall include biological liquid fuel conforming to the national standards into their fuel-selling systems, in accordance with the regulations of the energy authorities at the national or provincial level. An oil-selling enterprise that fails to include biological liquid fuel into their fuel-selling systems in accordance with the national standards will be liable for any resulting losses to a biological liquid fuel production enterprise. Further, the energy authorities at the national or provincial level shall order such oil-selling enterprise to rectify the non-conformance within a stipulated period of time, and impose a fine less than the amount of the said resulting losses if the rectification is not made.

Environmental Protection

The relevant PRC governmental authorities set national and local environmental protection standards, as well as examine and issue approvals on environmental aspects of different stages of various projects. We are required to file an environmental impact statement, or in some cases, an environmental impact assessment outline, to obtain such approvals. The filing must demonstrate that the project in question conforms to applicable environmental standards. Generally speaking, environmental protection bureaus will issue approvals and permits for projects using modern pollution control measurement technology.

The PRC national and local environmental laws and regulations impose fees for the discharge of waste substances above prescribed levels, require the payment of fines for serious violations and provide that the PRC national and local governments may, at their own discretion, close or suspend any facility which fails to comply with orders requiring it to cease or improve operations causing environmental damage.

In accordance with the requirements of the environmental protection laws of the PRC, we have installed the necessary environmental protection equipment, adopted advanced environmental protection technologies, established responsibility systems for environmental protection and reported to and registered with the relevant local environmental protection department.

In addition, to the best of our knowledge, we have complied with the necessary environmental procedures with respect to the construction of our biodiesel factory. The governmental authorities reviewed the environmental impact report prepared on our behalf by a professional institution that we retained prior to the commencement of construction. In January 2008, after the completion of construction, we obtained environmental approvals from the governmental authorities.

Dangerous Chemicals

PRC laws and regulations on dangerous chemicals require that a Safe Production Permit, or the Permit, be obtained for all facilities used to manufacture dangerous chemicals. We obtained the Safe Production Permit in April 2007, which is valid for a period of three years. It can thereafter be renewed for an additional three years, provided that the facility has not had any fatalities from accidents and has passed periodic inspections by the local administrative authorities for work safety during the term of the Permit.

Foreign-invested Enterprises Engaging in Oil-related Businesses

Under the *Catalogue of Industries for Guiding Foreign Investment*, jointly promulgated by the MOFCOM and the NDRC on October 31, 2007 and effective as of December 1, 2007, each of the wholesale of oil products, the construction and operation of petrol stations and the production of liquid biofuels (*i.e.*, fuel ethanol, biodiesel) falls within the restricted category for foreign investment. Foreign investors can only engage in commercial activities involving liquid biofuels or retail of finished oil (where the foreign investor possesses 30 or more gas stations or where it sells different brands of oil through different distributors) through a joint venture with a Chinese partner, and the Chinese partner must hold a controlling interest in the joint venture. As a result of these restrictions, we conduct our business in the PRC via a domestic entity, Xi'an Baorun Industrial, established by three PRC citizens. Please refer to “Our History and Corporate Structure — Corporate Structure — Contractual Agreements with Xi'an Baorun Industrial” for more information regarding our control relationship with Xi'an Baorun Industrial.

SAFE Regulations Pertaining to Overseas-Listed Companies

Circular 75

The SAFE issued the *Circular on Issues Relevant to Foreign Exchange Control with Respect to the Round-trip Investment of Funds Raised by Domestic Residents Through Offshore Special Purpose Vehicles*, or Circular 75, on October 21, 2005. Circular 75 requires PRC residents and citizens to register with their local SAFE branches before establishing or acquiring the control of any company outside of China by using domestic assets or equities for the purpose of equity financing. PRC residents and citizens who are stockholders of offshore special purpose companies established before November 1, 2005 were required to conduct overseas investment registration with the local SAFE branches before March 31, 2006. Further, PRC residents and citizens must register all major changes relating to capitalization (including overseas equity or convertible bonds financing) within 30 days upon the occurrence of such changes.

On May 29, 2007, the SAFE issued the *Operating Procedures for the Relevant Issues Concerning Foreign Exchange Control on Domestic Residents' Corporate Financing and Roundtrip Investment Through Offshore Special Purpose Vehicles*. This regulation clarifies some outstanding issues with respect to Circular 75, and adds various implementing rules. Specifically, it provides for seven schedules to be established by the SAFE in order to track registration requirements for offshore fundraising and roundtrip investments.

Failure to comply with the registration procedures set forth in Circular 75 and any other rules and regulations may result in restrictions on the relevant PRC subsidiary, including the payment of dividends and other distributions to its offshore parent or affiliate and the capital inflow from the offshore entity. Non-compliance may also subject relevant PRC residents to penalties under PRC foreign exchange administration regulations, and may result in liability under PRC law for foreign exchange evasion.

Stock Option Rules

On March 28, 2007, the SAFE promulgated the *Application Procedures of Foreign Exchange Administration for Domestic Individuals Participating in an Overseas-Listed Company's Employee Stock Holding or Stock Option Plan*, or the Stock Option Rules. The Stock Option Rules stipulate that PRC individuals who have been granted stock options and other types of stock-based awards by an overseas listed company are required to obtain approval from their local SAFE branches through an agent of the overseas listed company (generally its PRC subsidiary or a financial institution).

The failure by any entities or PRC individuals to complete their SAFE registration pursuant to the requirement of the SAFE or its local branches or the *Individual Foreign Exchange Rules* may subject these entities or PRC individuals to fines and legal sanctions, and may also limit our ability to contribute additional capital into our PRC subsidiaries, limit our PRC subsidiaries' ability to distribute dividends to their shareholders or otherwise materially adversely affect their business.

As a company listed on a stock exchange in the United States, we and our PRC directors, management personnel, employees, consultants and employees of our equity investee who have been granted share options and other awards under our equity incentive plan are subject to the Stock Option Rules.

Our History and Corporate Structure

The following diagram illustrates our corporate structure.



Company History

We were incorporated in the State of Delaware in July 1998 under the corporate name "A.M.S. Marketing, Inc." and in October 2003, we changed our name to "International Imaging Systems, Inc." Until January 2007, we were engaged in the business of marketing pre-owned, brand name photocopy machines and employee leasing. We then began to pursue an acquisition strategy to acquire an undervalued business that demonstrated room for growth.

We acquired Baorun China Group Limited, or Baorun Group, pursuant to a Share Exchange Agreement, dated October 23, 2007 with Baorun Group, Redsky Group and Princeton Capital Group LLP, or Princeton Capital Group, Castle Bison, Inc. and Stallion Ventures, LLC. Together, Redsky Group and Princeton Capital Group owned shares constituting 100% of the issued and outstanding ordinary shares of Baorun Group. Pursuant to the terms of the Share Exchange Agreement, Redsky Group and Princeton Capital Group transferred to us all of their shares in Baorun Group in exchange for the issuance of 22,454,545 shares of our common stock to Redsky Group and 1,500,000 shares of our common stock to Princeton Capital Group. As a result of this share exchange, Baorun Group became our wholly owned subsidiary, and Redsky Group and Princeton Capital Group acquired an aggregate of approximately 94.11% of our common stock.

On November 15, 2007, through a merger of a wholly owned subsidiary, China Bio Energy Holding Group Co., Ltd., our corporate name was changed from "International Imaging Systems, Inc." to "China Bio Energy Holding Group Co., Ltd." On September 17, 2009, we changed our name to "China Integrated Energy, Inc."

During the year ended December 31, 2010, Xi'an Baorun acquired Chongqing Tianrun Energy Development Co., Ltd. ("Chongqing Tianrun"), XianyangJinzheng Oil Sales Co., Ltd. ("XianyangJinzheng"), Xinyuan Gas Station ("Xinyuan") and ShenmuErlintuHongtu Oil Co., Ltd. ("Shenmu") for a total cash consideration of approximately \$16.5 million, \$10.0 million, \$4.5 million and \$9.2 million, respectively. After these acquisitions, Chongqing Tianrun, XianyangJinzheng, Xinyuan and Shenmu became wholly-owned subsidiaries of Xi'an Baorun.

Corporate Structure

We operate our business through certain contractual agreements between Redsky Industrial and Xi'an Baorun Industrial. Redsky Industrial is our indirect wholly owned subsidiary that is a registered wholly foreign owned enterprise in the PRC. Xi'an Baorun Industrial is based in Xi'an, Shaanxi Province, and owned by three Chinese citizens, including our chairman, chief executive officer and president, Mr. Xincheng Gao, who owns a 70% equity interest in Xi'an Baorun Industrial.

Contractual Agreements with Xi'an Baorun Industrial

We do not own any equity interest in Xi'an Baorun Industrial. In order to meet domestic ownership requirements under PRC law, which restricts foreign companies from operating in the finished oil and biodiesel industry, our wholly-owned subsidiaries entered into a series of contractual agreements with Xi'an Baorun Industrial, which allow us, among other things, to secure significant rights to control Xi'an Baorun Industrial's business operations, policies and management, to approve all matters requiring stockholder approvals, and give us the right to receive service fee on a monthly basis from Xi'an Baorun Industrial equal to 100% of the monthly net income of Xi'an Baorun Industrial. In addition, to ensure that Xi'an Baorun Industrial and its stockholders perform their obligations under these contractual arrangements, the stockholders have pledged to Redsky Industrial all of their equity interests in Xi'an Baorun Industrial. If and when the current restrictions under PRC law on foreign ownership of Chinese companies engaging in the finished oil and biodiesel industry in China are lifted, Baorun China Group may exercise its option to purchase the equity interests in Xi'an Baorun Industrial directly.

In accordance with Accounting Standards Update ("ASU") 2009-17 issued by Financial Accounting Standards Board ("FASB"), Baorun China Group is considered to be the primary beneficiary of Xi'an Baorun Industrial and the financial statements of Xi'an Baorun Industrial have been consolidated in our consolidated financial statements. Upon the execution of the above contractual agreements and arrangements, Baorun China Group is able to (i) direct the activities of Xi'an Baorun Industrial that most significantly impact their economic performance; and (ii) absorb losses and receive benefits from Xi'an Baorun Industrial that could potentially be significant to them.

The contractual agreements our subsidiaries entered into with Xi'an Baorun Industrial and its stockholders include the following:

Exclusive Business Cooperation Agreement

Pursuant to an Exclusive Business Cooperation Agreement entered into between Redsky Industrial and Xi'an Baorun Industrial on October 19, 2007, as amended on March 24, 2008, Redsky Industrial has the exclusive right to provide complete technical support, business support and related consulting services, which include, among others, technical services, business consultations, equipment or property leasing, marketing consultancy and product research. Xi'an Baorun Industrial has agreed to pay the service fee on a monthly basis to Redsky Industrial equal to 100% of the monthly net income of Xi'an Baorun Industrial. This agreement is subject to renewal at the option of both Redsky Industrial and Xi'an Baorun Industrial. Redsky Industrial has the right to early termination of this agreement for any reason upon a 30 days' prior written notice. Xi'an Baorun Industrial only has the right to early termination of this agreement in the event of the gross negligence of, or fraudulent acts by Redsky Industrial.

Exclusive Option Agreements

Under the Exclusive Option Agreements dated October 19, 2007 entered into among Redsky Industrial, each of the three stockholders of Xi'an Baorun Industrial and Xi'an Baorun Industrial, the stockholders of Xi'an Baorun Industrial have irrevocably granted to Redsky Industrial, which subsequently in turn granted the right to Baorun Group, an exclusive option to purchase, to the extent permitted by PRC law, a portion or all of their respective equity interests in Xi'an Baorun Industrial for a purchase price either to be designated by Baorun Group or to be determined based on the evaluation of the equity interests required by PRC law. Baorun Group has the sole discretion to decide when to exercise the option, whether in part or in full. Each of these agreements has a ten-year term, subject to renewal at Baorun Group's election.

Equity Pledge Agreements

Under the Equity Pledge Agreements dated October 19, 2007, entered into among Redsky Industrial, Xi'an Baorun Industrial and each of the three stockholders of Xi'an Baorun Industrial, the stockholders of Xi'an Baorun Industrial have pledged their equity interests in Xi'an Baorun Industrial to guarantee Xi'an Baorun Industrial's performance of its obligations under the Exclusive Business Cooperation Agreement. If Xi'an Baorun Industrial fails to perform its payment obligations under the Exclusive Business Cooperation Agreement, or if Xi'an Baorun Industrial or any of its stockholders breaches his/her respective contractual obligations under the agreement, or upon the occurrence of an event of default, Redsky Industrial is entitled to certain rights, including the right to dispose of the pledged equity interests. The stockholders of Xi'an Baorun Industrial have agreed not to dispose of the pledged equity interests or take any actions that would prejudice Redsky Industrial's interests. Each of the Equity Pledge Agreements will be valid until all the payments due under the Exclusive Business Cooperation Agreement have been paid by Xi'an Baorun Industrial and Xi'an Baorun Industrial no longer has any obligations under the Exclusive Business Cooperation Agreement. Since the Exclusive Business Cooperation Agreement may be renewed at Redsky Industrial's option, the equity pledge will remain in effect with each such renewal of the Exclusive Business Cooperation Agreement, and until all payments due under the Exclusive Business Cooperation are paid in full by Xi'an Baorun Industrial.

Irrevocable Powers of Attorney

Under the irrevocable powers of attorney, each of the three stockholders of Xi'an Baorun Industrial has granted to Redsky Industrial, which in turn granted to Baorun China Group, the power to exercise all voting rights of such stockholder in stockholders' meetings, including, but not limited to, the power to determine the sale, pledge or transfer of, or otherwise dispose of all or part of such stockholder's equity interests in, and to appoint and elect the directors, the legal representative (chairperson), chief executive officer and other senior management of Xi'an Baorun Industrial.

Item 1A. Risk Factors.

Investing in our securities involves a great deal of risk. Careful consideration should be made of the following factors as well as other information included in this Annual Report on Form 10-K before deciding to purchase our securities. You should pay particular attention to the fact that we conduct all of our operations in China and are governed by a legal and regulatory environment that in some respects differs significantly from the environment that may prevail in the U.S. and other countries. Our business, financial condition or results of operations could be affected materially and adversely by any or all of these risks.

THE FOLLOWING MATTERS MAY HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS, FINANCIAL CONDITION, LIQUIDITY, RESULTS OF OPERATIONS OR PROSPECTS, FINANCIAL OR OTHERWISE. REFERENCE TO THIS CAUTIONARY STATEMENT IN THE CONTEXT OF A FORWARD-LOOKING STATEMENT OR STATEMENTS SHALL BE DEEMED TO BE A STATEMENT THAT ANY ONE OR MORE OF THE FOLLOWING FACTORS MAY CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE IN SUCH FORWARD-LOOKING STATEMENT OR STATEMENTS.

Risks Related to Our Business

Competition from large international oil and gas companies to acquire retail gas stations has led to a significant increase in acquisition costs, which may cause us to slow our acquisition strategy for our retail gas station operating segment.

The retail gas station market in the PRC is highly fragmented with many privately owned gas stations. To date, our operating leases for, and acquisitions of, retail gas stations have primarily been with or from private owners. Over the past two years, large international players, such as Exxon Mobil and Shell, have penetrated this market through partnerships with state-owned entities or others. As a result, competition for small privately-owned gas stations has become intense and lease payments and purchase prices to acquire retail gas stations have significantly increased. Companies such as Exxon Mobil and Shell have greater financial and other resources than we do, and we may be unable to successfully finance such acquisitions at potentially higher prices or otherwise. Our growth strategy with respect to our retail gas station business depends on our ability to continue to acquire, through leases and otherwise, gas stations. If the acquisition costs for retail gas stations continue to rise, we may be unable to compete against larger international companies. Any significant slow-down in our strategy to grow our retail gas station segment through acquisitions would have a material adverse effect on revenue growth for this segment.

The failure of the former owner of the Shenmu gas station to transfer to us the land use rights to the land on which the gas station is located may materially affect our ability to operate the gas station.

According to the purchase agreement to acquire the Shenmu gas station, the former owner is obligated to transfer to us the land use rights to two parcels of land on which the Shenmu gas station is located. As of December 31, 2011, we have obtained 2.891Mu land use rights certificates, the transfer of the residual land use rights certificates is in process, but remains subject to the approval of relevant regulatory authorities. We cannot guarantee that such land use rights will be transferred to us in a timely manner. If the land use rights certificates are not transferred to us, our right to use the land could be challenged. If any such challenge is successful, it could impair our ability to continue to operate and develop the Shenmu gas station. Furthermore, we could be subject to the risk of potential disputes in connection with the land use rights. Such disputes, whether resolved in our favor or not, may divert management attention, harm our reputation or otherwise disrupt our business.

We rely on a limited number of third-party suppliers for our supply of finished oil and heavy oil products and the loss of any such supplier, particularly our largest supplier, could have a material adverse effect on our operations.

We are dependent upon our relationships with third parties for our supply of finished oil and heavy oil products. Our five largest suppliers provided 52.5% and 43.7% of the finished oil and heavy oil products we sold in the years ended December 31, 2010 and 2011, respectively, with our largest supplier providing approximately 20.3% and 13.0%, respectively, in such periods. Should any of these suppliers, and in particular our largest supplier, terminate their supply relationships with us, fail to perform their obligations as agreed, or enter into the finished oil or heavy oil products business in competition with us, we may be unable to procure sufficient amounts of finished oil and heavy oil products to fulfill our demand. If we are unable to obtain adequate quantities of finished oil and heavy oil products at economically viable prices, our customers could seek to purchase products from other suppliers, which could have a material adverse effect on our revenues.

We are highly dependent on the revenue contribution from our wholesale distribution of finished oil and heavy oil business segment. A reduction in sales from this segment would cause our revenues to decline and materially harm our business.

We currently derive a significant majority of our sales from our wholesale distribution of finished oil and heavy oil products business segment, which accounted for 62.3% and 71.9% of our total sales in the years ended December 31, 2010 and 2011, respectively. As a result, should there be an adverse industry trend in the petroleum sector, our limited diversification could result in our results of operations declining substantially and suffering disproportionately compared to our competitors that have diversified their revenue sources.

Our ability to operate at a profit is partially dependent on market prices for petroleum and biodiesel fuels, which are subject to government control in the PRC. If petroleum and biodiesel prices drop significantly, we may be unable to maintain our current profitability.

Our results of operations and financial condition are affected by the selling prices of petroleum and biodiesel fuel products. Prices are subject to and determined by market forces and actions by the PRC government over which we have no control.

Although the current price-setting mechanism for refined petroleum products in China allows the PRC government to adjust prices in the PRC market when the average international crude oil price fluctuates beyond certain levels within a certain time period, the PRC government still retains full discretion as to whether or when to adjust the refined petroleum products price. The PRC government can also be expected to exercise price control over refined petroleum products once international crude oil price experiences sustained growth or becomes significantly volatile. As a result, our results of operations and financial condition may be materially and adversely affected by the fluctuation of market prices of crude oil and refined petroleum products as well as the discretionary actions of the PRC government.

We face substantial competition in our wholesale distribution of finished oil and heavy oil business segment.

We are one of the only four non-state-owned enterprises that are licensed to distribute both finished oil and heavy oil products in Shaanxi Province. Although barriers to entry in our industry are high due to stringent licensing requirements and the need for significant storage capacity for products, we face competition from companies located in other provinces and within Shaanxi Province that also engage in the wholesale distribution of finished and heavy oils. Such companies may have greater financial resources, sales resources, storage capacity and transportation capability than we do, and may have exclusive supply and purchase arrangements with suppliers as a result of long-term relationships.

Our competitors include China Petroleum and Chemical Corporation, or SINOPEC, and PetroChina Co., Ltd., or PetroChina, both of which have greater resources, brand recognition and access to more extensive distribution channels than we do.

In addition, we estimate that we have approximately ten major non-state-owned competitors in Shaanxi Province that also distribute finished oil and heavy oil products similar to ours, including Shaanxi Dongda Petro-Chemical Co., Ltd., Shaanxi Dayun Petrochemical Material Co., Ltd., and Baoji Huahai Industry Corp.

An increase in competition arising from an increase in the number or size of competitors in the wholesale distribution of finished oil and heavy oil may result in price reductions, reduced gross profit margins, loss of our market share and departure of key management personnel, any of which could adversely affect our financial condition and profitability.

Our biodiesel products face substantial competition. Other companies may discover, develop, acquire or commercialize products earlier or more successfully than we do.

Existing and future domestic competitors in the biodiesel industry, who may have a greater presence in other regions through government support, may be able to secure a significant market share in regions where we currently do not have operations. In addition, our potential competitors might be able to secure raw materials at lower costs than we can and could therefore threaten our competitive position, which could significantly impact our profitability and future prospects. Our domestic competitors include Gushan Environment Energy Ltd., China Biodiesel International Holdings Co., Ltd., China Clean Energy Inc., East River Energy Resources and Science Technology (Zhejiang) Ltd., SINOPEC, China National Offshore Oil Corporation, or CNOOC, and PetroChina, most of which have greater resources, brand recognition and access to more extensive distribution channels than we do.

We also face potential competition from foreign producers of biodiesel, which may have greater financial research and development resources than we do. Biodiesel is a relatively new product that was initially introduced outside the PRC, and the technology for producing biodiesel may be more advanced in countries other than the PRC. If foreign competitors, or domestic competitors relying on alliances with or support from foreign producers, enter the PRC biodiesel market, they may develop biodiesel that is more economically viable, which would adversely affect our ability to compete and our results of operations.

In addition, new technologies may be developed or implemented for alternative energy sources and products that use such energy sources. Advances in the development of fuels other than biodiesel or diesel, or the development of products that use energy sources other than diesel, such as gasoline hybrid vehicles and plug-in electric vehicles, could significantly reduce demand for biodiesel and thus affect our sales. Biodiesel also faces competition from fuel additives that help diesel burn cleaner and therefore reduce the comparative environmental benefits of biodiesel in relation to diesel. Other clean energy sources such as ethanol, liquefied petroleum gas, hydrogen and electricity from clean sources may be more cost-effective to produce, store, distribute or use, more environmentally friendly, or otherwise more successfully developed for commercial production in the PRC than our products. These other energy sources may also receive greater government support than our products in the form of subsidies, incentives or minimum use requirements. As a result, demand for our products may decline, our business model may no longer be viable, and our results of operations and financial condition may be materially and adversely affected.

Any increase in competition arising from an increase in the number or size of competitors or from competing technologies or other clean energy sources may result in price reductions, reduced gross profit margins, loss of our market share and departure of key management, any of which could adversely affect our financial condition and profitability.

Our limited history for producing biodiesel may not serve as an adequate basis to judge our future prospects and results of operations.

Currently, we have only three production facilities, of which two are in Tongchuan City, Shaanxi Province; and one is newly acquired in Chongqing City. We began producing biodiesel in October 2007, and we began selling biodiesel at the end of 2007. Our limited operating history as a producer and distributor of biodiesel makes it difficult for prospective investors to evaluate our business. Therefore, our operations are subject to all of the risks, challenges, complications and delays frequently encountered in connection with the operation of any new business, as well as those risks that are specific to the biodiesel industry. Investors should evaluate us in light of the problems and uncertainties frequently encountered by companies attempting to develop markets for new products, services, and technologies. Despite best efforts, we may never overcome these obstacles to financial success.

Our production and sale of biodiesel business segment is dependent upon the implementation of our business plan, as well as our ability to enter into agreements with third parties for the provision of necessary feedstock sources and the sale and distribution of our biodiesel on terms that will be commercially viable for us. There can be no assurance that our efforts will be successful or result in sales or profit. If we fail to execute on our business plan, there could be a material adverse effect on our operations.

The commercial success of our products depends on the degree of their market acceptance among the petroleum and biodiesel fuel community. If our products do not attain market acceptance among the petroleum and biodiesel fuel community, our operations and profitability would be adversely affected.

Our customers continually evaluate their product specifications in response to the latest developments in the energy market. Our success will depend on our ability to continue to meet our customers' current and future requirements. We expect, therefore, to require significant ongoing investment to preserve our ability to comply with these standards in order to ensure continued product acceptance and customer retention.

Additionally, the biodiesel market is at a relatively early stage of development and the extent to which biodiesel products will be widely adopted is uncertain. The biodiesel industry may also be particularly susceptible to economic downturns. Market data in the biodiesel industry is not as readily available as data in other more established energy industries where trends can be assessed more reliably from data gathered over a longer period of time. If biodiesel technology proves unsuitable for widespread adoption or if demand for biodiesel products fails to develop sufficiently, we may not be able to grow our business or generate sufficient revenues to sustain our profitability. In addition, demand for biodiesel products in our targeted markets, including China, may not develop or may develop to a lesser extent than we anticipated.

The distribution of finished oil is primarily dependent on the sufficiency of necessary infrastructure and access to means of transport, including rail transportation, which may not be available on a cost-effective basis, if at all.

Our wholesale distribution of finished oil and heavy oil business segment depends heavily on the availability of infrastructure and means of transportation, including but not limited to adequate highway or rail capacity, including sufficient numbers of dedicated tanker trucks or cars and sufficient storage facilities.

In connection with entering into oil storage services agreements through which we use two state-owned oil depots, we currently benefit from convenient railway freight access located near such depots, which enables us to reach certain parts of China, including Sichuan, Yunnan and Guizhou Provinces, to which other distribution companies in Shaanxi Province currently do not have easy access. There can be no assurance that the PRC government will continue to allow us to utilize this railway.

Our gross margins in our wholesale distribution of finished oil and heavy oil products and in our operation of retail gas station segments are principally dependent on the spread between the average purchase price and the average selling price. If the average purchase price increases and the average selling price of our products does not similarly increase or if the average selling price of our products decreases and the average purchase price does not similarly decrease, our margins will decrease and results of operations will be harmed.

Our gross margins in the wholesale distribution of finished oil and heavy oil products and in the operation of retail gas stations depend principally on the spread between the average purchase price and the average selling price we are able to realize for our products. The spread between the average purchase price for petroleum and the average selling price of our products has been relatively stable since 2007. Prices for petroleum in the PRC are primarily influenced by the guidance prices set by the National Development and Reform Commission, or the NDRC, and supply and demand for petroleum-based fuel, rather than production costs. Any decrease in the spread between the average purchase price and the prices we are able to realize for our products, whether as a result of an increase in purchase prices or policy determinations by the NDRC, would adversely affect our financial performance and cash flows.

Our future success substantially depends on our ability to significantly increase both our biodiesel production capacity and output.

Our future success depends on our ability to significantly increase both our production capacity and our output. In particular, we intend to expand our biodiesel production capacity within the next several years. Our ability to establish additional production capacity and increase output is subject to significant risks and uncertainties, including:

- the ability to raise significant additional funds to purchase raw materials and to build additional production facilities, which we may be unable to obtain on reasonable terms or at all;
- delays and cost overruns as a result of a number of factors, many of which may be beyond our control, such as increases in raw materials prices and problems with equipment vendors;
- delays or denial of required approvals by relevant government authorities;
- diversion of significant management attention and other resources;
- failure to maintain the lease for the land (and buildings) or to acquire additional land and buildings to be used for our biodiesel production and storage; and
- failure to execute our expansion plan effectively.

If we are unable to establish or successfully operate additional production capacity or to increase production output, or if we encounter any of the risks described above, we may be unable to expand our business and decrease costs to improve our profitability as planned. Even if we do expand our production capacity and output, we may be unable to generate sufficient customer demand for our biodiesel to support our increased production levels.

In the past we have derived a significant portion of our sales from a few large customers. If we were to lose any of such customers, our business, operating results and financial condition could be materially and adversely affected.

Our customer base has been highly concentrated. Our top five customers accounted for approximately 40.21% and 38.1% of our sales for the years ended December 31, 2011 and 2010, respectively. Our largest customer China Petroleum and Chemical Corporation Chuanyu Trading Co., Ltd. accounted for approximately 26.51% and 25.5% of our sales, respectively, during such periods. Our customer base may change from year-to-year, and during such years that our customer base is highly concentrated, the loss of, or reduction of our sales to, any of such major customers could have a material adverse effect on our business, operating results and financial condition. See “Business — Business Segments — Wholesale Distribution of Finished Oil and Heavy Oil — Customers” for a description of our largest customers.

We depend on our key executives, and our business and growth may be severely disrupted if we lose their services.

Our future success depends substantially on the continued services of our key executives. In particular, we are highly dependent upon Mr. Xincheng Gao, our chairman, chief executive officer and president, who has established relationships within the industries we operate. If we lose the services of one or more of our current executive officers, we may not be able to replace them readily, if at all, with suitable or qualified candidates, and may incur additional expenses to recruit and retain new officers with industry experience similar to our current officers, which could severely disrupt our business and growth. In addition, if any of our executives joins a competitor or forms a competing company, we may lose some of our suppliers or customers. Furthermore, as we expect to continue to expand our operations and develop new products, we will need to continue attracting and retaining experienced management and key research and development personnel.

Competition for qualified candidates could cause us to offer higher compensation and other benefits in order to attract and retain them, which could have a material adverse effect on our financial condition and results of operations. We may also be unable to attract or retain the personnel necessary to achieve our business objectives, and any failure in this regard could severely disrupt our business and growth.

The current economic and credit environment could have an adverse effect on demand for certain of our products and services, which would in turn have a negative impact on our results of operations, our cash flows, our financial condition, our ability to borrow and our stock price.

Since late 2008, global market and economic conditions have been disrupted and volatile. Concerns over increased energy costs, geopolitical issues, the availability and cost of credit, the U.S. mortgage market and a declining residential real estate market in the U.S. have contributed to this increased volatility and diminished expectations for the economy and the markets going forward. These factors, combined with volatile oil prices, declining business and consumer confidence and increased unemployment, have precipitated a global recession.

It is difficult to predict how long the current economic conditions will persist, whether they will deteriorate further, and which of our products, if not all of them, will be adversely affected. As a result, these conditions could adversely affect our financial condition and results of operations.

Our gross margin in our production and sale of biodiesel segment is principally dependent on the spread between feedstock prices and biodiesel prices. If the unit cost of feedstock increases and the average selling price of biodiesel does not similarly increase or if the average selling price of biodiesel decreases and the unit cost of feedstock does not similarly decrease, our margin will decrease and results of operations will be harmed.

Our gross margin in the production and sale of biodiesel segment depends principally on the spread between feedstock and biodiesel prices for vegetable oil residue, waste cooking oil and non-edible oil seeds, which have historically been our principal feedstock and comprised approximately 90% of total cost of goods sold of our production and sale of biodiesel segment during the year ended December 31, 2011, do not necessarily have a direct price relationship to the price of biodiesel in a particular period. Prices for non-edible oil seeds, vegetable oil residue and waste cooking oil are principally influenced by general inflation, market and regulatory factors. Biodiesel prices, however, are primarily influenced by the guidance prices set by the NDRC and supply and demand for petroleum-based diesel fuel, rather than biodiesel production costs. This lack of correlation between production costs and product prices means that we may be unable to pass increased feedstock costs on to our customers. In the last two years, the prices of vegetable oil residue, waste cooking oil and non-edible oil seeds have fluctuated substantially due to increased demand in China resulting from its rapid economic development. Any decrease in the spread between biodiesel prices and feedstock prices, whether as a result of an increase in feedstock prices or a reduction in biodiesel prices, would adversely affect our financial condition and results of operations.

The biodiesel industry faces a number of challenges, and there is no established market for biodiesel in the PRC where biodiesel is not considered a principal source of energy for any purpose.

Biodiesel has only recently been produced for commercial applications in the PRC. The market for biodiesel products is currently confined to specific regions and is relatively small at the national level. There is no established market in the PRC where biodiesel is considered a principal source of energy for vehicles operating on diesel or for any other purpose. We cannot assure you that biodiesel will be widely accepted or will reach a broader consumer base in the PRC. Our future prospects and operational results will be adversely affected if demand for biodiesel and the biodiesel industry in the PRC fail to develop.

The global biodiesel industry is also at an early stage of development and acceptance, as compared to other more established energy industries, and significant growth has occurred only recently. Demand for biodiesel may not grow as rapidly as expected, or at all. Biodiesel and the global biodiesel industry also face a number of obstacles and drawbacks, including:

- potentially increased nitrogen oxide (NOx) emissions as compared with most formulations of diesel;
- gelling at lower temperatures than diesel, which can require the use of low percentage biodiesel blends in colder climates or the use of heated fuel tanks;
- potential water contamination that can complicate handling and long-term storage;
- reluctance on the part of some auto manufacturers and industry groups to endorse biodiesel and their recommending against the use of biodiesel or high percentage biodiesel blends;
- potentially reduced fuel economy due to the lower energy content of biodiesel as compared with diesel;
- potentially impaired growth due to a lack of infrastructure such as dedicated rail tanker cars and truck fleets, sufficient storage facilities, and refining and blending facilities.

The success of our expansion plans depends on growth in domestic demand for biodiesel, and we may face overcapacity if the biodiesel market in the PRC does not develop as expected. If overcapacity occurs, the expenditures we incur to expand our facilities and increase our capacity may not result in increased sales, which could cause our results of operations to be materially and adversely affected.

Our biodiesel business depends on the sufficiency of necessary infrastructure which may not occur on a timely basis, if at all, and our operations could be adversely affected by the failure to develop infrastructure or disruptions to that infrastructure.

Substantial development of infrastructure will depend upon persons and entities outside of our control, and the control of others in the biodiesel industry, generally. Areas requiring expansion include, but are not limited to:

- adequate highway or rail capacity, including sufficient numbers of dedicated tanker trucks or cars;
- sufficient storage facilities for feedstock and biodiesel;
- increases in truck fleets capable of transporting biodiesel within localized markets; and
- expansion of independent filling stations.

Substantial investments required for these infrastructure changes and expansions may not be made or they may not be made on a timely basis. Any delay or failure in making the changes to or expansion of infrastructure could hurt the demand or prices for our biodiesel products, impede our delivery of biodiesel products, impose additional costs on us or otherwise have a material adverse effect on our results of operations or financial position. Our business is dependent on the continuing availability of infrastructure and any infrastructure disruptions could have a material adverse effect on our business.

Our business will suffer if we cannot obtain, maintain or renew necessary permits or licenses.

All PRC enterprises in the finished oil and biodiesel industries are required to obtain from various PRC governmental authorities certain permits and licenses, including, without limitation, an Approval Certificate for Wholesale Distribution of Finished Oil, a Dangerous Chemical Distribution License and a Safe Production Permit. We have obtained permits and licenses required for the distribution of finished oil and heavy oil products, and production of biodiesel. These permits and licenses are subject to periodic renewal and/or reassessment by the relevant PRC government authorities and the standards of compliance required in relation thereto may from time to time be subject to change. We intend to apply for renewal and/or reassessment of such permits and licenses when required by applicable laws and regulations, however, we cannot assure you that we can obtain, maintain or renew the permits and licenses or accomplish the reassessment of such permits and licenses in a timely manner. Any changes in compliance standards, or any new laws or regulations that may prohibit or render it more restrictive for us to conduct our business or increase our compliance costs may adversely affect our operations or profitability. Any failure by us to obtain, maintain or renew the licenses, permits and approvals, may have a material adverse effect on the operation of our business. In addition, we may not be able to carry on business without such permits and licenses being renewed and/or reassessed.

If we fail to adequately protect or enforce our intellectual property rights, or to secure rights to patents of third parties, our business could be significantly impaired.

Our success, competitive position and future revenues will depend in part on our ability to obtain and maintain patent protection for our products, methods, processes and other technologies, to preserve our trade secrets, to prevent third parties from infringing on our proprietary rights and to operate without infringing the proprietary rights of third parties.

To date, we have filed 14 patent applications with the State Intellectual Property Office of the PRC, or the SIPO. We were granted four utility model patent and one invention patent. The other eight patent applications have all been accepted by the SIPO, and four of them have passed the preliminary examination.

In accordance with the PRC Patent Law, all utility model patents granted to us will be valid for 10 years from the date of filing. Accordingly, the two patents granted in 2008 were filed in 2006 and will be valid until 2015, and the patent granted in 2009 was filed in 2008 and will be valid until 2017.

However, we cannot fully predict the degree and range of protection these patents will afford us against competitors. Third parties may find ways to invalidate or otherwise circumvent our proprietary technology. Third parties may attempt to obtain patents claiming aspects similar to our patent applications. If we need to initiate litigation or administrative proceedings, such actions may be costly whether we win or lose. To help protect our proprietary know-how and inventions for which patents may be unobtainable or difficult to obtain, such as our core technology for oil processing, we rely on trade secret protection and confidentiality agreements. If any of our intellectual property is disclosed, our value would be significantly impaired, and our business and competitive position would suffer.

If we infringe the rights of third parties, we could be prevented from selling products, forced to pay damages and compelled to defend against litigation.

If our products, methods, processes and other technologies infringe proprietary rights of other parties, we may have to obtain licenses (which may not be available on commercially reasonable terms, if at all), redesign our products or processes, stop using the subject matter claimed in the asserted patents, pay damages, or defend litigation or administrative proceedings, which may be costly whether we win or lose. All of the above could result in a substantial diversion of valuable management resources and we could incur substantial costs.

We believe we have taken reasonable steps, including comprehensive internal and external prior patent searches, to ensure we have the freedom to operate under our intellectual property rights, and that our development and commercialization efforts can be carried out as planned without infringing others' proprietary rights. However, a third-party patent may have been filed or will be filed that may contain subject matter of relevance to our development, causing a third-party patent holder to claim infringement. Resolving such issues has traditionally resulted, and could in our case result, in lengthy and costly legal proceedings, the outcome of which cannot be predicted accurately.

Our legal right to lease certain properties or accept oil storage services from third parties could be challenged by property owners, regulatory authorities or other third parties, which could prevent us from continuing to utilize our oil storage depots, biodiesel production facility and retail gas stations, which are located on such leased properties, or could increase the costs associated with utilizing those facilities.

Although all land in the PRC is owned by the government or by collectives, private individuals and businesses are permitted to use, lease and develop land for a specified term without owning the land, the duration of which depends on the purpose of land use. These rights to use land are termed land use rights. We do not hold any land use rights with respect to our biodiesel production facilities in Tongchuan City, Shannxi Province, oil storage depots or retail gas stations, except for Jinzheng gas station and Shenmu gas station. Instead, our business model relies on leases with third parties who either own the properties or lease the properties from the ultimate property owner and, with respect to two of the oil storage depots that we use, we rely on the oil storage service agreements with two state-owned entities. There may be challenges to the title of the properties and the rights to provide oil storage services which, if successful, could impair the development or operations of our oil storage depots, biodiesel production facility and retail gas stations on such properties. In addition, we are subject to the risk of potential disputes with property owners. Such disputes, whether resolved in our favor or not, may divert management attention, harm our reputation or otherwise disrupt our business.

In most instances, our immediate lessors do not possess the ultimate land use rights or proper property use rights, or have not obtained consents or approvals from the holders of the land use rights or relevant regulatory authorities to sublease the land or storage space to us. A lessor's failure to duly obtain the title to the property or to receive any necessary approvals from the ultimate holders of the land use rights, the primary lease holder or relevant regulatory authorities, as applicable, could potentially result in the invalidation of our lease, the renegotiation of such lease leading to less favorable terms or, in serious cases, require us to vacate the properties that we occupy or pay a fine. With regard to the two state-owned depots that provide storage services to us, their failure to obtain necessary approvals or to fulfill their obligations of filing or registering with relevant regulatory authorities of such storage services under PRC laws and regulations could invalidate such storage service agreements and we may have to stop using such storage services. The building ownership or leasehold in connection with our oil storage depots, biodiesel production facility and gas retail operations could be subject to similar challenges.

In addition, three of our gas stations are located on pieces of land which are not permitted to be used for any non-agricultural purposes. We have not been informed by any regulatory authority that we should cease to use such land. However, we cannot assure you that we will be able to continue to use such land in the future. If we are required to vacate from such land by any regulatory authorities, our business and results of operations may be adversely affected.

The failure of our lessors to transfer gas station operating permits to us may materially affect our ability to conduct retail gas business.

Under PRC law, the operation of gas stations requires various permits. In this regard, we conduct our retail gas station business by leasing ten gas stations from third parties who have obtained the requisite permits. To date, we have obtained all of the necessary operating permits for six gas stations. The operating permits for the remaining retail gas station are still in the process of being transferred to us subject to the approval of relevant regulatory authorities. While the lease agreement requires the lessor to transfer its operating permits to us, we cannot guarantee that such permits will be transferred to us in a timely manner. If the lessor fails to transfer any of the necessary operating permits, we may not be able to conduct business at such retail gas station, and may be subject to warning, suspension of business, a fine of up to three times the illegal gains, or a fine of up to RMB 30,000.

Our lessors' failure to comply with lease registration and other compliance requirements under PRC law may subject these lessors or us to fines or other penalties that may negatively affect our ability to utilize our oil storage depots, our biodiesel production facility or our retail gas stations.

We are subject to a number of land and property-related legal requirements. For instance, under PRC law, all lease agreements are required to be registered with the local housing bureau. Currently, none of the owners of the oil storage depots, biodiesel production facility and some retail gas stations we operate and manage has obtained registrations or approval of their leases from the relevant regulatory authorities as required although we continue to request that they obtain such registrations or approvals. The failure of our lessors to register these leases and agreements as required by law or to have the leases approved may subject these lessors or us to fines, result in our being required to vacate the properties or other penalties which may negatively affect our ability to operate or use the biodiesel production facility, the oil storage depots and retail gas stations covered under those leases.

Accidents or injuries in or around our oil storage depots, biodiesel production facility or retail gas stations may adversely affect our reputation and subject us to liability.

There are inherent risks of accidents or injuries when working in or around our oil storage depots, biodiesel production facility or retail gas stations. Death and accidents could prevent us from renewing our safety production permits. One or more accidents or injuries at any of our oil storage depots or at our biodiesel production facility or retail gas stations could adversely affect our safety reputation among customers and potential customers and increase our costs if we are required to take additional measures to make our safety precautions more effective. If accidents or injuries occur, we may be held liable for costs related to the injuries. Our current insurance policy, which covers claims as a result of accidental injuries, may not provide adequate coverage and we may be unable to renew our insurance policies or obtain new insurance policies without increases in our insurance premiums or decreases in coverage levels.

Power shortages, natural disasters, terrorist acts or other events could disrupt our operations and have a material adverse effect on our business, financial position or results of operations.

Our business could be materially and adversely affected by power shortages, natural disasters, terrorist attacks or other disruptive events in the PRC. For example, in early 2008, parts of the PRC were affected by severe snow storms that significantly impacted public transportation systems and the power supply in those areas. In May 2008, Sichuan Province in the PRC suffered a strong earthquake measuring approximately 8.0 on the Richter scale that caused widespread damage and casualties. The May 2008 Sichuan earthquake had a material adverse effect on the general economic conditions in the areas affected by the earthquake and severely affected the transportation systems in those areas. Any future natural disasters, terrorist attacks or other disruptive events in the PRC 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, financial position or results of operations.

We may be unable to maintain an effective system of internal control over financial reporting, and as a result we may be unable to accurately report our financial results.

Our reporting obligations as a public company place a significant strain on our management, operational and financial resources and systems. If we fail to maintain an effective system of internal control over financial reporting, we could experience delays or inaccuracies in our reporting of financial information, or non-compliance with the Securities and Exchange Commission, or the SEC, reporting and other regulatory requirements. This could subject us to regulatory scrutiny and result in a loss of public confidence in our management, which could, among other things, adversely affect our stock price.

If we require additional financing, we may not be able to find such financing on satisfactory terms or at all.

Our capital requirements may be accelerated as a result of many factors, including timing of development activities, underestimates of budget items, unanticipated expenses or capital expenditures, future product opportunities with collaborators and future business combinations. Our future growth strategy includes the construction or acquisition of biodiesel facilities that will enable us to produce more biodiesel fuel. Consequently, we may need to seek additional debt or equity financing, which may not be available on favorable terms, if at all, and which may be dilutive to our stockholders.

We may seek to raise additional capital through public or private equity offerings or debt financings. To the extent we raise additional capital by issuing equity securities, our stockholders may experience dilution. To the extent that we raise additional capital by issuing debt securities, we may incur substantial interest obligations, may be required to pledge assets as security for the debt and may be constrained by restrictive financial and/or operational covenants. Debt financing would also be superior to our stockholders' interest in bankruptcy or liquidation.

Our insurance may not cover all claims made against us.

Currently we have property and accidental injury insurance policies. If we were held liable for amounts and claims exceeding the limits of our insurance coverage or outside the scope of our insurance coverage, the costs to cover any such shortfalls could significantly reduce and put a strain on our available cash. In addition, we do not have any business disruption insurance coverage for our operations to cover losses that may be caused by natural disasters or other disruptive events, such as an epidemic of H1N1 virus, SARS or avian flu. Any business disruption or natural disaster may result in our incurring substantial costs and diversion of our resources.

We have been named as a defendant in a securities class action and a shareholder derivative lawsuit, which could result in substantial damages and may divert management's time and attention from our business

We and certain of our officers and directors are named as defendants in a purported securities class action lawsuit, and in a shareholder derivative lawsuit, each described in more detail in "Item 3. Legal Proceedings." These lawsuits and any other related lawsuits are subject to inherent uncertainties, and the actual costs to be incurred relating to these lawsuits will depend upon many unknown factors. The outcome of the litigation is necessarily uncertain, and we could be forced to expend significant resources in the defense of these suits, and we may not prevail. Monitoring and defending against legal actions is time-consuming for our management and detracts from our ability to fully focus our internal resources on our business activities. In addition, we may incur substantial legal fees and costs in connection with the litigation. We are not currently able to estimate the possible cost to us from these matters, and we cannot be certain how long it may take to resolve the litigation or the possible amount of any damages that we may be required to pay. We have not established any reserves for any potential liability relating to these lawsuits. It is possible that we could, in the future, incur judgments or enter into settlements of claims for monetary damages. A decision adverse to our interests on these actions could result in the payment of substantial damages and could have a material adverse effect on our cash flow, results of operations, financial position and stock price.

Risks Related to Our Corporate Structure

We rely on contractual arrangements with Xi'an Baorun Industrial and its stockholders for our operations in the PRC, which may not be as effective in providing control over Xi'an Baorun Industrial as direct ownership.

We have no equity ownership interest in Xi'an Baorun Industrial, and rely on contractual arrangements with Xi'an Baorun Industrial and its stockholders to control and operate Xi'an Baorun Industrial. We describe these arrangements in more detail under "Our History and Corporate Structure — Corporate Structure — Contractual Agreements with Xi'an Baorun Industrial." These contractual arrangements may not be as effective in providing control over Xi'an Baorun Industrial as direct ownership would be. For example, Xi'an Baorun Industrial could fail to take actions required for our business despite its contractual obligation to do so. If Xi'an Baorun Industrial, or any of its stockholders, fails to perform their respective obligations under agreements with us, we may have to incur substantial costs and resources to enforce such arrangements and may have to rely on legal remedies under PRC law, including seeking specific performance or injunctive relief, and claiming damages, which may not be effective. In addition, we may not be able to renew these agreements with Xi'an Baorun Industrial and its stockholders when they expire.

Our contractual arrangements with Xi'an Baorun Industrial are governed by PRC law and provide for the resolution of disputes through arbitration in the PRC. Accordingly, these contracts would be interpreted in accordance with PRC law and any disputes would be resolved in accordance with PRC legal procedures. The legal environment in the PRC is not as developed as in the United States and uncertainties in the Chinese legal system could limit our ability to enforce these contractual arrangements. In the event that we are unable to enforce these contractual arrangements, our business, financial condition and results of operations could be materially and adversely affected.

If the PRC government determines that the contractual arrangements that establish the structure for operating our business do not comply with applicable regulations, our business could be adversely affected.

The government of the PRC restricts foreign investment in energy businesses (e.g., finished oil distribution and biodiesel production) in the PRC. Consequently, we operate our business in the PRC through contractual arrangements with Xi'an Baorun Industrial. Although we believe we comply with current regulations of the PRC, we cannot assure you that our current ownership and operating structure would not be found to be in violation of any current or future PRC laws or regulations or other regulatory requirements and policies. If the PRC government determines that our structure or operating arrangements do not comply with applicable law, it could:

- revoke our business and operating licenses, require us to discontinue or restrict our operations;
- restrict our right to collect revenues;
- require us to restructure our operations;
- impose additional conditions or requirements with which we may not be able to comply;
- impose restrictions on our business operations or on our customers; or
- take other regulatory or enforcement actions against us that could be harmful to our business.

In addition, the equity pledge among Redsky Industrial and Xi'an Baorun Industrial and Xi'an Baorun Industrial's stockholders has not been registered and may be deemed to be invalid under PRC law.

The controlling stockholder of Xi'an Baorun Industrial may have potential conflicts of interest with us, which may adversely affect our business.

Mr. Xincheng Gao, our chairman, chief executive officer and president is the controlling stockholder of Xi'an Baorun Industrial and through his equity ownership in Redsky Group Limited, or Redsky Group, our majority stockholder, Mr. Xincheng Gao is also a beneficial owner of our common stock. He is also a director of both Xi'an Baorun Industrial and us. Conflicts of interests among his roles as stockholder, officer and director of both Xi'an Baorun Industrial and us may arise. We cannot assure you that when conflicts of interests arise, he will act in the best interests of our company or that conflicts of interests will be resolved in our favor. In addition, he may breach or cause Xi'an Baorun Industrial to breach or refuse to renew the existing contractual arrangements that allow us to receive economic benefits from Xi'an Baorun Industrial. Currently, we do not have existing arrangements to address potential conflicts of interests between Mr. Xincheng Gao and us. We rely on Mr. Xincheng Gao to abide by the laws of Delaware, which provides that directors owe fiduciary duties to us, requiring them to act in good faith and in our best interests and not to use their positions for personal gains. If we cannot resolve any conflicts of interests or disputes between us and Mr. Gao, in his capacity as the controlling stockholder of Xi'an Baorun Industrial, we would have to rely on legal proceedings, which could result in disruption of our business.

Our contractual arrangements with Xi'an Baorun Industrial may be subject to scrutiny by the PRC tax authorities and we could be required to pay additional taxes, which could substantially reduce our consolidated net income and the value of your investment.

We could face material and adverse tax consequences if the PRC tax authorities determine that our contractual arrangements with Xi'an Baorun Industrial were not priced at arm's length for purposes of determining tax liabilities. If the PRC tax authorities determine that these contracts were not entered into on an arm's-length basis, they may adjust our income and expenses for PRC tax purposes in the form of a transfer pricing adjustment. A transfer pricing adjustment could result in a reduction, for PRC tax purposes, of deductions recorded by Xi'an Baorun Industrial, which could adversely affect us by increasing the tax liabilities of Xi'an Baorun Industrial. This increased tax liability could further result in late payment fees and other penalties to Xi'an Baorun Industrial for underpaid taxes. Any payments we make under these arrangements or adjustments in payments under these arrangements that we may decide to make in the future will be subject to the same risk. Prices for such services will be set prospectively and therefore we do not know whether any of the payments to be made under the contracts will or will not be considered at arm's length for purposes of determining tax liabilities.

Risks Related to Doing Business in China

PRC laws and regulations restrict foreign investment in China's finished oil products industry. We have entered into contractual agreements with Xi'an Baorun Industrial to control and realize the benefits of the business. We are relying upon PRC laws and there is substantial uncertainty regarding the interpretation and application of current or future PRC laws and regulations.

Since we are deemed to be foreign persons or foreign-funded enterprises under PRC laws and are restricted to invest in companies operating in the finished oil products industry, we operate our businesses in China through Xi'an Baorun Industrial, an operating company that is owned by PRC citizens and not by us. Accordingly, our Chinese subsidiary, Redsky Industrial, entered into a series of exclusive contractual agreements with Xi'an Baorun Industrial. Although we believe we are in compliance with current PRC regulations, we cannot be sure that the PRC government would view these contractual arrangements to be in compliance with PRC licensing, registration or other regulatory requirements, with existing policies or with requirements or policies that may be adopted in the future. Because this structure has not been challenged or examined by PRC authorities, uncertainties exist as to whether the PRC government may interpret or apply the laws governing these arrangements in a way that is contrary to the opinion of our PRC counsel. If we, our wholly owned subsidiaries, Xi'an Baorun Industrial or the stockholders of Xi'an Baorun Industrial, were found to be in violation of any existing PRC laws or regulations, the relevant regulatory authorities would have broad discretion to deal with such violation, including, but not limited to the following:

- levying fines;
- confiscating income;
- revoking licenses;
- requiring a restructure of ownership or operations; and/or
- requiring the discontinuance of our businesses.

Any of these or similar actions could cause significant disruption to our business operations or render us unable to conduct our business operations and may materially adversely affect our business, financial condition and results of operations.

Adverse changes in political and economic policies of the PRC government could have a material adverse effect on the overall economic growth of China, which could materially and adversely affect our business.

All of our operations are conducted in China and all of our sales are made in China. Accordingly, our business, financial condition, results of operations and prospects are affected significantly by economic, political and legal developments in China. The PRC economy differs from the economies of most developed countries in many respects, including:

- the amount of government involvement;
- the level of development;

- the growth rate;
- the control of foreign exchange; and
- the allocation of resources.

While the PRC economy has grown significantly since the late 1970s, the growth has been uneven, both geographically and among various sectors of the economy. The PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures benefit the overall PRC economy, but may also have a negative effect on us. For example, our financial condition and results of operations may be adversely affected by government control over capital investments or changes in tax regulations that are applicable to us.

The PRC economy has been transitioning from a planned economy to a more market-oriented economy. Although the PRC government has in recent years implemented measures emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises, a substantial portion of the productive assets in China is still owned by the PRC government. The continued control of these assets and other aspects of the national economy by the PRC government could materially and adversely affect our business. The PRC government also exercises significant control over economic growth in China through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Efforts by the PRC government to slow the pace of growth of the PRC economy could result in decreased capital expenditure by energy users, which in turn could reduce demand for our products.

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 energy 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 and prospects.

The payment of dividends in the PRC is subject to limitations. We may not be able to pay dividends to our stockholders.

We conduct all of our business through our consolidated subsidiaries and affiliated companies incorporated in the PRC. We rely on dividends paid by these consolidated subsidiaries for our cash needs, including the funds necessary to pay any dividends and other cash distributions to our stockholders, to service any debt we may incur and to pay our operating expenses. The payment of dividends by entities established in the PRC is subject to limitations. Regulations in the PRC currently permit payment of dividends only out of accumulated profits as determined in accordance with accounting standards and regulations in the PRC, subject to certain statutory procedural requirements. Each of our PRC subsidiaries, including wholly foreign owned enterprises is also required to set aside at least 10.0% of their after-tax profit based on PRC accounting standards each year to their general reserves or statutory reserve fund until the aggregate amount of such reserves reaches 50.0% of their 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. As of December 31, 2011, our PRC subsidiaries had allocated RMB36.1 million (\$4.9 million) to these reserves, consisting of general and statutory reserves. Any limitations on the ability of our PRC subsidiaries to transfer funds to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, pay dividends and otherwise fund and conduct our business.

There are significant uncertainties under the EIT Law regarding our PRC enterprise income tax liabilities, such as tax on dividends paid to us by our PRC subsidiary and tax on any dividends we pay to our non-PRC corporate stockholders.

The EIT Law provides that enterprises established outside of the PRC whose “de facto management bodies” are located in the PRC are considered as a “tax-resident enterprise” and are generally subject to the uniform 25.0% enterprise income tax rate on global income. Under the implementation regulations to EIT Law, “de facto management body” refers to a managing body that in practice exercises overall management control over the production and business, personnel, accounting and assets of an enterprise. In addition, on April 22, 2009, the State Administration of Taxation of the PRC issued the *Notice on the Issues Regarding Recognition of Overseas Incorporated Enterprises that are Domestically Controlled as PRC Resident Enterprises Based on the De Facto Management Body Criteria*, which was retroactively effective as of January 1, 2008. This notice provides that an overseas incorporated enterprise that is controlled domestically will be recognized as a “tax-resident enterprise” if it satisfies all of the following conditions: (i) the senior management responsible for daily production/business operations are primarily located in the PRC, and the location(s) where such senior management execute their responsibilities are primarily in the PRC; (ii) strategic financial and personnel decisions are made or approved by organizations or personnel located in the PRC; (iii) major properties, accounting ledgers, company seals and minutes of board meetings and stockholder meetings, etc, are maintained in the PRC; and (iv) 50.0% or more of the board members with voting rights or senior management habitually reside in the PRC. If the PRC tax authorities determine that we are a “tax-resident enterprise,” we may be subject to enterprise income tax at a rate of 25.0% on our worldwide income. This may have an impact on our effective tax rate, and may result in a material adverse effect on our net income and results of operations. In addition, dividends paid by us to our non-PRC corporate stockholders as well as gains realized by such stockholders from the sale or transfer of our stock may be subject to a PRC tax under the EIT Law, and we may be required to withhold PRC tax on dividends paid to our non-PRC corporate stockholders.

In addition, under the EIT Law and the Arrangement between the PRC and the Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion, or the Double Taxation Arrangement, which became effective on January 1, 2007, if both we and our Hong Kong subsidiary, Baorun Group, are considered as “non-tax-resident enterprises,” dividends from our PRC subsidiaries paid to us through our Hong Kong subsidiary may be subject to a withholding tax at a rate of 5.0%. Furthermore, the ultimate tax rate will be determined by treaty between the PRC and the tax residence of the holder of the PRC subsidiary. We are actively monitoring the application of the withholding tax and are evaluating appropriate organizational changes to minimize the corresponding tax impact.

Our business benefits from certain government incentives. Expiration of, or changes to, these incentives could have a material adverse effect on our operating results by significantly increasing our tax expenses.

A number of PRC government initiatives promote the adoption of clean energy sources, such as biodiesel. For example, pursuant to the *Renewable Energy Medium and Long-Term Development Plan* issued by the NDRC in September 2007, the PRC targets to increase its consumption of energy from renewable sources to 15.0% of total energy consumption in the PRC by 2020. The plan also includes the promotion of renewable energy sources. Under the plan, the PRC aims to increase its annual consumption of biofuel, with the consumption of biodiesel targeted at two million tons per year by 2020. According to the *Renewable Energy Law of the PRC*, local governments are required to prepare a renewable energy development plan and provide financial support to renewable energy projects in rural areas. Further, the government may grant businesses engaged in biodiesel production certain benefits and incentives, while petroleum marketing enterprises are required to include biodiesel products that comply with the state standard with respect to fuel sales. These government initiatives could be modified or eliminated altogether. Such a change in policy could adversely affect the growth of the biodiesel market and cause our revenues to decline. Changes to or elimination of initiatives designed to increase general acceptance of clean energy sources could result in decreased demand for our products and have a material adverse effect on our business, results of operations and financial condition.

Furthermore, we cannot assure you that demand for our products will increase or that we will otherwise benefit from such regulations. For example, the PRC Ministry of Finance has issued the *Temporary Regulation on the Management of Special Funds for the Development of Renewable Resources*. Pursuant to this regulation, special funds will be provided to companies for the development of renewable resources, including petroleum substitutes. These funds may be used to promote advancement in the development of energy sources that compete with biodiesel, which may in turn reduce demand for biodiesel.

If environmental regulations are relaxed in the future, or if the enforcement of environmental regulations is not sufficiently rigorous, we may not be able to compete effectively against other manufacturers of energy products, including traditional and other clean energy source products. For example, under the *Rules on the Management of Waste Oil for Food Producers*, food producers must properly dispose of waste cooking oil or sell waste cooking oil to waste cooking oil processing entities or waste collection entities rather than discharging waste cooking oil into the environment or reusing it for human consumption. However, in practice, these rules may not be strictly enforced and waste oil may be disposed of through illegal means by some food producers, which would reduce the supply of waste cooking oil available for our production. Our business prospects and results of operations may be adversely affected as a result of any of the foregoing factors.

We face risks related to health epidemics and outbreak of contagious disease.

Our business could be materially and adversely affected by the effects of H1N1 flu (swine flu), avian flu, severe acute respiratory syndrome or other epidemics or outbreaks. In April 2009, an outbreak of H1N1 flu (swine flu) first occurred in Mexico and quickly spread to other countries, including the U.S. and the PRC. In the last decade, the PRC 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 the PRC 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 production 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.

Our operations may not develop in the same way or at the same rate as might be expected if the PRC economy were similar to the market-oriented economies of member countries in the Organization for Economic Co-Operation and Development, or OECD.

The economy of the PRC has historically been a nationalistic, "planned economy," meaning it functions and produces according to governmental plans and pre-set targets or quotas. In certain aspects, the PRC's economy has been transitioning to a more market-oriented economy. However, there can be no assurance of the future direction of these economic reforms or the effects these measures may have. The PRC economy also differs from the economies of most countries belonging to OECD, an international group of member countries sharing a commitment to democratic government and market economy. For instance:

- the number and importance of state-owned enterprises in the PRC is greater than in most OECD countries;
- the level of capital reinvestment is lower in the PRC than in most OECD countries; and
- Chinese policies make it more difficult for foreign firms to obtain local currency in China than in OECD jurisdictions.

As a result of these differences, our operations may not develop in the same way or at the same rate as might be expected if the PRC economy were similar to those of OECD member countries.

The PRC economic cycle may negatively impact our operating results.

The rapid growth of the PRC economy before 2008 generally led to higher levels of inflation. The PRC economy has more recently experienced a slowing of its growth rate. A number of factors have contributed to this slow-down, including appreciation of the Renminbi, or RMB, the currency of China, which has adversely affected China's exports. In addition, the slow-down has been exacerbated by the recent global crisis in the financial services and credit markets, which has resulted in significant volatility and dislocation in the global capital markets. It is uncertain how long the global crisis in the financial services and credit markets will continue and the significance of the adverse impact it may have on the global economy in general, or the Chinese economy in particular. Slowing economic growth in China could result in slowing growth and demand for our services which could reduce our revenues. In the event of a recovery in the PRC, renewed high growth levels may again lead to inflation. Government attempts to control inflation may adversely affect the business climate and growth of private enterprise. In addition, our profitability may be adversely affected if prices for our products rise at a rate that is insufficient to compensate for the rise in inflation.

Fluctuation in the value of the Renminbi may have a material adverse effect on your investment.

The value of the Renminbi against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in China's political and economic conditions. The conversion of Renminbi into foreign currencies, including U.S. dollars, has historically been set by the People's Bank of China. On July 21, 2005, the PRC government changed its policy of pegging the value of the Renminbi to the U.S. dollar. Under the new policy, the Renminbi is permitted to fluctuate within a band against a basket of certain foreign currencies, determined by the Bank of China, against which it can rise or fall by as much as 0.3% each day. This change in policy resulted in an approximately 24.2% appreciation in the value of the Renminbi against the U.S. dollar between July 21, 2005 and December 31, 2010. Since the adoption of this new policy, the value of Renminbi against the U.S. dollar has fluctuated on a daily basis within narrow ranges, but overall has further strengthened against the U.S. dollar. There remains significant international pressure on the PRC government to further liberalize its currency policy, which could result in a further and more significant appreciation in the value of the Renminbi against the U.S. dollar. Appreciation or depreciation in the value of the Renminbi relative to the U.S. dollar would affect our financial results reported in U.S. dollar terms without giving effect to any underlying change in our business or results of operations. In addition, if we decide to convert our Renminbi into U.S. dollars for the purpose of making payments for dividends on our common stock or for other business purposes, appreciation of the U.S. dollar against the Renminbi would have a negative effect on the U.S. dollar amount available to us.

Changes in foreign exchange regulations in the PRC may affect our ability to pay dividends in foreign currency or conduct other foreign exchange business.

The PRC government imposes controls on the convertibility of Renminbi into foreign currencies and, in certain cases, the remittance of currency out of the PRC. We receive substantially all of our revenues in Renminbi, which is currently not a freely convertible currency. Shortages in the availability of foreign currency may restrict our ability to remit sufficient foreign currency to pay dividends, or otherwise satisfy foreign currency-denominated obligations. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from the transaction, can be made in foreign currencies without prior approval from the PRC State Administration of Foreign Exchange, or the SAFE, by complying with certain procedural requirements. However, approval from appropriate governmental authorities is required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of bank loans denominated in foreign currencies.

The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, we may not be able to pay certain of our expenses as they come due.

Our ability to implement our business plan is dependent on many factors, including our ability to receive various governmental permits.

In accordance with PRC laws and regulations, we are required to maintain various licenses and permits in order to operate our business including, without limitation, a Safety Production Permit, an Approval Certificate for Wholesale Distribution of Finished Oil and a Dangerous Chemical Distribution License. We are required to comply with applicable production safety standards in relation to our production processes and our premises and equipment are subject to periodical inspections by regulatory authorities to ensure compliance with the dangerous chemical safety production laws and regulations and finished oil distribution and retail laws and regulations. Failure to pass these inspections, or the loss or suspension of some or all of our production activities, could disrupt our operations and adversely affect our business.

Our business benefits from preferential tax treatment and changes to this treatment could adversely affect our operating results.

Prior to the effectiveness of the EIT Law, the rate of income tax on companies in China may vary depending on the availability of preferential tax treatment or subsidies based on their industry or location. However, pursuant to the EIT Law, a uniform enterprise income tax of 25.0% is generally applied to all “tax-resident enterprises” under the EIT Law as to their global income, and “High and New Technology Enterprises” enjoy a preferential tax rate of 15.0%. Two notices issued by the local State Taxation Bureau stipulate that Xi’an Baorun Industrial is to enjoy an enterprise tax exemption for the years from 2004 to the end of 2010. Accordingly, Xi’an Baorun Industrial continued to enjoy such exemption until the expiration of the term of such exemption.

The EIT Law further provides preferential tax treatment for enterprises which are qualified as “High and New Technology Enterprises” after January 1, 2008. Xi’an Baorun Industrial was qualified as a High and New Technology Enterprise in 2009 for a period of 3-year from 2009 to 2011. Thus, it will be subject to a 15.0% tax rate for 2011 in accordance with the EIT Law and other relevant regulations, if we are not able to extend the exemption of the corporate income tax for 2011.

Given the short history of the EIT Law, uncertainties remain with respect to its future interpretation and implementation. We cannot guarantee that the preferential tax treatment granted to Xi’an Baorun Industrial will not be challenged and repealed by higher level tax authorities, or that any future implementation rules will be issued that are inconsistent with the current interpretation of the EIT Law. If our operating entities are unable to qualify for income tax holidays, our effective income tax rate will increase significantly and we may have to pay additional income taxes to make up for amounts previously unpaid. This could have a material adverse effect on our operations.

Recent PRC regulations relating to the establishment of offshore special purpose companies by PRC residents limit our ability to inject capital into our PRC subsidiaries, limit our PRC subsidiaries’ ability to distribute profits to us or otherwise adversely affect us.

The SAFE issued a public notice in October 2005, requiring PRC residents to register with the local SAFE branch before establishing or acquiring the control of any company outside of China for the purpose of financing that offshore company with assets or equity interest in a PRC company. Anytime such special purpose vehicles, or SPVs, have a major capital change event (including overseas equity or convertible bonds financing), all PRC resident stockholders must conduct a registration relating to the change within 30 days of occurrence of the event. On May 29, 2007, the SAFE issued an additional notice, clarifying some outstanding issues and providing standard operating procedures for implementing the prior notice. According to the new notice, the SAFE set up seven schedules that track registration requirements for offshore fundraising and roundtrip investments.

In March 2008, Xincheng Gao, who indirectly controls our company, registered with the SAFE’s Shaanxi Branch. We understand that he plans to update his registration to reflect the latest capital changes to each of our SPVs. However, we cannot guarantee that the SAFE will issue the updated registration certificate in a timely manner.

Further, pursuant to the above notices, if our PRC resident stockholders or beneficial owners such as Mr. Xincheng Gao fail to adhere to any of the registration requirements, or if they make any false representations to obtain the registration for roundtrip investments in onshore entities or the SPVs, they may face fines and other legal sanctions. In addition, such actions may also impede our ability to contribute additional capital or extend loans to our PRC subsidiaries, impede our PRC subsidiaries’ ability to pay dividends or otherwise distribute profits to us, or otherwise adversely affect us.

We may face PRC regulatory risks relating to our equity incentive plan.

On March 28, 2007, the SAFE promulgated a notice requiring PRC individuals who are granted stock options and other types of stock-based awards by an overseas publicly-listed company to obtain approval from the local SAFE branch through an agent of the overseas publicly-listed company (generally its PRC subsidiary or a financial institution).

We have urged our PRC management personnel, directors, employees and consultants who have been granted stock options under our 2003 Equity Incentive Plan to register them with the local SAFE pursuant to the said regulation. However, we cannot ensure that each of these individuals have carried out all of the required registration procedures.

If we, or any of these persons, fail to comply with the relevant rules or requirements, we may be subject to penalties, and may become subject to more stringent review and approval processes with respect to our foreign exchange activities, such as our PRC subsidiaries' dividend payment to us or borrowing foreign currency loans, all of which may adversely affect our business and financial condition.

PRC regulations relating to mergers and acquisitions of domestic enterprises by foreign investors may increase the administrative burden we face and create regulatory uncertainties.

On August 8, 2006, six PRC regulatory agencies, namely, the PRC Ministry of Commerce, or the MOFCOM, the State Assets Supervision and Administration Commission, or the SASAC, the State Administration for Taxation, the State Administration for Industry and Commerce, the China Securities Regulatory Commission, or the CSRC, and the SAFE, jointly adopted the *Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors*, or the M&A Rule, which became effective on September 8, 2006. The M&A Rule purports, among other things, to require SPVs, formed for overseas listing purposes through acquisitions of PRC domestic companies and controlled by PRC companies or individuals, to obtain the approval of the CSRC prior to publicly listing their securities on an overseas stock exchange. Based on our understanding of current PRC laws, we are not sure whether the M&A Rule would require us or our entities in China to obtain the approval from the CSRC or any other regulatory agencies in connection with the transaction contemplated by the Share Exchange Agreement we entered into on October 23, 2007.

Further, if the PRC government finds that we or our Chinese stockholders did not obtain the CSRC approval, which the CSRC may think we should have obtained before executing the Share Exchange Agreement or conducting this offering, we could be subject to severe penalties. The M&A Rule does not stipulate the specific penalty terms, so we are not able to predict what penalties we may face, and how such penalties will affect our business operations or future strategy.

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

We are dependent on our relationship with the local government in the province 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. Our ability to operate in China may be harmed by changes in its laws and regulations, including those relating to taxation, environmental regulations, land use rights, property and other matters. 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.

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. During the past 27 years (1986-2013), the rate of inflation in China has been as high as 28.4% and as low as -2.2%. 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.

Government regulations on environmental matters in China may adversely impact our business.

Our production facilities are subject to numerous laws, regulations, rules and specifications relating to human health and safety and the environment. These laws and regulations address and regulate, among other matters, wastewater discharge, air quality and the generation, handling, storage, treatment, disposal and transportation of solid and hazardous wastes and releases of hazardous substances into the environment. In addition, third parties and governmental agencies in some cases have the power under such laws and regulations to require remediation of environmental conditions and, in the case of governmental agencies, to impose fines and penalties. We make capital expenditures from time to time to comply with applicable laws and regulations.

Pursuant to PRC environmental protection laws and regulations, construction or expansion of a production facility is subject to certain environment impact assessment procedures including obtaining the relevant environmental authorities' approval for the construction project.

All potential environmental liabilities may not have been identified or properly quantified and a prior owner, operator, or tenant may have created an environmental condition unknown to us. We may be potentially liable for damages or cleanup, investigation or remediation costs in connection with the ownership and operation of our properties (including locations to which we may have sent waste in the past) and the conduct of our business.

State and local environmental regulatory requirements change often. Future laws, ordinances or regulations might impose material environmental liability or the current environmental condition of the properties could in the future be affected by the condition of land or operations in the vicinity of the properties (such as the presence of underground storage tanks), or by third parties unrelated to us. Moreover, it is possible that compliance with a new regulatory requirement could impose significant compliance costs on us. Such costs could have a material adverse effect on our business, financial condition and results of operations.

Uncertainties with respect to the PRC legal system could adversely affect us and we may have limited legal recourse under PRC law if disputes arise under our contracts with third parties.

Since 1979, PRC legislation and regulations have significantly enhanced the protections afforded to various forms of foreign investments in China. However, China has not developed a fully integrated legal system and recently enacted laws and regulations may not sufficiently cover all aspects of economic activities in China in particular, because these laws and regulations are relatively new, and because of the limited volume of published decisions and their non-binding nature, the interpretation and enforcement of these laws and regulations involve uncertainties. In addition, 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) that may have a retroactive effect. As a result, we may not be aware of our violation of these policies and rules until some time after violation.

The Chinese government has enacted some laws and regulations dealing with matters such as corporate organization and governance, foreign investment, commerce, taxation and trade. However, their experience in implementing, interpreting and enforcing these laws and regulations is limited, and our ability to enforce commercial claims or to resolve commercial disputes is unpredictable. The resolution of these matters may be subject to the exercise of considerable discretion by agencies of the Chinese government, and forces unrelated to the legal merits of a particular matter or dispute may influence their determination. Any rights we may have to specific performance, or to seek an injunction under PRC law, in either of these cases, are severely limited, and without a means of recourse by virtue of the Chinese legal system, we may be unable to prevent these situations from occurring. The occurrence of any such events could have a material adverse effect on our business, financial condition and results of operations.

We must comply with the Foreign Corrupt Practices Act.

We are required to comply with the United States Foreign Corrupt Practices Act, which prohibits U.S. companies from engaging in bribery or other prohibited payments to foreign officials for the purpose of obtaining or retaining business. Foreign companies, including some of our competitors, are not subject to these prohibitions. Certain of our suppliers are owned by the PRC government and our dealings with them are likely to be considered to be with government officials for these purposes. Corruption, extortion, bribery, pay-offs, theft and other fraudulent practices occur from time-to-time in mainland China. If our competitors engage in these practices, they may receive preferential treatment from personnel of some companies, giving our competitors an advantage in securing business or from government officials who might give them priority in obtaining new licenses, which would put us at a disadvantage. We could suffer severe penalties if our employees or other agents were found to have engaged in such practices.

Risks Related to Our Common Stock

The outstanding warrants may adversely affect us in the future and cause dilution to existing stockholders.

We currently have warrants outstanding to purchase up to 5,130,131 shares and 5,704,059 shares as of December 31, 2010 and 2011, respectively of our common stock. The term of these warrants expire between August 2011 and 2013 and the exercise prices range from \$3.00 to \$10.00 per share. Exercise of the warrants may cause dilution in the equity interests of other stockholders as a result of the additional common stock that would be issued upon exercise. In addition, sales of the shares of our common stock issuable upon exercise of the warrants could have a depressive effect on the price of our stock, particularly if there is not a coinciding increase in demand by purchasers of our common stock. Further, the terms on which we may obtain additional financing during the period any of the warrants remain outstanding may be adversely affected by the existence of these warrants.

Volatility in our common stock price may subject us to securities litigation.

Stock markets, in general, have experienced in recent months, and continue to experience, significant price and volume volatility, and the market price of our common stock may continue to be subject to similar market fluctuations unrelated to our operating performance or prospects. This increased volatility, coupled with depressed economic conditions, could continue to have a depressing effect on the market price of our common stock. Over the past 12 months, the sales price of our common stock has fluctuated between \$1.05 and \$0.22. The following factors, many of which are beyond our control, may influence our stock price:

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

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 common stock and could cause our stockholders to incur substantial losses. In the past, following periods of volatility in the market price of a company's securities, stockholders 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.

We do not anticipate paying cash dividends on our common stock in the foreseeable future.

We do not anticipate paying cash dividends in the foreseeable future. Presently, we intend to retain all of our earnings, if any, to finance development and expansion of our business. PRC capital and currency regulations may also limit our ability to pay dividends. Consequently, your only opportunity to achieve a positive return on your investment in us will be if the market price of our common stock appreciates.

The investors' ability to bring an action against us or against our directors and officer, or to enforce a judgment against us or them, will be limited because we conduct substantially all of our operations in the PRC and because the majority of our directors and officers reside outside of the United States.

We are a Delaware holding company and most of our assets are located outside of the United States. Most of our current operations are conducted in the PRC. In addition, most of our directors and officers are nationals and residents of countries other than the United States. A substantial portion of the assets of these persons is located outside the United States. As a result, it may be difficult for investors to effect service of process within the United States upon these persons. It may also be difficult for investors to enforce in U.S. courts judgments on the civil liability provisions of the U.S. federal securities laws against us and our officers and directors, most of whom are not residents in the United States and the substantial majority of whose assets are located outside of the United States. In addition, there is uncertainty as to whether the courts of the PRC would recognize or enforce judgments of U.S. courts. Our counsel as to PRC law has advised us that the recognition and enforcement of foreign judgments are provided for under the *PRC Civil Procedures Law*. Courts in the PRC may recognize and enforce foreign judgments in accordance with the requirements of the *PRC Civil Procedures Law* based on treaties between the PRC and the country where the judgment is made or on reciprocity between jurisdictions. The PRC does not have any treaties or other arrangements that provide for the reciprocal recognition and enforcement of foreign judgments with the United States. In addition, according to the *PRC Civil Procedures Law*, courts in the PRC will not enforce a foreign judgment against us or our directors and officers if they decide that the judgment violates basic principles of PRC law or national sovereignty, security or the public interest. So it is uncertain whether a PRC court would enforce a judgment rendered by a court in the United States.

Anti-takeover provisions of the Delaware General Corporation Law and some provisions in our certificate of incorporation and bylaws could have a material adverse effect on the rights of holders of our common stock.

We are subject to Section 203 of the Delaware General Corporation Law. This provision generally prohibits a Delaware corporation from engaging in any business combination with any interested stockholder for a period of three years following the date the stockholder became an interested stockholder, unless:

- prior to such date, the board of directors approved either the business combination or the transaction that resulted in the stockholder becoming an interested stockholder;
- upon consummation of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85.0% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the number of shares outstanding those shares owned by persons who are directors and officers and by employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or
- on or subsequent to such date, the business combination is approved by the Board of Directors and authorized at an annual meeting or special meeting of stockholders and not by written consent, by the affirmative vote of at least 66.7% of the outstanding voting stock that is not owned by the interested stockholder.

Section 203 defines a business combination to include:

- any merger or consolidation involving the corporation and the interested stockholder;
- any sale, transfer, pledge or other disposition of 10.0% or more of the assets of the corporation involving the interested stockholder;
- subject to certain exceptions, any transaction that results in the issuance or transfer by the corporation of any stock of the corporation to the interested stockholder;
- any transaction involving the corporation that has the effect of increasing the proportionate share of the stock of any class or series of the corporation beneficially owned by the interested stockholder; or
- the receipt by the interested stockholder of the benefit of any loans, advances, guarantees, pledges or other financial benefits provided by or through the corporation.

In general, Section 203 defines an “interested stockholder” as any entity or person beneficially owning 15.0% or more of the outstanding voting stock of a corporation, or an affiliate or associate of the corporation and was the owner of 15.0% or more of the outstanding voting stock of a corporation at any time within three years prior to the time of determination of interested stockholder status; and any entity or person affiliated with or controlling or controlled by such entity or person.

Anti-takeover provisions of the Delaware General Corporation Law, may make it more difficult to acquire our company or effect a change in control of our company, even if an acquisition or change in control would be in the interest of our stockholders or if an acquisition or change in control would provide our stockholders with a premium for their shares over then current market prices.

Our certificate of incorporation and bylaws contain provisions that could have the effect of discouraging potential acquisition proposals or tender offers or delaying or preventing a change in control of our company, including changes a stockholder might consider favorable. In particular, our certificate of incorporation and bylaws, as applicable, among other things, provide that:

- our Board of Directors shall have the ability to alter our bylaws without stockholder approval;
- vacancies on our Board of Directors may be filled by a majority of directors in office, although less than a quorum.

Such provisions may have the effect of discouraging a third party from acquiring our company, even if doing so would be beneficial to its stockholders. These provisions are intended to enhance the likelihood of continuity and stability in the composition of our board of directors and in the policies formulated by them, and to discourage some types of transactions that may involve an actual or threatened change in control of our company. These provisions are designed to reduce our vulnerability to an unsolicited acquisition proposal and to discourage some tactics that may be used in proxy fights.

However, these provisions could have the effect of discouraging others from making tender offers for our shares. These provisions also may have the effect of preventing changes in our management.

One of our directors and officers controls a majority of our common stock and his interests may not align with the interests of our other stockholders.

Mr. Xincheng Gao, our chairman, chief executive officer and president, through Redsky Group, which he controls, currently beneficially owns approximately 49.3% of our issued and outstanding common stock as of December 31, 2011. This significant concentration of share ownership may adversely affect the trading price of our common stock because investors often perceive a disadvantage in owning shares in a company with one or several controlling stockholders. Furthermore, our directors and officers, as a group, have the ability to significantly influence or control the outcome of all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions, such as mergers, consolidations or the sale of substantially all of our assets. This concentration of ownership may have the effect of delaying or preventing a change in control of our company which could deprive our stockholders of an opportunity to receive a premium for their shares as part of a sale of our company and might reduce the price of our common stock. In addition, without the consent of Mr. Gao or Redsky Group, we could be prevented from entering into transactions that could be beneficial to us. Mr. Gao or Redsky Group may cause us to take actions that are opposed by other stockholders as his interests may differ from those of other stockholders.

Divestitures of some of our businesses or product lines may materially adversely affect our financial condition, results of operations or cash flows.

We continue to evaluate the performance of all of our businesses and may sell businesses or product lines. For example, subsequent to 2011, our management has sold majority of our retail petrol station. Any such divestiture could result in significant asset impairment charges, including those related to goodwill and other intangible assets, which could have a material adverse effect on our business, financial condition and results of operations. Divestitures could involve additional risks, including difficulties in the separation of operations, services, products and personnel, the diversion of management's attention from other business concerns, the disruption of our business and the potential loss of key employees. We cannot assure you that we will be successful in managing these or any other significant risks that we encounter in divesting a business, a significant portion of the business or product line.

We have disclosed a material weakness in our internal control over financial reporting relating to our ability to comply with timely disclosure requirements of the Securities Exchange Act of 1934, which has an adverse affect our ability to report our financial condition, results of operations or cash flows accurately and on a timely basis.

In connection with our assessment of internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act of 2002, we identified a material weakness in our internal control over financial reporting relating to the timely filing of financial information pursuant to the requirements of the Securities Exchange Act of 1934. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. We have determined that further improvements are required in our accounting processes and personnel before we can consider the material weakness remediated. Management's procedures and testing identified errors that, although not material to the consolidated financial statements, led management to conclude that control deficiencies exist related to the timely production and filing of financial information. As a result of these deficiencies, it is reasonably possible that internal controls over financial reporting may not have prevented or detected errors from occurring that could have been material, either individually or in the aggregate.

A material weakness in our internal control over financial reporting could adversely impact our ability to provide timely and accurate financial information. While considerable actions have been taken and are underway to improve our internal controls in response to the identified

material weakness related to certain aspects of preparing consolidated financial statements on a timely basis, and further action steps to strengthen controls have been taken, additional work continues to address and remediate the identified material weakness. If we are unsuccessful in implementing or following our remediation plan, we may not be able to timely or accurately report our financial condition, results of operations or cash flows or maintain effective internal controls over financial reporting. If we are unable to report financial information timely and accurately or to maintain effective disclosure controls and procedures, we could be subject to, among other things, regulatory or enforcement actions by the SEC, which could adversely affect the valuation of our common stock and could adversely affect our business prospects.

Future issuances of capital stock may depress the trading price of our common stock.

Any issuance of shares of our common stock after this offering could dilute the interests of our existing stockholders and could substantially decrease the trading price of our common stock. We may issue additional shares of common stock in the future for a number of reasons, including to finance our operations and business strategy (including in connection with acquisitions, strategic collaborations or other transactions).

Sales of a substantial number of shares of our common stock in the public market could depress the market price of our common stock, and impair our ability to raise capital through the sale of additional equity securities. We cannot predict the effect that future sales of our common stock or other equity-related securities would have on the market price of our common stock.

Item 1B. Unresolved Staff Comments.

As a non-accelerated filer this disclosure is not required.

Item 2. Properties.

We entered into a lease agreement with Northwest Fire-resistant Materials Factory in April 2006, which was amended in July 2008, pursuant to which we have been granted the right to use a piece of land located in Tongchuan City, Shaanxi Province for building our biodiesel production facility. We pay an annual rent of RMB 700,000 which is paid in four installments each year during the term of the lease agreement. This agreement has a term of eight years ending in June 2016.

In addition, we entered into a lease agreement with Northwest Fire Resistant Materials Factory in January 2010, pursuant to which we have been granted the right to use another piece of land located in Tongchuan City, Shaanxi Province to build an additional 50,000-ton biodiesel production facility. The lease has a term of 15 years, ending in January 2025. We pay an annual rent of RMB 800,000, the first 3 years of which have been paid in a lump-sum (i.e., RMB 2,400,000). The rent shall continue to be paid on an annual basis for the remaining term of the lease.

We believe our facilities are currently suitable and adequate for our current needs.

The following table summarizes, by business segment, the location of real properties leased and owned by us.

Business Segment	Use of Property	Address	Lease Term
Production and Sale of Biodiesel	Biodiesel production facility	Space within the Northwest Fire-resistant Materials Factory, Tongchuan City, Shaanxi Province, China	2006 – 2016
Production and Sale of Biodiesel	Biodiesel production facility	Space within the Northwest Fire-resistant Materials Factory, Tongchuan City, Shaanxi Province, China	2010 – 2025
Production and Sale of Biodiesel	Biodiesel production facility	Shita Village, Splendor Base, Longqiao County, Fuling District, Chongqing Municipal, China	Owned
Operation of Retail Gas Stations	Xinyuan Gas Station	Xinhua Village, Disai Town, Baqiao District, Xi'an, Shaanxi Province, China	Owned
Operation of Retail Gas Stations	Lantian Gas Station	Xihou Village, Hongqing Community, Baqiao District, Xi'an, Shaanxi Province, China	2009 – 2038
Operation of Retail Gas Stations	Jinzheng Gas Station	Southern section of Changhong Road, Qindu District, Xianyang, Shaanxi Province, China	Owned
Office Building	Office Building	No.2 Gao-Xin Road, Western International Square, Xi'an City, Shaanxi Province, China	Owned

Item 3. Legal Proceedings.

Larry Brown, et al. v. China Integrated Energy, Inc. et al., (Consolidated Class Action), District Court for the Central District of California; Case No. CV-11-02559-MMM-PLAx: This is a shareholder consolidated class action initiated on March 25, 2011 against the Company, certain of its current and former officers and directors, and its former auditors alleging violations of the United States securities laws (including alleged misrepresentations as to the Company's financial condition and the non-disclosure of related-party transactions in violation of sections 10b and 20(a) of the Securities Exchange Act of 1934, and sections 11 and 15 of the Securities Act of 1933). The Consolidated Class Action Complaint, filed on December 20, 2011, seeks the recovery of unspecified compensatory damages, as well as the costs of suit, primarily based upon short-seller analyst reports published in or about March 2011 (which reports prompted a thorough independent review by the Company's audit committee). On February 22, 2012, the Company filed a motion to dismiss the action for failure to state a legally viable claim. By Order dated April 2, 2012, the Court denied the Company's motion to dismiss. Thereafter, the proceeding has entered into the discovery phase, and on August 15, 2013, plaintiff filed a motion for class certification. Discovery as to issues related to class certification is ongoing, and the defendants' opposition to plaintiff's motion is currently scheduled to be filed on or before February 17, 2014. The Company intends to vigorously defend the claims. As of this date, and given the ongoing and early stages of discovery in the action, we are unable to provide an evaluation of the likely outcome or give a range of potential loss.

In re China Integrated Energy, Inc. Stockholder Litigation, (Consolidated) Delaware Court of Chancery, C.A. No. 6625-VCL: Initiated by three separate shareholder actions filed on June 30, 2011, July 7, 2011 and May 2, 2012 following a number of short-seller analyst reports, this is a consolidated derivative action brought on behalf of the Company against current and former officers and directors of the Company alleging that certain officers and directors made misrepresentations concerning the Company's financial condition; entered into transactions that were not authorized by the Board of Directors; and/or otherwise breached their fiduciary duties. The shareholders asserted an independent claim against the Company, seeking to compel an annual meeting of the shareholders pursuant to section 8 of the Delaware Corporate Law. Each of the Company's current and former officers and directors filed motions to dismiss the claims asserted against them, and intend to vigorously defend the claims asserted against them. Prior to the resolution of the pending motions, in March 2013, the parties stipulated to stay further litigation of the claims pending the resolution of a class action litigation initiated in California (described below). By further stipulation, the shareholder plaintiffs and the Company agreed upon conditions for the scheduling and occurrence of a shareholder meeting, and by amended order of the court dated October 7, 2013, the Company has been directed to hold such a meeting on or before December 31, 2013. The meeting was held on December 20, 2013.

Item 4. Mine Safety Disclosure.

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our common stock traded on the Nasdaq Capital Market, under the ticker symbol "CBEH" from June 26, 2009 until April 20, 2011. Between April 21, 2011 and June 14, 2011, trading was halted on NASDAQ. Since June 15, 2011 our common stock has been quoted on the Pink Sheets.

The following table shows the high and low closing sales price for our common stock reported by the NASDAQ from January 1, 2010 until April 20, 2011, and the high and low bid prices reported on the Pink Sheets from June 15 2011 through December 31, 2011. The Pink Sheet quotations reflect inter-dealer prices, without retail mark-up, mark-down or commissions, and may not represent actual transactions.

Quarter Ending:		High	Low
Fiscal Year 2011			
First Quarter	\$	7.47	\$ 2.55
Second Quarter (April 1 – April 20)	\$	2.39	\$ 1.84
Second Quarter (June 15 – June 30)	\$	0.99	\$ 0.68
Third Quarter	\$	1.10	\$ 0.60
Fourth Quarter	\$	0.61	\$ 0.32
Fiscal Year 2010			
First Quarter	\$	10.60	\$ 6.78
Second Quarter	\$	12.12	\$ 7.60
Third Quarter	\$	9.52	\$ 6.07
Fourth Quarter	\$	9.93	\$ 6.45

Holders of Record

As of January 7, 2014, there were 237 holders of record of our common stock. This number does not include beneficial holders of our common stock, who hold their shares in accounts through brokers or banks.

Dividends

We have never paid any dividends and we plan to retain earnings, if any, for use in the development of our business.

Under current PRC regulations, wholly foreign-owned enterprises and Sino-foreign equity joint ventures in the PRC may pay dividends only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. Additionally, these foreign-invested enterprises are required to set aside certain amounts of their accumulated profits each year, if any, to fund certain reserve funds. These reserves are not distributable as cash dividends. Payment of future dividends, if any, will be at the discretion of the Board of Directors after taking into account various factors, including current financial condition, operating results and current and anticipated cash needs.

Recent Sales of Unregistered Sales of Equity Securities

There were no unregistered sales of equity securities that were not reported on a Current Report on Form 8-K or in a Quarterly Report on Form 10-Q.

Equity Compensation Plan Information

See “Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters” for disclosure regarding our Equity Compensation Plans.

Purchases of Equity Securities by the Company

None.

Item 6. Selected Financial Data.

The following table sets forth selected financial data as of and for the years ended December 31, 2011, 2010, 2009, 2008, and 2007. We derived the selected financial data from our financial statements for those periods. The following selected financial data should be read in conjunction with our consolidated financial statements and related notes and the information contained in Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations”.

	As of and For the year ended				
	December 31, 2011	December 31, 2010	December 31, 2009*	December 31, 2008*	December 31, 2007*
Income Statement Data :					
Sales	\$ 500,003,992	\$ 438,682,654	\$ 289,572,053	\$ 216,506,969	\$ 87,104,187
Cost of sales	434,876,256	375,498,931	248,101,339	185,858,502	77,006,690
Gross profit	65,127,736	63,183,723	41,470,714	30,648,467	10,097,497
Selling, general and administrative expenses	25,585,132	8,938,859	3,976,121	1,997,818	1,686,760
Income from operations	39,542,604	54,244,864	37,494,593	28,650,649	8,410,737
Other (expenses) / Income	(1,422,740)	(199,062)	376,370	(9,926,282)	168,828
Earnings before income tax	\$ 38,119,864	\$ 54,045,802	\$ 37,870,963	\$ 18,724,367	\$ 8,579,565
Earnings per share:					
Basic	\$ 0.66	\$ 1.60	\$ 1.34	\$ 0.69	\$ 0.21
Diluted	\$ 0.60	\$ 1.28	\$ 1.04	\$ 0.54	\$ 0.21
Balance Sheet Data:					
Cash and cash equivalents	\$ 146,135,469	\$ 90,257,218	\$ 62,415,443	\$ 23,119,028	\$ 1,382,371
Goodwill	3,961,899	3,778,151	-	-	-
Total assets	318,494,576	267,359,170	163,573,661	94,694,417	43,705,548
Loans payable - Non-current	-	-	-	-	33,655
Deferred tax liabilities	5,293,602	5,158,699	-	-	-
Total liabilities	18,701,152	34,769,864	10,242,068	10,795,208	5,509,911
Total stockholders’ equity	\$ 299,793,424	\$ 232,589,306	\$ 153,331,593	\$ 83,899,209	\$ 38,195,637

* Years ended December 31, 2009, 2008 and 2007 are unaudited.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Forward Looking Statements

This annual report on Form 10-K and other reports filed by the Company from time to time with the Securities and Exchange Commission (collectively the “Filings”) contain or may contain forward-looking statements and information that are based upon beliefs of, and information currently available to, the Company’s management as well as estimates and assumptions made by Company’s management. Readers are cautioned not to place undue reliance on these forward-looking statements, which are only predictions and speak only as of the date hereof. When used in the Filings, the words “anticipate”, “believe”, “estimate”, “expect”, “future”, “intend”, “plan”, or the negative of these terms and similar expressions as they relate to the Company or the Company’s management identify forward-looking statements. Such statements reflect the current view of the Company with respect to future events and are subject to risks, uncertainties, assumptions, and other factors (including the risks contained in the section of this report entitled “Risk Factors”) relating to the Company’s industry, the Company’s operations and results of operations, and any businesses that the Company may acquire. Should one or more of these risks or uncertainties materialize, or should the underlying assumptions prove incorrect, actual results may differ significantly from those anticipated, believed, estimated, expected, intended, or planned.

Although the Company believes that the expectations reflected in the forward-looking statements are reasonable, the Company cannot guarantee future results, levels of activity, performance, or achievements. Except as required by applicable law, including the securities laws of the United States, the Company does not intend to update any of the forward-looking statements to conform these statements to actual results. Readers are urged to carefully review and consider the various disclosures made throughout the entirety of this annual report, which attempt to advise interested parties of the risks and factors that may affect our business, financial condition, results of operations, and prospects.

Our financial statements are prepared in accordance with accounting principles generally accepted in the United States (“GAAP”). These accounting principles require us to make certain estimates, judgments and assumptions. We believe that the estimates, judgments and assumptions upon which we rely are reasonable based upon information available to us at the time that these estimates, judgments and assumptions are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities as of the date of the financial statements as well as the reported amounts of revenues and expenses during the periods presented. Our financial statements would be affected to the extent there are material differences between these estimates and actual results. In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP and does not require management’s judgment in its application. There are also areas in which management’s judgment in selecting any available alternative would not produce a materially different result.

OVERVIEW

The following Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) is intended to help the reader understand our operations and our present business environment. MD&A is provided as a supplement to—and should be read in conjunction with—our consolidated financial statements and the accompanying notes thereto contained in “Item 8. Financial Statements of this report. This overview summarizes the MD&A, which includes the following sections:

- *Our Business*— a general overview of our three business segments and the material opportunities and challenges of our business.
- *Critical Accounting Policies and Estimates*— a discussion of accounting policies that require critical judgments and estimates.
- *Results of Operations* —an analysis of our Company’s consolidated results of operations for the two years presented in our consolidated financial statements. Except to the extent that differences among our operating segments are material to an understanding of our business as a whole, we present the discussion in the MD&A on a consolidated basis.

- *Liquidity, Capital Resources and Financial Position*— an analysis of cash flows; an overview of financial position.

The following discussion contains forward-looking statements that involve risks, uncertainties, and assumptions such as statements of our plans, objectives, expectations, and intentions. Our actual results may differ materially from those discussed in these forward-looking statements because of the risks and uncertainties inherent in future events.

Our Business

Company Overview

We are a leading non-state-owned integrated energy company in China engaged in three business segments, wholesale distribution of finished oil and heavy oil products, production and sale of biodiesel, and operation of retail gas stations.

We operate four oil depots located in Xi'an, Shaanxi Province, access to a 2.65 kilometer special transportation rail track, one 100,000 ton biodiesel production plant located in Tongchuan, Shaanxi Province that has designed capacity of 100,000 tons and production capacity of 90,000 tons and one 50,000 ton biodiesel production plant located in Chongqing, China. Our major market is China. Currently, our products are sold in 16 provinces and municipalities of China covering Shaanxi Province, Henan Province, Hebei Province, Shandong Province, Shanxi Province, Hunan Province, Hubei Province, Sichuan Province, Guizhou Province, Yunnan Province, Fujian Province, Xinjiang Province, Beijing, Guangxi Province, Gansu Province and Ningxia Hui Autonomous Region.

Fluctuations in Fuel Prices During 2011

The retail prices of gasoline and diesel, or finished oil sold in the PRC, are subject to the government guiding ceiling price. In order to link domestic oil prices more closely to changes in the global crude oil prices in a controlled manner, the Administrative Measures on Oil Prices promulgated by the National Development and Reform Commission ("NDRC") in the PRC on May 7, 2009 stipulates that the NDRC will adjust domestic finished oil prices when the international market price for crude oil changes more than 4.0% over 22 consecutive working days. The NDRC adjusts domestic finished oil prices by modifying the retail price cap for gasoline and diesel in all provinces and such adjustment has upstream pricing effect over wholesale of finished oil and also tends to limit the market price of biodiesel. Details of the price adjustments during 2011 are as follows:

On February 19, 2011, the NDRC increased the price cap for gasoline and diesel from \$1,250 to \$1,134 and from \$1,171 to \$1,058, respectively, from the previous price adjustment on December 22, 2010. On April 6, 2011, the price cap was increased by \$77 per ton or 6.2% and \$62 per ton or 5.5%, respectively, followed by a decrease of \$46 per ton or 3.5% and \$46 per ton or 3.9%, respectively on October 9, 2011.

The above increase and decrease in price cap reflect the fluctuation of global crude oil prices. As a result, the average sales price of our gasoline and diesel increased from \$813 per ton in 2010 to \$1,018 per ton in 2011, representing a 25.2% increase.

Tax Exemptions

NDRC, the Ministry of Finance and other governmental departments are formulating relevant policies such as subsidies, refunds of Value Added Taxes ("VAT") and relief on consumption tax, corporate income tax and consumption tax to encourage bio-diesel consumption. As a result, Xi'an Baorun Industrial is exempt from corporate income tax through the end of calendar year 2010 and we are exempt from consumption tax.

Growth and Expansion Plans

Management plans to focus on growing its biodiesel production, its distribution business, and expanding the footprint of its retail gas stations. With respect to the distribution and retail business, we benefit from our advantageous location, well-established supplier relationships, as well as an extensive distribution network that has valuable railway access to reach remote parts of China that other distribution companies located in Shaanxi Province cannot currently reach.

We also plan to expand our current biodiesel production capacity. We are currently constructing a new 50,000 ton biodiesel production facility adjacent to our existing biodiesel production plant located in Tongchuan, Shaanxi Province, as at December 31 2011, all the equipments of the new 50,000 ton biodiesel production facility were in installation and try run test. Due to the catalyst bottleneck occurred in 2012, the plant is not in operation up to the reporting date. We are working with national chemical institute to replace catalyst and or find other solution to start operations. We are currently consulting with professors to find solution and we are confident to get it resolved soon. We have historically been able to secure a sufficient supply of raw materials and we will continue to work towards securing more long-term sources of raw materials and to seek new technology in the bio-energy field to improve production efficiency. We will continue pursuing strategic acquisitions that will quickly provide financial benefits to us.

In connection with the increase in production capacity, we have identified enough customer demands and sources, primarily power plants and diesel distributors in those jurisdictions where biodiesel is required to be used to blend diesel as a result of the government's energy saving and emission reduction initiatives in China.

For wholesale and retail of other oil products, we anticipate to benefit from the increase in demand of oil products associated with the general economic growth in China. We plan to expand our wholesale distribution network and strengthen our outreach in certain key distribution areas. In view of the increase in cost to acquire and to lease gas stations, we anticipate to slow down the acquisition and lease of additional gas stations.

Management believes the increase in sales volume from these initiatives will not only offset the impact from fluctuation in fuel pricing, but also favorably impact overall profits and cash flow.

For 2010 and 2011, our five largest customers represented 38.1% and 40.2% of our total sales, respectively. Our largest customer in 2010 and 2011, Sinopec, accounted for 25.4% and 26.5% of our total sales, respectively.

Public Equity Financing

On January 3, 2011, the Company entered into a securities purchase agreement with certain investors in a registered direct offering of an aggregate of 3,453,572 shares of the Company's common stock with a par value of \$0.0001 per share and 3,453,572 warrants to purchase 1,726,786 shares. The total gross proceeds received were \$24,175,004. Underwriting commissions, legal fees and offering expenses were \$1,271,152 and were recorded as a reduction of additional paid-in-capital.

Basis of Presentations

Our financial statements are prepared in accordance with US GAAP.

Critical Accounting Policies and Estimates

The preparation of financial statements and related disclosures in conformity with GAAP requires management to make judgments, assumptions, and estimates that affect the amounts represented in the consolidated financial statements. Note 2 to the Company's consolidated financial statements describe the major accounting policies and methods used in the preparation of the consolidated financial statements.

The following are considered to be the Company's critical accounting policies and estimates:

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are recorded at the invoiced amount and do not bear interest. The Group maintains an allowance for doubtful accounts for estimated losses inherent in its accounts receivable portfolio. In establishing the required allowance, management considers historical losses adjusted to take into account current market conditions and the customers' financial condition, the amount of receivables in dispute, and the current receivables aging and current payment patterns. The Group reviews its allowance for doubtful accounts monthly. Past due balances are reviewed individually for collectability. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. Individual credit evaluations are performed on all customers requiring credit. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Based on historical collections, there was no allowance for doubtful accounts as of December 31, 2010, the Company increased the allowance for doubtful accounts in the amount of \$817,437 for the year ended December 31, 2011. The financial condition of one customer that the Company have business relations with were to deteriorate, resulting in an impairment of their ability to make payments, so additional allowances were required. As of December 31, 2011 and 2010, \$817,437 and \$0- allowance for doubtful accounts has been provided, respectively

Inventories

We value our finished goods inventory at the lower of cost or market value. Cost includes cost of direct labor and raw materials, as well as allocation of variable and fixed production overhead. Variable production overheads are allocated to each unit of production based on the actual use of the production facilities. Fixed production overheads are allocated to the cost of conversion based on the normal capacity of the production facilities. We define normal production capacity as being a reasonable level of production volume supported by sufficient customer demand without any abnormal equipment downtime due to shortages of materials and labor, taking into consideration the loss of production capacity resulting from planned maintenances. We would write down the cost of excessive inventory. The factors considered in evaluating whether excessive inventory exists are:

- our forecast of future demand, including existing customers' order and forecasted orders; and
- the expiration date for the specific products.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation on property, plant and equipment is calculated on the straight-line method over the estimated useful lives of the assets. Estimated useful lives are as follows:

Building	20 years
Production equipment	10 years
Office Equipment	5 years
Vehicles	5 years

Costs incurred during the construction and installation of the assets are initially capitalized as construction in progress and transferred into property, plant and equipment when the assets are ready for their intended use, at which time depreciation commences. No depreciation charge is provided in respect of construction in progress. There have been no changes to the estimated useful lives and residual values during each of the two years ended December 31, 2011.

Revenue Recognition

For sales of finished oil, heavy oil products, and bio-diesel, revenue is recognized when a formal arrangement exists, the price is fixed or determinable, the delivery is completed, no other significant obligations of the Group exist and collectability is reasonably assured. For gas station retail sales, revenue is recognized and cash is collected upon completion of fuel sales to customers.

The Group's revenue is net of value added tax ("VAT") collected on behalf of tax authorities in respect of the sale of merchandise. VAT collected from customers, net of VAT paid for purchases, is recorded as a liability on the balance sheet until it is paid to the tax authorities.

The Group does not provide sales returns, price protection or any other concessions to its customers.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and tax loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the consolidated statements of income and comprehensive income in the period that includes the enactment date. A valuation allowance is provided to reduce the amount of deferred tax assets if it is considered more likely than not that some portion or all of the deferred tax assets will not be realized.

The Company recognizes in the consolidated financial statements the impact of a tax position, if that position is more likely than not of being sustained upon examination, based on the technical merits of the position. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company records interest related to unrecognized tax benefits in interest expense and penalties in selling, general and administrative expenses in the consolidated statements of income and comprehensive income.

Xi'an Baorun Industrial has obtained corporate income tax exemption for the period from January 1, 2005 to December 31, 2010. Currently, the PRC is in a period of growth and is openly promoting business development in clean energy and advanced and new technology areas. Tax holiday is one of the many methods used to promote such business development. In accordance with the relevant tax laws in the PRC, the Company is entitled to 15% tax rate due to the 'Hi-Tech Enterprise Tax Preference'.

Had the above tax holiday for corporate income tax not been in effect, we estimate that the pro forma financial impact would be as follows:

	Years ended December 31,	
	2011 (pro forma)	2010 (pro forma)
Net income before income taxes	\$ 38,119,864	\$ 54,045,802
Tax provision	(15,044,790)	(16,281,954)
Net income	23,075,074	37,763,848
Earnings per share - basic	0.53	1.12
Earnings per share - diluted	\$ 0.48	\$ 0.89

According to the prevailing PRC income tax law and its relevant regulations, non-PRC-resident enterprises are levied withholding tax at 10%, unless reduced by tax treaties or similar arrangements, on dividends from their PRC-resident investees for earnings accumulated beginning on January 1, 2008, and undistributed earnings generated prior to January 1, 2008 are exempt from such withholding tax. Further, the Company's distribution from its PRC subsidiary and the consolidated variable interest entity are subject to the U.S. federal income tax at 34%, less any applicable foreign tax credits. Due to the Group's policy of reinvested permanently its earnings in its PRC business, the Group has not provided for deferred income tax liabilities for U.S. federal income tax purposes on its PRC subsidiary and consolidated variable interest entity's undistributed earnings of \$172,790,000 and \$141,357,000 as of December 31, 2011 and 2010, respectively.

Variable Interest Entity

We do not own any equity interest in Xi'an Baorun Industrial. In order to meet domestic ownership requirements under PRC law, which restricts foreign companies from operating in the finished oil and biodiesel industry, our wholly-owned subsidiaries entered into a series of contractual agreements with Xi'an Baorun Industrial, which allow us, among other things, to secure significant rights to control Xi'an Baorun Industrial's business operations, policies and management, to approve all matters requiring stockholder approvals, and give us the right to receive service fee on a monthly basis from Xi'an Baorun Industrial equal to 100% of the monthly net income of Xi'an Baorun Industrial. In addition, to ensure that Xi'an Baorun Industrial and its stockholders perform their obligations under these contractual arrangements, the stockholders have pledged to Redsky Industrial all of their equity interests in Xi'an Baorun Industrial. If and when the current restrictions under PRC law on foreign ownership of Chinese companies engaging in the finished oil and biodiesel industry in China are lifted, Baorun China Group may exercise its option to purchase the equity interests in Xi'an Baorun Industrial directly.

In accordance with Accounting Standards Update ("ASU") 2009-17 issued by Financial Accounting Standards Board ("FASB"), Baorun China Group is considered to be the primary beneficiary of Xi'an Baorun Industrial and the financial statements of Xi'an Baorun Industrial have been consolidated in our consolidated financial statements. Upon the execution of the above contractual agreements and arrangements, Baorun China Group is able to (i) direct the activities of Xi'an Baorun Industrial that most significantly impact their economic performance; and (ii) absorb losses and receive benefits from Xi'an Baorun Industrial that could potentially be significant to them.

During the year ended December 31, 2010, Xi'an Baorun acquired Chongqing Tianrun Energy Development Co., Ltd. ("Chongqing Tianrun"), XianyangJinzheng Oil Sales Co., Ltd. ("XianyangJinzheng"), Xinyuan Gas Station ("Xinyuan") and ShenmuErlintuHongtu Oil Co., Ltd. ("Shenmu") for a total cash consideration of approximately \$16.5 million, \$10.0 million, \$4.5 million and \$9.2 million, respectively. After these acquisitions, Chongqing Tianrun, XianyangJinzheng, Xinyuan and Shenmu became wholly-owned subsidiaries of Xi'an Baorun (See Note 18).

Total assets and total liabilities of Xi'an Baorun as of December 31, 2011 in the amount of \$317,720,003 and \$18,699,863, and sales and net income of Xi'an Baorun for the year ended December 31, 2011 in the amount of \$500,003,992 and \$31,433,343, have been included in the accompanying consolidated financial statements as of and for the year ended December 31, 2011.

Total assets and total liabilities of Xi'an Baorun as of December 31, 2010 in the amount of \$251,591,718 and \$34,759,490, and sales and net income of Xi'an Baorun for the year ended December 31, 2010 in the amount of \$438,682,654 and \$58,182,434, have been included in the accompanying consolidated financial statements as of and for the year ended December 31, 2010.

Stock-based Compensation

The Company measures the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award and recognizes the cost over the period during which an employee is required to provide service in exchange for the award, which generally is the vesting period. The amount of cost recognized is adjusted to reflect the number of share options that are forfeited prior to vesting.

Stock option activity during the period indicated is as follows:

	Number of options	Weighted average exercise prices per share	Weighted average remaining contractual term in years	Aggregate intrinsic value
Balance at December 31, 2008	40,000	\$ 4.00	9.88	
Granted	20,000	7.09		
Balance at December 31, 2009	60,000	\$ 5.03	7.91	
Granted	2,912,000	7.09		
Exercised	35,000	7.04		
Forfeited	25,000	7.04		
Balance at December 31, 2010	2,912,000	\$ 7.05	5.18	\$ 925,680
Exercisable at December 31, 2010	468,550	\$ 6.82	5.51	\$ 247,375
Granted	780,000	1.84		
Exercised	-	-		
Forfeited	638,500	7.04		
Balance at December 31, 2011	3,053,500	\$ 5.75	3.61	\$ -
Exercisable at December 31, 2011	3,053,500	\$ 5.71	4.70	\$ -

As of December 31, 2011, there was \$7,646,261 of total unrecognized compensation cost related to non-vested stock options. That cost is expected to be recognized over a weighted average period of 2.51 years.

Summary of assumptions for the valuation of stock options granted based on the Black-Scholes Option Pricing Model during the years ended December 31, 2011 and 2010 is as follows:

	Options granted in 2011	Options granted in 2010
Expected dividend yield	Nil	Nil
Expected volatility	73.26~73.33%	76.93~87.99%
Risk-free interest rate	0.83~3.07%	0.08~3.36%
Expected term	3~10 years	5~10 years
Fair value of underlying common stock (per share)	\$ 1.84	\$ 6.75~8.98

The Black-Scholes Option Pricing model incorporates expected various and highly subjective assumption. The Company estimates the expected volatility of its common stock using a weighted-average historical volatility of the Company's common stock. The risk free interest rate assumption is determined using the Federal Reserve nominal rates for U.S. Treasury zero-coupon bonds with maturities similar to those of the expected term of the award being valued. There is no expected dividend yield, as the Company has not paid dividend and does not anticipate to pay dividend over the term of the grants.

Results of Operations

Comparison of Results of Operations for the Years Ended December 31, 2011 and 2010

	Years ended December 31,	
	2011	2010
Sales		
Wholesale distribution of finished oil and heavy oil	\$ 359,644,889	\$ 273,082,322
Production and sale of biodiesel	59,892,918	74,916,830
Operation of retail gas stations	80,466,185	90,683,502
Total	<u>\$ 500,003,992</u>	<u>\$ 438,682,654</u>
Cost of sales		
Wholesale distribution of finished oil and heavy oil	\$ 321,391,843	\$ 244,638,195
Production and sale of biodiesel	42,796,850	52,040,039
Operation of retail gas stations	70,687,563	78,820,697
Total	<u>\$ 434,876,256</u>	<u>\$ 375,498,931</u>
Gross profit		
Wholesale distribution of finished oil and heavy oil	\$ 38,253,047	\$ 28,444,127
Production and sale of biodiesel	17,096,067	22,876,791
Operation of retail gas stations	9,778,622	11,862,805
Total	<u>\$ 65,127,736</u>	<u>\$ 63,183,723</u>
Total assets		
Wholesale distribution of finished oil and heavy oil	\$ 223,287,431	\$ 146,648,200
Production and sale of biodiesel	57,681,770	59,126,210
Operation of retail gas stations	37,525,375	61,584,760
Total	<u>\$ 318,494,576</u>	<u>\$ 267,359,170</u>
Capital expenditures		
Wholesale distribution of finished oil and heavy oil	\$ 6,595,588	\$ 161,196
Production and sale of biodiesel	1,423,466	27,530,335
Operation of retail gas stations	-	15,579,183
Total	<u>\$ 8,019,055</u>	<u>\$ 43,270,714</u>
Depreciation and amortization		
Wholesale distribution of finished oil and heavy oil	\$ 360,879	\$ 230,910
Production and sale of biodiesel	1,475,749	991,015
Operation of retail gas stations	798,885	416,144
Total	<u>\$ 2,635,513</u>	<u>\$ 1,638,069</u>

The following table sets forth the results of our operations for the periods indicated as a percentage of net sales:

	Years ended December 31,			
	2011		2010	
	\$	% of Sales	\$	% of Sales
Sales	500,003,992	100.0%	438,682,654	100.0%
Cost of sales	434,876,256	87.0%	375,498,931	85.6%
Gross profit	65,127,736	13.0%	63,183,723	14.4%
Selling, general and administrative expenses	25,585,132	5.1%	8,938,859	2.0%
Income from operations	39,542,604	7.9%	54,244,864	12.4%
Other (expenses) / Income	(1,422,740)	(0.3)%	(199,062)	(0.0)%
Earnings before income tax	38,119,864	7.6%	54,045,802	12.3%

Sales. Net sales for the year ended December 31, 2011 were approximately \$500.0 million compared to \$438.7 million for the year ended December 31, 2010, an increase of \$61.3 million, or 14.0%. The increase was mainly attributable to the growth in wholesale. For the year ended December 31, 2011, sales from wholesale distribution of finished oil and heavy oil products was \$359.6 million compared to \$273.1 million for the year ended December 31, 2010, an increase of \$86.5 million or 31.7%. The sales volume of wholesale distribution of finished oil and heavy oil products from 335,900 tons to 353,191 increased by 205 tons, or 5% from the year ended December 31, 2010. The weighted average price increased by 25.1% from the year ended December 31, 2010. For the year ended December 31, 2011, sales from our retail gas station segment was \$80.5 million, compared to \$90.7 million for the year ended December 31, 2010, a decrease of \$10.2 million or 11.3% as a result of the decrease in the number of fully operational gas stations from 13 in 2010 to 7 in 2011. 4 of gas station were ceased to lease in May, 2011 and the other two were ceased to lease in August, 2011. For the year ended December 31, 2011, sales from production and sales of biodiesel were \$59.9 million compared to \$74.9 million for the year ended December 31, 2010, a decrease of \$15.0 million or 11.3% primarily resulted from the limited hours of production of our Tongchuan facilities during the International Horticultural Exposition (the "Expo") in Xi'an. The government restrictions on chemical and oil production during the "Expo" in Xi'an, which began in April 2011, the normal production schedules was resumed after the end of the Expo in November 2011. The sales volume of biodiesel decreased from 88,671 tons to 59,797, decreased by 28,874 tons or 32.6% from the year ended December 31, 2010. The weighted average price increased by 18.6% from the year ended December 31, 2010.

Cost of sales. Cost of sales for the year ended December 31, 2011 was approximately \$434.9 million compared to \$375.5 million for the year ended December 31, 2010, an increase of \$59.4 million, or 15.8%. The increase in cost of sales was attributable to and in line with an increase in sales activities during the year of 2011. Cost of sales as a percentage of sales was approximately 87.0% for the year of 2011, compared to 85.6% for the year ended December 31, 2010. For wholesale distribution of finished oil and heavy oil products, cost of goods sold as a percentage of sales for the years ended December 31, 2011 and 2010 were 89.4% and 89.6%, respectively. For production and sale of biodiesel, cost of sales as a percentage of sales for the years ended December 31, 2010 and 2010 were 71.5% and 69.5%, respectively. Such increase was attributable to the loss the scale of economics in production 2011, the production volume decreased in 2011. For our retail gas station operation, cost of sales as a percentage of sales for the years ended December 31, 2010 and 2010 were 87.8% and 86.9%, respectively. Such increase was attributable to the increase of depreciation and lease expenses of our retail gas stations in 2011.

Gross profit. Gross profit was approximately \$65.1 million for the year ended December 31, 2011 as compared to approximately \$63.2 million for the year ended December 31, 2010, representing gross margins of approximately 13.0% and 14.4%, respectively. For the year ended December 31, 2010, the gross profit margin of wholesale distribution of finished oil and heavy oil products was 10.6%, production and sale of biodiesel was 28.5%, and operation of retail stations was 12.2%, as compared to 10.4%, 30.5%, and 13.1%, respectively, for the year ended December 31, 2010. The decrease in gross margin of biodiesel was attributed to loss the scale of economics in production 2011, the production volume decreased in 2011. The decrease in the gross margin of operation of retail station was attributed to the highly depreciation for leased gas stations. Six gas stations with cheaper lease fee ceased to lease during the year. The margin for wholesale distribution of finished oil and heavy oil products was quite stable as the pricing adjustments by the NDRC affect both our selling price and our purchase price.

Selling, general and administrative expenses. Selling, general and administrative expenses for the year ended December 31, 2011 were approximately \$25.6 million compared to \$8.9 million for the year ended December 31, 2010, an increase of \$16.7 million or 186.2%. This increase mainly consisted of the following: 1) high legal and other fee related to the independent investigation, amounted 4.8 million. 2) \$1.5 million increase in bad debt provision & \$10.5 million impairment for gas station 3) \$0.3 million increase in directors, officers and corporate liability insurance fee. Total operating expenses as a percentage of sales was 5.1% and 2.0% for the years ended December 31, 2011 and 2010, respectively. We expect to have an increase in other general and administrative expenses in future reporting periods, as our business expands and more legal and other fee need to pay to the independent investigation in 2012.

Income from operations. Income from operations for the year ended December 31, 2011 was \$39.5 million compared to \$54.2 million for the year ended December 31, 2010. Income from operations as a percentage of sales for the years ended December 31, 2011 and 2010 were 7.9% and 12.4%, respectively. The decrease as a percentage of sales was primarily attributable to the increase of Selling, general and administrative expenses.

Other (expenses) / income. Other income mainly consisted of governmental subsidies received in respect of our biodiesel production. For the year ended December 31, 2011, we received a \$0.09 million government subsidy, compared to the receipt of a \$0.16 million government subsidy for the year ended December 31, 2010. Other expenses mainly consisted of loss from disposal of fixed assets, interest expenses and bank service charges. For the year ended December 31, 2011, we disposed fixed assets for Chongqing plant amounted \$0.99 million.

Earnings before income tax. The net income for the year ended December 31, 2011 was \$38.1 million compared to \$54.0 million for the year ended December 31, 2010, a decrease of \$15.9 million or 29.5%. Our net margin decreased from 12.3% for the year ended December 31, 2010 to 9.9% for the year ended December 31, 2011 primarily due to the increase of Selling, general and administrative expenses..

Income tax expense. Income tax expense was \$9.4 million for 2011, as compared to \$0.2 million for 2010, a increase of \$9.2 million. The increase in income tax expense was attributable to Xi'an Baorun was exempt from income tax for the period from January 1, 2005 to December 31, 2010, there is no tax exempt for 2011, the tax rate for 2011 is 15%.

Net income. As a result of the foregoing, our net income was \$28.7 million, or \$0.66 per share (basic) and \$0.60 per share (diluted), for 2011, as compared with \$53.8 million, or \$1.60 per share (basic) and \$1.28 per share (diluted), for 2010, a decrease of \$25.1 million or 46.7%.

Foreign currency translation gain. The functional currency of our subsidiaries and variable interest entities operating in the PRC is the Chinese Yuan or Renminbi ("RMB"). The financial statements of our subsidiaries are translated to U.S. dollars using period end rates of exchange for assets and liabilities, and average rates of exchange (for the period) for revenues, costs, and expenses. Net gains and losses resulting from foreign exchange transactions are included in the consolidated statements of operations. As a result of these translations, which are a non-cash adjustment, we reported a foreign currency translation gain of \$13.0 million for 2011, as compared to \$6.6 million for 2010. This non-cash gain had the effect of increasing our reported comprehensive income.

Comprehensive income. As a result of our foreign currency translation gains, we had comprehensive income for 2011 of \$41.7 million, compared to \$60.5 million for 2010.

Liquidity, Capital Resources and Financial Position

We have historically met the majority of our working capital and other capital requirements principally from cash generated from operations and net proceeds from our offerings.

Our working capital at December 31, 2011 increased by \$83.9 million to \$220.9 million from \$137.0 million at December 31, 2010. The increase in working capital by 61.3% from the year ended December 31, 2010 primarily resulted from the registered direct offering in January 2011, which generated \$23.0 million in net proceeds and the increase in receipts of sales proceeds during the fourth quarter in a result of the increase in sales. Further accounts payable balance in 2011 is zero in comparison with 2010.

As of December 31, 2011 and December 31, 2010, we had cash and cash equivalents of approximately \$146.1 million and \$90.3 million, respectively.

The ratio of current assets to current liabilities was 17.5-to-1 at December 31, 2011, compared to 5.6-to-1 at December 31, 2010. The increase in the current ratio as of December 31, 2011 was primarily related to an increase in cash and cash equivalents.

The following is a summary of cash provided by or used in each of the indicated types of activities during the years ended December 31, 2011 and 2010.

	Years ended December 31,	
	2011	2010
Net cash provided by (used in):		
Operating Activities	\$ 30,841,813	\$ 47,841,717
Investing Activities	(8,019,055)	(43,270,714)
Financing Activities	20,043,032	16,630,845
Effect of foreign exchange rate changes on cash and cash equivalents	13,012,461	6,639,927
Cash and cash equivalents at beginning of year	90,257,218	62,415,443
Cash and cash equivalents at end of year	146,135,469	90,257,218

For the year ended December 31, 2011, net cash provided by operating activities decreased by \$17 million to \$30.8 million from \$47.8 million for the year ended December 31, 2010. The decrease in cash provided by operating activities was primarily attributable to the increase of profitability of the Company by \$25.1 million with decrease of income from \$11.8 million non-cash expense for the bad debt provision and impairment loss.

For the year ended December 31, 2011, net cash used in investing activities decreased by \$35.3 million to \$8 million from \$43.3 million cash provided at December 31, 2010 and was primarily attributable to the increase in acquisitions and construction in 2010. In 2010, the Group paid \$15.9 million, \$3.0 million and \$8.2 million, net of cash acquired, to acquire 100% equity interests in Chongqing Tianrun, Jinzheng and Shenmu, respectively, approximately \$4.4 million to purchase Xinyuan gas station and approximately \$17.3 million to purchase the equipment for construction of a new 50,000 ton biodiesel production facility adjacent to the existing plant in Tongchuan, Shaanxi Province. There is no acquisitions occurred in 2011. The net cash used in investing activities in 2011 mainly represents the new office purchased.

For the year ended December 31, 2011, net cash provided by financing activities increased by \$3.44 million to \$20.04 million from \$16.6 million at December 31, 2010 and was primarily attributable to a \$8.7 million increase in net proceeds from the issuance of common stock and warrants and a \$2.8 million decrease in commercial bank loan financing.

As a result of the offering and cash provided by operating activities, we believe we have sufficient working capital to sustain our current business for the next 12 months due to expected increased sales volume and net income from operating.

Our future capital requirements will depend on a number of factors, including:

- Development of new sales territories, sales offices, and sales force for our wholesale distribution of finished oil and heavy oil products and required working capital to sustain our existing market share and support the growth in this business segment. This development can be achieved by organic growth or through acquisition;
- Expanding of market share for our retail gas stations both in terms of quantity and geographic location and required working capital to support the growth;
- Our ability to maintain our existing oil suppliers and establish collaborative relationships with new suppliers;
- Increasing our biodiesel production capacity through strategic acquisitions or construction of new facilities; and
- Development and commercialization of new technology to improve biodiesel production efficiency.

We anticipate incurring some research and development expenses during the next 12 months.

Off-Balance Sheet Arrangements

Except for the operating lease commitments disclosed in Note 15 to the financial statements, we do not have any off-balance sheet commitments or arrangements, including financial guarantees or other commitments to guarantee the payment obligations of any third parties. We have not entered into any derivative contracts that are indexed to our shares and classified as stockholders' equity or that are not reflected in our consolidated financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or research and development services with us.

Contractual Obligations and Commitments

As a non-accelerated filer, this disclosure is not required.

Recently Issued Accounting Standards and Pronouncements

Refer to Note 2 to the consolidated financial statements for a discussion of recently issued accounting standards and pronouncements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Foreign Exchange Risk

All of our net sales, and majority of costs and expenses are denominated in RMB. Although the conversion of the RMB is highly regulated in China, the value of the RMB against the value of the U.S. dollar or any other currency nonetheless may fluctuate and be affected by, among other things, changes in China's political and economic conditions. Under current policy, the value of the RMB is permitted to fluctuate within a narrow band against a basket of certain foreign currencies. China is currently under significant international pressures to liberalize this government currency policy, and if such liberalization were to occur, the value of the RMB could appreciate or depreciate against the U.S. dollar.

Because substantially all of our earnings and majority of our cash assets are denominated in RMB, appreciation or depreciation in the value of the RMB relative to the U.S. dollar would affect our financial results reported in U.S. dollar terms without giving effect to any underlying change in our business or results of operations. Fluctuations in the exchange rate will also affect the relative value of any dividend we issue in future that will be exchanged into U.S. dollars and earnings from, and the value of, any U.S. dollar-denominated investments we make in the future.

Very limited hedging transactions are available in China to reduce our exposure to exchange rate fluctuations. To date, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risk. While we may decide to enter into hedging transactions in the future, the availability and effectiveness of these hedging transactions 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 RMB into foreign currency.]

Interest Rate Risk

We have not been, nor do we anticipate being, exposed to material risks due to changes in interest rates. Our risk exposure to changes in interest rates relates primarily to the interest income generated by cash deposited in interest-bearing savings accounts. We have not used, and do not expect to use in the future, any derivative financial instruments to hedge its interest risk exposure. However, our future interest income may fall short of its expectation due to changes in interest rates in the market.

Credit Risk

We are exposed to credit risk from its cash in bank and accounts receivable. The credit risk on cash in bank and fixed deposits is limited because the counterparties are recognized financial institutions. Accounts receivable are subjected to credit evaluations. An allowance would be made, if necessary, for estimated irrecoverable amounts by reference to past default experience, if any, and by reference to the current economic environment.

Inflation

Inflationary factors, such as increases in the cost of our products and overhead costs, could impair our operating results. Although we do not believe that inflation has had a material impact on our financial position or results of operations to date, a high rate of inflation in the future may have an adverse effect on our ability to maintain current levels of gross margin and selling, general and administrative expenses as a percentage of sales revenue if the selling prices of our products do not increase with these increased costs.

Company's Operations are Substantially in Foreign Countries

Substantially all of our operations are conducted in China and are subject to various political, economic, and other risks and uncertainties inherent in conducting business in China. Among other risks, our Company and our subsidiaries' operations are subject to the risks of restrictions on transfer of funds; export duties, quotas, and embargoes; domestic and international customs and tariffs; changing taxation policies; foreign exchange restrictions; and political conditions and governmental regulations. Additional information regarding such risks can be found under the heading "Risk Factors" in this Form 10-K..

Item 8. Financial Statements and Supplementary Data.

Our consolidated financial statements and the notes thereto begin on page F-1 of this Annual Report on Form 10-K.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

As disclosed in the Current Report on Form 8-K, filed on May 2, 2013, we were informed by our independent registered public accounting firm, Sherb & Co., LLP, ("Sherb"), that it had combined certain of its practice areas with RBSM LLP effective January 1, 2013. As a result, Sherb effectively resigned as our independent registered public accounting firm and RBSM LLP became our independent registered public accounting firm. The engagement of RBSM LLP as our independent registered public accounting firm was approved by the Audit Committee of the Company on March 4, 2013.

Item 9A. Controls and Procedures.*Evaluation of Disclosure Controls and Procedures*

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures as of December 31, 2011, as such term is defined in Exchange Act Rules 13a-15 (e) and 15d-15(e). Based on this evaluation, our principal executive officer and principal financial officer have concluded that during the period covered by this report, the Company's disclosure controls and procedures were not effective as of such date to ensure that information required to be disclosed by us in our Exchange Act reports is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Subsequent to 2011, our management started a remediation plan in regards to the weakness identified in our disclosure controls and internal controls. This plan included enhancement to our informational systems and process improvements to be implemented in our finance and accounting processes. Although these plans are still being implemented, they include the following significant changes to our internal controls over financial reporting:

- enhanced review and analytical procedures to evaluate accuracy of various accounts;
- an improved process for gathering and reviewing tax and accounting jurisdictional information; and
- strengthening the organizational linkage between the audit committee, finance and accounting department, the Controller's group, and substantially improved communication and information flows between the groups

In addition to the above, we continue to proactively identify opportunities for control improvements. We have ongoing initiatives to standardize, consolidate and upgrade various financial operating systems and eliminate many of the manual and redundant tasks previously performed under older systems or processes. These changes will be implemented in stages over the next several years.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f), under the Securities Exchange Act of 1934, as amended, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and/or board of directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisitions, use or disposition of our assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

We conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2011. In making this evaluation, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) in Internal Control-Integrated Framework. This evaluation included a review of the documentation of controls, evaluation of the design effectiveness of controls and a conclusion on this evaluation. Based on our assessment, we believe that our internal controls over financial reporting were not effective as a result of a material weakness related to certain aspects of preparation and timely filing of financial statements and information in accordance with SEC requirements as of December 31, 2011.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. We have determined that further improvements are required in our accounting and SEC reporting processes before we can consider the material weakness remediated. Management's procedures and testing identified errors that, although not material to the consolidated financial statements, led management to conclude that control deficiencies exist related to the timely preparation and disclosure of financial information.

This Annual Report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting for the year ending December 31, 2011. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to rules of the SEC that permit the Company to provide only management's report in this Annual Report.

Remediation Plan

We will continue to focus on our internal controls over the timely preparation of financial statements and compliance with filing requirements of SEC, and will take further steps to those mentioned earlier to strengthen controls, including the following planned actions:

- Further enhancements to policies and procedures relating to SEC reporting matters, including the filing of all required financial information with the SEC;
- Additional hiring of accounting resources;
- Training, guidance and communications to information providers regarding accounting requirements;
- Comprehensive review of our accounting process and close procedures to identify areas that require further improvements; and
- Enhanced monitoring of SEC submissions.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting that occurred during the fourth fiscal quarter of the fiscal year covered by this Annual Report on Form 10-K that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

As of the date hereof our directors, executive officers and significant employees are as follows:

Name	Age	Other positions with Company; other directorships held in last five years	Has served as Company director since
Xincheng Gao	50	Chief Executive Officer, President and Chairman	October 23, 2007
Gaihong Li	36	Chief Financial Officer, Executive Vice President and Director	December 9, 2007
Stephen Markscheid	59	Independent Non-Executive Director; Independent Director of: CNinsure, Inc., Jinko Solar, Inc., China Ming Yang Wind Group and ChinaCast Education Corporation	April 28, 2011
Liren Wei	50	Independent Non-Executive Director	May 31, 2011

The business experience during at least the last five years of each of these individuals is as follows:

Xincheng Gao, has served as our Chairman, Chief Executive Officer and President since October 23, 2007. Mr. Gao has extensive experience in the research and marketing of oil products. In November 1999, Mr. Gao founded Xi'an Baorun Industrial Development Co., Ltd. (Xi'an Baorun Industrial) to sell finished oil products and heavy oil products. Prior to founding of Xi'an Baorun Industrial, Mr Gao worked in the Oil and Chemical Department of Shaanxi Province that oversaw the oil industry; and worked in Zhongtian Oil and Chemical Group in charge of R&D and marketing. Mr. Gao received a B.S. in Mechanical Engineering from Xi'an University of Technology in 1985 and an E.M.B.A. from Xi'an Jiaotong University in 2004.

Gaihong Li, has served as our Chief Financial Officer since September 30, 2012. Prior to being appointed as CFO, Ms. Li served and continues to serve as our Executive Vice President since June 2009, and as Controller since May 12, 2009. Ms. Li served as our Chief Financial Officer from October 23, 2007 until May 12, 2009, and has served as a member of our board of directors since December 9, 2007. Ms. Li has also served as Financial Controller of Xi'an Baorun Industrial since September 2005. Ms. Li has more than ten years of experience in the oil industry. From August 2000 until Ms. Li joined Xi'an Baorun Industrial in September 2005, Ms. Li served as Chief Financial Officer of Xi'an Dongfang Oil Group Co., Ltd., which is located in China and engages in the business of oil production. Ms. Li obtained a B.S. degree in Accounting from Xi'an Northwest University in 1997 and an E.M.B.A. from Xi'an Jiaotong University in 2008.

Stephen Markscheid, has been an Independent Director since May 2011. He also serves as a non-executive director of CNinsure, Inc. (Nasdaq: CISG), Jinko Solar Inc. (NYSE: JKS), ChinaCast Education Corporation (OTC: CAST) and China Ming Yang Wind Group Co. Ltd. (NYSE: MY). He is currently the chief executive officer of Synergens BioScience, Inc., a genomics company based in Hong Kong. Prior to that, Mr. Markscheid was the chief executive officer of HuaMei Capital Company, Inc., a Sino-U.S. investment advisory firm from 2006 to 2007. From 1998 to 2006, Mr. Markscheid served as senior vice president for global risk for GE Healthcare Financial Services and director of business development of GE Capital. Prior to joining GE, Mr. Markscheid worked as case leader for the Boston Consulting Group throughout Asia from 1994 to 1997. Prior to that, Mr. Markscheid had been a commercial banker for ten years in London, Chicago, New York, Hong Kong and Beijing with Chase Manhattan Bank and First National Bank of Chicago. Mr. Markscheid received his bachelor's degree in East Asian studies from Princeton University, a master's degree in international affairs and economics from the School of Advanced International Studies at Johns Hopkins University, and an MBA degree from Columbia University.

Mr. Liren Wei, has been an Independent Director since May 2011. He has served as managing partner and head of the China practice of Wei, Wei & Co., LLP, a PCAOB registered accounting firm headquartered in New York, a position he has held since 2007. Mr. Wei co-founded Wei, Wei & Co., LLP in 1995. Mr. Wei, a certified public accountant, received his BS degree from Baruch College Zicklin School of Business, City University of New York. He is a member of the American Institute of Certified Public Accountants (AICPA), a former vice president and executive board member of the New York State Society of Certified Public Accountants (NYSSCPA), and a former president and board member of the Chinese American Society of Certified Public Accountants (CASCPA).

No director or executive officer is related to any other director or executive officer.

The Board of Directors has determined Liren Wei and Stephen Markscheid are “independent” under the current independence standards of Rule 5605(a)(2) of the Marketplace Rules of The NASDAQ Stock Market, LLC and meet the criteria for independence set forth in Rule 10A(m)(3) under the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”)

Involvement in Certain Legal Proceedings

None

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires Company’s directors and executive officers and any beneficial owner of more than 10% of any class of Company equity security to file reports of ownership and changes in ownership with the Securities and Exchange Commission and furnish copies of the reports to Company. Based solely on the Company’s review of copies of such forms, the Company believes that during 2011, all such reports were filed timely, except that Mr. Markscheid filed a late Form 3 in June 2011.

CORPORATE GOVERNANCE

Board Operations

Mr. Xincheng Gao holds the positions of principal executive officer and chairman of the Board of Company. The Board of Directors believes that Mr. Gao’s service as both chairman of the Board and chief executive officer is in the best interest of the Company and its stockholders. Mr. Gao possesses detailed and in-depth knowledge of the issues, opportunities and challenges facing the Company and its business and is thus best positioned to develop agendas that ensure that the Board’s time and attention are focused on the most critical matters relating to the business of the Company. His combined role enables decisive leadership, ensures clear accountability, and enhances the Company’s ability to communicate its message and strategy clearly and consistently to the Company’s stockholders, employees, customers and suppliers.

The Board has not designated a lead director. Given the limited number of directors comprising the board, the independent directors, between board meetings, communicate with management and one another directly. Under the circumstances, the directors believe that designating a lead director to take on responsibility for functions in which they all currently participate might detract from rather than enhance performance of their responsibilities as directors.

The Board of Directors receives regular reports from the chief executive officer and members of senior management on operational, financial, legal and regulatory issues and risks. The Audit Committee of the Board additionally is charged under its Charter with monitoring of the Company’s internal controls systems, and it receives regular reports from management, the Company’s internal auditors and the Company’s independent auditors. Whenever a Committee of the Board receives a report involving risk identification, risk management or risk mitigation, the Chairman of the Committee reports on that discussion, as appropriate, to the full Board during the next Board meeting.

The Board of Directors held sixteen meetings during 2011. During 2011, no director attended fewer than 75% of the meetings of the Board of Directors and Board committees of which the director was a member.

It is the policy of the Board of Directors that all directors should attend the annual meetings in person or by teleconference. The Board has adopted a code of ethics applicable to Company's directors, officers, and employees. The code of ethics is available at Company's website, www.chinaintegratedenergy.com.

Board Committees

The Board of Directors has standing audit, compensation, and nominating committees, comprised solely of independent directors. Each committee has a charter, which is available at the Company's website, www.chinaintegratedenergy.com.

Audit Committee

The Audit Committee, which is established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, engages Company's independent accountants, reviewing their independence and performance; reviews the Company's financial disclosure, financial statements, and accounting principles, policies, and practices, scope and results of the annual audit, and internal audit processes; reviews the internal control report prepared by management and the independent accountants' attestation, and report, on the assessment made by management; reviews and approves related party transactions; and establishes and reviews procedures for receipt and handling of reports regarding questionable accounting or financial matters. The Audit Committee held six meetings during 2011.

The members of the Audit Committee are Liren Wei and Stephen Markscheid. We have also determined that each of the members of the Audit Committee is "independent" under the current independence standards of Rule 5606(a)(2) of the Marketplace Rules of The NASDAQ Stock Market, LLC and meets the independence criteria set forth in Rule 10A(m)(3) of the U.S. Securities Exchange Act of 1934, as amended. The Board has determined that Stephen Markscheid is an audit committee financial expert as defined in SEC rules.

Audit Committee Report

With respect to the audit of Company's financial statements for the year ended December 31, 2011, the Audit Committee:

- has reviewed and discussed the audited financial statements with management;
- has discussed with Company's independent accountants the matters required to be discussed by the statement on Auditing Standards No. 61, as amended (AICPA, Professional Standards, Vol. 1, AU section 380), as adopted by the Public Company Accounting Oversight Board in Rule 3200T; and
- has received the written disclosures and the letter from the independent accountant required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountant's communications with the Audit Committee concerning independence and has discussed with the independent accountant the independent accountant's independence.

Based on these reviews and discussions, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the company's annual report on Form 10-K for the year ended December 31, 2011.

The members of the audit committee are:

Liren Wei (Chairman)
Stephen Markscheid

Compensation Committee

The Compensation Committee reviews annually the Company's corporate goals and objectives relevant to the officers' compensation, evaluates the officers' performance in light of such goals and objectives, determines and approves the officers' compensation level based on this evaluation; make recommendations to the Board of Directors regarding approval, disapproval, modification, or termination of existing or proposed employee benefit plans, makes recommendations to the Board of Directors with respect to non-CEO and non-CFO compensation and administers the Company's incentive-compensation plans and equity-based plans. The Compensation Committee has the authority to delegate any of its responsibilities to subcommittees as it may deem appropriate in its sole discretion. The chief executive officer of the Company may not be present during voting or deliberations of the Compensation Committee with respect to his compensation. Our executive officers do not play a role in suggesting their own salaries. Neither the company nor the Compensation Committee has engaged any compensation consultant who has a role in determining or recommending the amount or form of executive or director compensation. The Compensation Committee acted by written consent four times during 2011.

Compensation Committee Report

The goal of the Company's executive compensation policy is to ensure that an appropriate relationship exists between executive compensation and the creation of stockholder value, while at the same time attracting, motivating and retaining experienced executive officers.

The Compensation Committee has reviewed and discussed the discussion and analysis of the Company's compensation which appears in Item 11 below with management, and, based on such review and discussion, the Compensation Committee recommended to the Company's Board of Directors that the above disclosure be included in this Annual Report on Form 10-K for the year ended December 31, 2011.

The members of the Compensation Committee are:

Liren Wei (Chairman)

Stephen Markscheid

Compensation Committee Interlocks and Insider Participation

No member of our Compensation Committee has at any time been an officer or employee of ours or our subsidiaries. No interlocking relationship exists between our Board of Directors or Compensation Committee and the Board of Directors or Compensation Committee of any other company, nor has any interlocking relationship existed in the past.

Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee assists the Board of Directors in identifying and recommending qualified individuals to the Board as its nominees for election as directors, in determining the composition of the Board, and in assessing the Board's effectiveness. The Nominating and Corporate Governance Committee did not hold any meetings during 2011.

The members of the Nominating and Corporate Governance Committee are Stephen Markscheid and Liren Wei. The Nominating and Corporate Governance Committee will consider director candidates recommended by security holders. Potential nominees to the Board of Directors are required to have such experience in business or financial matters as would make such nominee an asset to the Board of Directors and may, under certain circumstances, be required to be “independent”, as such term is defined under Rule 5605 of the listing standards of NASDAQ and applicable SEC regulations. Security holders wishing to submit the name of a person as a potential nominee to the Board of Directors must send the name, address, and a brief (no more than 500 words) biographical description of such potential nominee to the Nominating and Corporate Governance Committee at the following address: Nominating and Corporate Governance Committee of the Board of Directors, c/o China Integrated Energy, Inc., Dongxin Century Square, 7th Floor, Hi-Tech Development District, Xi’an, Shaanxi Province, People’s Republic of China, 710043. Potential director nominees will be evaluated by personal interview, such interview to be conducted by one or more members of the Nominating and Corporate Governance Committee, and/or any other method the Nominating and Corporate Governance Committee deems appropriate, which may, but need not, include a questionnaire. The Nominating and Corporate Governance Committee may solicit or receive information concerning potential nominees from any source it deems appropriate. The Nominating and Corporate Governance Committee need not engage in an evaluation process unless (i) there is a vacancy on the Board of Directors, (ii) a director is not standing for re-election, or (iii) the Nominating and Corporate Governance Committee does not intend to recommend the nomination of a sitting director for re-election. A potential director nominee recommended by a security holder will not be evaluated differently from any other potential nominee. Although it has not done so in the past, the Nominating and Corporate Governance Committee may retain search firms to assist in identifying suitable director candidates.

The Board does not have a formal policy on Board candidate qualifications. The Board may consider those factors it deems appropriate in evaluating director nominees made either by the Board or stockholders, including judgment, skill, strength of character, experience with businesses and organizations comparable in size or scope to the Company, experience and skill relative to other Board members, and specialized knowledge or experience. Depending upon the current needs of the Board, certain factors may be weighed more or less heavily. In considering candidates for the Board, the directors evaluate the entirety of each candidate’s credentials and do not have any specific minimum qualifications that must be met. “Diversity,” as such, is not a criterion that the Committee considers. The directors will consider candidates from any reasonable source, including current Board members, stockholders, professional search firms or other persons. The directors will not evaluate candidates differently based on who has made the recommendation.

Stockholder Communications

Stockholders can mail communications to the Board of Directors, c/o Secretary, China Integrated Energy, Inc., 10F, Western International Square, 2 Gaixin Road, Xi’an, Shaanxi Province, China 710043, who will forward the correspondence to each addressee.

Security Holder Recommendations for Board Nominees

There have been no changes to the procedures by which our stockholders may recommend nominees to the Board of Directors since the filing of the Company’s Annual Report on Form 10-K/A on March 31, 2010.

Code of Ethics

We adopted a Code of Business Conduct and Ethics on March 28, 2008. The Code of Ethics constitutes our Code of Ethics for our principal executive officer, our principal financial and accounting officer and our other senior financial officers. The Code of Ethics is intended to promote honest and ethical conduct, full and accurate reporting, and compliance with laws as well as other matters. A copy of Code of Ethics is filed as an exhibit to our Annual Report on Form 10-K filed on March 31, 2008. A printed copy of the Code of Ethics may be obtained free of charge by writing to China Integrated Energy, Inc., Dongxin Century Square, 7th Floor, Hi-Tech Development District, Xi’an, Shaanxi Province, PRC 710043.

Item 11 Executive Compensation

We strive to provide our named executive officers with a competitive base salary that is in line with their roles and responsibilities. We believe that other peer companies in China which are listed on U.S. stock markets would be the most appropriate to use for salary comparison purposes. However, none of our direct competitors are public companies in the U.S. We believe that the compensation of our executive officers is appropriate.

It is not uncommon for companies with operations primarily in China to have base salaries and bonuses as the sole form of compensation. The base salary level is established and reviewed based on the level of responsibilities, the experience and tenure of the individual and the current and potential contributions of the individual. The base salary is compared to similar positions within comparable peer companies and with consideration of the executive's relative experience in his or her position. Based on an evaluation of available information with respect to the base salaries of executives of our competitors located in China, the base salary and bonus paid to our named executive officers is in line with our domestic competitors, such as Shaanxi Dongda Oil and Chemical Co., Ltd. Base salaries are reviewed periodically and at the time of promotion or other changes in responsibilities.

Our 2003 Equity Incentive Program provides for the grant of incentive stock options, nonqualified stock options and restricted stock awards. Certain awards are intended to qualify as "incentive stock options" within the meaning of the Internal Revenue Code of 1986, as amended. The incentive plan was approved by our stockholders on August 11, 2003.

We will consider other elements of compensation, including without limitation, short- and long-term compensation, cash and non-cash, and other equity-based compensation. We believe our current compensation package is comparable to our peers in the industry and is aimed to retain and attract talented individuals.

Summary Compensation Table

The following tables reflects the cash compensation we paid, as well as certain other compensation paid or accrued, during the fiscal years ended December 31, 2011 and 2010 to the identified persons (the "Named Executive Officers").

Name and Principal Position	Year	Salary	Bonus	Stock Awards	Option Awards	Non-Equity Incentive Plan Compensation	Nonqualified Deferred Compensation Earnings	All Other Compensation	Total
Xincheng Gao (Principal Executive Officer)	2011	126,000	10,000	-	-	-	-	-	136,000
	2010	60,000	15,000	-	3,148,200(1)	-	-	-	3,223,200

(1) The aggregate grant date fair value of the options awarded to each named executive officer is computed in accordance with FASB ASC Topic 718.

Mr. Gao was the only named executive officer with total compensation greater than \$100,000 during each of the two fiscal years ended December 31, 2011. Our executive officers are reimbursed by us for any out-of-pocket expenses incurred in connection with activities conducted on our behalf. There is no limit on the amount of these out-of-pocket expenses and there will be no review of the reasonableness of such expenses by anyone other than our board of directors, which includes persons who may seek reimbursement, or a court of competent jurisdiction if such reimbursement is challenged.

The following employment agreements were entered into by us and the following named executive officer:

Xincheng Gao

Xi'an Baorun Industrial entered into an employment agreement with Mr. Xincheng Gao to employ him as its chairman, effective as of October 25, 2010. The agreement will expire on October 24, 2013, and may be renewed for an additional term of three years. Mr. Gao is entitled to a base monthly salary in an amount of RMB70,000, approximately US\$10,500. Xi'an Baorun Industrial also pays premiums for Mr. Gao for pension, unemployment, medical insurance and other social insurance coverage in accordance with relevant PRC laws and regulations. Xi'an Baorun Industrial has a right to adjust the salary and welfare benefits of Mr. Gao appropriately based on his capability, experience, attitude, performance, achievement, working-age and position as well as its salary and position adjustment policies and business conditions. Either party to the agreement has a right to terminate the agreement, subject to the terms and conditions therein. In connection with the agreement, Mr. Gao also executed a confidentiality and non-competition agreement. In the event of a major change in objective circumstances, which includes the merger of Xi'an Baorun Industrial into another business entity, or the sale, or transfer by Xi'an Baorun Industrial of a substantial portion of its assets to others, Xi'an Baorun Industrial may terminate this agreement by giving a 30-day notice, or giving one month's salary in lieu of a notice, if the parties cannot agree to a modification of terms of the agreement.

Assuming the employment of the Company's named executive officers were to be terminated without cause or for good reason or in the event of change in control, as of December 31, 2011, none of the named executive officers would have been entitled to any cash payments.

Grants of Plan-Based Awards

None.

Outstanding Equity Awards at Fiscal Year-End

OUTSTANDING EQUITY AWARDS AT FISCAL 2011 YEAR END									
OPTION AWARDS						STOCK AWARDS			
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)			Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)	Equity Incentive Plan Awards: Number of Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)
			Unexercised	Exercise Price (\$)	Expiration Date				
Xincheng Gao (Principal Executive Officer)	600,000	-	-	7.04	December 31, 2015	-	-	-	-

Pension Benefits

We do not sponsor any qualified or non-qualified defined benefit plans.

Nonqualified Deferred Compensation

We do not maintain any non-qualified defined contribution or deferred compensation plans.

Compensation of Directors

Compensation paid to our independent directors as of December 31, 2011 is as follows:

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total (\$)
Stephen Markscheid	100,000	-	145,330(1)	-	-	-	245,330
Liren Wei	60,000	-	116,176(1)	-	-	-	176,176

(1) The aggregate grant date fair value of the options awarded computed in accordance with FASB ASC Topic 718

On April 28, 2011, the Company and Mr. Markscheid executed an Independent Director Agreement (the "Agreement") in connection with Mr. Markscheid's appointment, pursuant to which Mr. Markscheid will be entitled to receive an annual compensation of \$100,000. In addition, the Company granted Mr. Markscheid an option to purchase up to One Hundred Thousand (100,000) shares of common stock of the Company with an exercise price equal to the fair market value of a share of the Company's common stock on the date of the grant of the option and vesting annually, in equal installments for a three year period. This agreement was renewed in June 2012 at which time Mr. Markscheid's annual compensation was reduced to \$50,000, and was subsequently renewed in May 2013 on the same terms. No additional options were granted after 2011.

On May 31, 2011, the Company and Mr. Wei executed an Independent Director Agreement in connection with Mr. Wei's appointment, pursuant to which Mr. Wei will be entitled to receive an annual compensation of \$60,000. In addition, the Company granted Mr. Wei an option to purchase up to Eighty Thousand (80,000) shares of common stock of the Company with an exercise price equal to the fair market value of a share of the Company's common stock on the date of the grant of the option and vesting annually, in equal installments for a three year period. This agreement was renewed in June 2012 at which time Mr. Wei's annual compensation was increased to \$80,000, and was subsequently renewed in May 2013 on the same terms. No additional options were granted after 2011.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The following table sets forth certain information regarding beneficial ownership of Common Stock, as of January 7, 2014, by each of Company's directors and executive officers; all executive officers and directors as a group, and each person known to Company to own beneficially more than 5% of Company's Common Stock. Except as otherwise noted, the persons identified have sole voting and investment powers with respect to their shares. Unless otherwise noted, the principal address of each of the stockholders, directors and officers listed below is c/o China Integrated Energy, Inc., 10F, Western International Square, 2 Gaoxin Road, Xi'an, Shaanxi Province, People's Republic of China, 710043.

Name of Beneficial Owner	Number of Shares (1)	Percent of Class (2)(3)
Redsky Group Limited (4)	21,937,345	49.3%
Xincheng Gao (5)	22,417,345	49.8%
Gaihong Li (6)	320,100	*
Liren Wei (7)	53,280	*
Stephen Markscheid (8)	66,600	*
All Directors and Executive Officers, as a group (4 persons)	22,857,325	50.3%

* Less than one percent.

(1) Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. Shares of Common Stock subject to securities anticipated to be exercisable or convertible at or within 60 days of January 7, 2014, are deemed outstanding for computing the percentage of the person holding such option or warrant but are not deemed outstanding for computing the percentage of any other person. The indication herein that shares are anticipated to be beneficially owned is not an admission on the part of the listed stockholder that he, she or it is or will be a direct or indirect beneficial owner of those shares.

(2) Based upon 44,503,379 shares of Common Stock issued and outstanding as of January 7, 2014.

(3) In determining the percent of our Common Stock owned by a person or entity on January 7, 2014 (a) the numerator is the number of shares of the class beneficially owned by such person or entity, including shares which may be acquired within 60 days of January 7, 2014 on exercise of outstanding warrants and conversion of convertible securities, and (b) the denominator is the sum of (i) the total shares of our common stock outstanding on that date January 7, 2014, plus (ii) the total number of shares that the beneficial owner may acquire on conversion of preferred stock and on exercise of warrants and options.

(4) The business address of Redsky Group Limited is P.O. Box 957, Offshore Incorporation Centre, Road Town, Tortola, British Virgin Islands. Mr. Xincheng Gao, the sole director of Redsky Group Limited, has dispositive and voting power over the Shares.

(5) Includes (i) 21,937,345 shares of Common Stock beneficially owned by Redsky Group Limited, over which Mr. Gao, as the sole director of Redsky Group Limited has voting and dispositive power, and (ii) an option to purchase up to 600,000 shares of Common Stock, the options vest evenly each quarter over a five-year period and expire six years from the date of grant (January 1, 2010). 480,000 of the options are exercisable within 60 days from the date hereof.

(6) Includes 100 shares of Common Stock and an option to purchase up to 400,000 shares of Common Stock, the options vest evenly each quarter over a five-year period and expire six years from the date of grant (January 1, 2010). 320,000 of the options are exercisable within 60 days from the date hereof..

(7) Mr. Wei has an option to purchase up to 80,00 shares of Common Stock granted in May 2011, which vests in 1/3 increments over a three year period. 53,280 of the options are exercisable within 60 days from the date hereof.

(8) Mr. Markscheid has an option to purchase up to 100,000 shares of Common Stock granted in May 2011, which vests in 1/3 increments over a three-year period. 66,600 of the options are exercisable within 60 days from the date hereof.

Change in Control

There were no arrangements, known to the Company, including any pledge by any person of securities of the Company the operation of which may at a subsequent date result in a change in control of the Company .

Equity Compensation Plan Information

The following table sets forth aggregate information regarding our equity compensation plans in effect as of December 31, 2011:

<u>Equity Compensation Plan Information</u>			
<u>Plan category</u>	<u>Number of securities to be issued upon exercise of outstanding options, warrants and rights</u>	<u>Weighted- average exercise price of outstanding options, warrants and rights</u>	<u>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))</u>
	(a)	(b)	(c)
Equity compensation plans approved by security holders	800,450	\$ 6.14	1,938,050
Equity compensation plans not approved by security holders	40,000	2.45	300,000
Total	840,450	5.74	2,238,050

Equity compensation plans approved by security holders

Our 2003 Equity Incentive Program (the “Plan”) provides for the grant of incentive stock options, nonqualified stock options and restricted stock awards (the “Awards”). Certain Awards are intended to qualify as “incentive stock options” within the meaning of the Internal Revenue Code (the “Code”). The Plan was approved by our stockholders on August 11, 2003. The shares of common stock underlying Awards that can be granted under our Plan were registered on a Form S-8 with the Securities and Exchange Commission on November 24, 2003.

The total number of shares of our common stock that may be issued under the Plan may not exceed 6,000,000, of which 1,000,000 will be available for issuance as incentive stock option grants and 5,000,000 will be available for issuance as nonqualified stock option grants and/or restricted stock awards. The total number of shares may be increased annually based upon the total number of common stock outstanding in subsequent years. In connection with our private placement in 2008, we agreed to limit the number of awards we grant under the Plan to no more than 10% of the total number of shares of Common Stock issued and outstanding at any time. The plan covers the incentive stock options and nonqualified stock options issued to the employees and independent directors.

Equity compensation plans not approved by security holders

In September 2009 and 2010, the Company retained a financial advisor for financial advisory services. As a part of the financial advisory consulting fee, the Company issued the financial advisor stock purchase options to purchase 20,000 shares of the Company’s common stock with a strike price at \$7.09 per share and at \$7.04 per shares for the services rendered in 2010 and 2011. The stock purchase options will be vested on the one year anniversary of the contract signature date and exercisable for 6 years.

On May 26, 2011, as part of the service fee, the Company granted non-transferable stock options to purchase 300,000 shares of the Company’s common stock to a financial advisory consultant firm. The option vest two year and expire three years from the date of grant. The Company determined, the exercise price is \$1.84 per share. The Company determined, based on the Black-Scholes Option Pricing Model, that the estimated fair value of the options at grant date was approximately \$0.83 per share. The amount of stock-based compensation expense recognized for the options was \$77,438, for the year ended December 31, 2011.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operational decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Particulars of significant transactions between the Company and related companies are disclosed in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

It is Company’s policy to not enter any transaction (other than compensation arrangements in the ordinary course) with any director, executive officer, employee, or principal stockholder or party related to them, unless authorized by a majority of the directors having no interest in the transaction, upon a favorable recommendation by the Audit Committee (or a majority of its disinterested members).

Director Independence

Our equity securities are no longer traded on a national securities exchange, therefore we are not required to have a majority of our Board of Directors be independent. However, we have determined that none of the following directors had any material relationship with the Company and, thus, would be considered independent under Rule 5605(a)(2) of the Marketplace Rules of NASDAQ: Stephen Markscheid and Liren Wei.

The Board of Directors has determined that neither of Messrs. Markscheid or Wei has a relationship that, in the opinion of the Board of Directors, would interfere with the exercise of independent judgment in carrying out the responsibilities of an independent director. In determining the independence of our directors, the Board of Directors has adopted independence standards that follow the criteria specified by applicable laws and regulations of the SEC and the Marketplace Rules of NASDAQ. In determining the independence of our directors, the Board of Directors considered all transactions in which the Company and any director had any interest, including those discussed under “Related Party Transactions” above.

Review, Approval or Ratification of Transactions with Related Parties

Our Audit Committee under its charter is responsible reviewing and approving any related party transactions. It is the Company’s policy that the Company will not enter into any related party transactions unless the Audit Committee or another independent body of the Board of Directors first reviews and approves the transactions.

Item 14. Principal Accountant Fees and Services.

Services and Fees of Independent Accountants

Since RBSM LLP was not appointed as our independent registered public accountant until 2013, no fees were billed to the Company by RBSM LLP during the two fiscal years ended December 31, 2011 and 2010. Fees billed to the Company by Sherb & Co. LLP, our prior auditor, during those periods were:

Fees	2011	2010
Audit Fees	\$ 30,000	\$ 22,529
Audit Related Fees	\$ —	\$ 75,000
Tax Fees	\$ —	\$ —
All Other Fees	\$ —	\$ —
Total	\$ 30,000	\$ 97,529

Audit Fees

This category includes aggregate fees billed by our independent auditors for the audit of our annual financial statements, review of financial statements included in our quarterly reports on Form 10-Q and services that are normally provided by the auditor in connection with statutory and regulatory filings for those fiscal years.

Audit-Related Fees

This category consists of services by our independent auditors that, including accounting consultations on transaction related matters, are reasonably related to the performance of the audit or review of our financial statements and are not reported above under Audit Fees.

Tax Fees

This category consists of professional services rendered for tax compliance and preparation of our corporate tax returns and other tax advice.

All Other Fees

This category consists of professional services rendered for products and services provided, other than the services reported above under Audit Fees, Audit-Related Fees and Tax Fees.

Pre-Approval of Services

The Audit Committee must pre-approve all audit and permissible non-audit services performed by the independent registered public accounting firm. These services may include audit services, audit-related services, tax services and other services. All of the services described herein were approved by the Audit Committee pursuant to its pre-approval policies. None of the hours expended on the principal accountant's engagement to audit the Company's financial statements for the most recent fiscal year were attributed to work performed by persons other than the principal accountant's full-time permanent employees. All services described under the caption Services and Fees of Independent Accountants were pre-approved.

Part IV**Item 15. Exhibits, Financial Statement Schedules.**

- (a) The following are filed with this Annual Report:
- (1)
 - (i) Consolidated Balance Sheets
 - (ii) Consolidated Statements of Income and Comprehensive Income
 - (iii) Consolidated Statement of Stockholders' Equity
 - (iv) Consolidated Statements of Cash Flows
 - (2) Not applicable.
 - (3) Exhibits required by Item 601 of Regulation S-K are as follows:

Exhibits

Exhibit Number	Description
3.1	Certificate of Correction filed on July 24, 2007 (3)
3.1	Certificate of Amendment filed on June 11, 2007 (4)
3.1	Articles of Incorporation (5)
3.1	Certificate of Amendment to Articles of Incorporation (6)
3.1	Certificate of Ownership and Merger, dated November 15, 2007 (2)
3.1	Certificate of Incorporation of China Integrated Energy, Inc. (7)
3.2	By-laws (5)
4.1	Form of Warrant (1)
4.2	Amended and Restated Certificate of Designation of the Relative Rights and Preferences of the Series A Convertible Preferred Stock (1)
4.3	Amended and Restated Certificate of Designation of the Relative Rights and Preferences of Series B Convertible Preferred Stock (10)
4.4	Form of Debenture (9)
4.5	Series A-1 Warrant Amendment, dated January 22, 2010 (14)
4.6	Series A-2 Warrant Amendment, dated January 22, 2010 (14)
4.7	Form of Common Stock Purchase Warrant dated December 31, 2010 (17)
4.8	Form of Common Stock Purchase Warrant dated January 6, 2011 (18)
10.3	Exclusive Option Agreement by and between Gao Huiling and Baorun Industrial, dated as of October 19, 2007 (7)
10.4	Exclusive Option Agreement by and between Liu Yunlong and Baorun Industrial, dated as of October 19, 2007 (7)
10.5	Equity Pledge Agreement by and among Redsky China, Baorun Industrial and Gao Xincheng, dated as of October 19, 2007 (7)
10.6	Equity Pledge Agreement by and among Redsky China, Baorun Industrial and Gao Huiling, dated as of October 19, 2007 (7)
10.7	Equity Pledge Agreement by and among Redsky China, Baorun Industrial and Liu Yunlong, dated as of October 19, 2007 (7)
10.8	Power of Attorney of Gao Xincheng (8)
10.9	Power of Attorney of Gao Huiling (8)
10.10	Power of Attorney of Liu Yunlong (8)
10.11	Nominee Letter between Redsky China and Gao Xincheng (8)
10.12	Nominee Letter between Redsky China and Gao Huiling (8)
10.13	Nominee Letter between Redsky China and Liu Yunlong (8)
10.14*	Employment Agreement between Baorun Industrial and Gao Xincheng, dated as of October 25, 2010 (15)
10.15*	Employment Agreement between Baorun Industrial and Li Gaihong, dated as of October 25, 2010 (15)
10.16	Amendment to Exclusive Business Cooperation Agreement, dated March 24, 2008 (8)
10.21	Form of Warrant Exercise Agreement (9)
10.22*	Employment Agreement with Albert C. Pu, dated as of January 22, 2009 (11)
10.23	Gas Station Lease Agreement with Xinyuan Gas Station, dated as of February 1, 2007 (12)
10.24	Land Lease Agreement, dated as of April 20, 2006 (12)
10.25	Oil Storage Service Agreement, effective as of January 1, 2009 (12)
10.26	Oil Storage Service Agreement, dated as of August 26, 2008 (12)
10.27	Finished Oil Sales Contract by and between Yanchang Petroleum Oil (Group) Co., Ltd. and Xi'an Baorun Industrial, effective as of December 23, 2008 (12)
10.28	Finished Oil Sales Contract by and between China Petroleum & Chemical Corporation Chuanyu Trading Co., Ltd. and Xi'an Baorun Industrial, dated as of January 25, 2009 (12)
10.29	Registration Rights Agreement, dated September 10, 2009, by and between the Company and Longgen Zhang and Yuan Gong (13)
10.30	Lease Contract, dated April 30, 2008, amending the terms of the Land Lease Agreement, dated April 20, 2006 (13)

Exhibit Number	Description
10.31	2003 Equity Incentive Program (6)
10.32	Finished Oil Products Sales Contract by and between Yanchang Petroleum (Group) Corp. Ltd. and Xi'an Baorun Industrial Development Co. (16)
10.33	Finished Oil Products Sales Contract by and between Yanchang Petroleum (Group) Corp. Ltd. and Xi'an Baorun Industrial Development Co. (16)
10.34	Gas Station Lease Agreement with Andong Gas Station, dated December 17, 2009 (16)
10.35	Gas Station Lease Agreement with Xi'an Jindou Gas Station, dated December 15, 2009 (16)
10.36	Finished Oil Sales Contract by and between Chongqing Oil Subsidiary Company of China Petroleum & Chemical Corporation, dated as of January 6, 2010 (16)
10.37	Equity Transfer Agreement for Hanyang Jinzheng Petroleum Sales Co., Ltd, dated December 13, 2009 (16)
10.38	Securities Purchase Agreement dated as of December 28, 2010 (17)
10.39	Securities Purchase Agreement dated as of January 3, 2011 (18)
14	Code of Business Conduct and Ethics (8)
21	List of Subsidiaries (7)
31.1+	Certification of Chief Executive Officer pursuant to Rule 13A-14(A)/15D-14(A) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2+	Certification of the Principal Financial Officer pursuant to Rule 13A-14(A)/15D-14(A) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32+	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. 1350 (Section 906 of the Sarbanes-Oxley Act of 2002)

+ Filed herewith.

* Management Contract or Compensatory Arrangement

- (1) Incorporated by reference to the Company's Form 8-K filed on October 29, 2007.
- (2) Incorporated by reference to the Company's Form 8-K filed on November 23, 2007.
- (3) Incorporated by reference to the Company's Form 10-QSB filed on November 13, 2007.
- (4) Incorporated by reference to the Company's Form 10-QSB filed on August 3, 2007.
- (5) Incorporated by reference to the Company's Registration Statement on Form 10-SB.
- (6) Incorporated by reference to the Company's Definitive Information Statement filed on September 19, 2003.
- (7) Incorporated by reference to the Company's Registration Statement on Form S-1 initially filed on December 7, 2007.
- (8) Incorporated by reference to the Company's Form 10-K filed on March 31, 2008.
- (9) Incorporated by reference to the Company's Form 8-K filed on October 20, 2008.
- (10) Incorporated by reference to the Company's Form 10-K filed on March 25, 2009.
- (11) Incorporated by reference to the Company's Form 10-Q filed on May 13, 2009.
- (12) Incorporated by reference to the Company's Registration Statement on Form S-1 filed on September 10, 2009.
- (13) Incorporated by reference to the Company's Registration Statement on Form S-1/A filed on October 5, 2009.
- (14) Incorporated by reference to the Company's Form 8-K filed on January 28, 2010.
- (15) Incorporated by reference to the Company's Form 8-K filed on December 23, 2010.
- (16) Incorporated by reference to the Company's Form 10-K filed on March 31, 2010.
- (17) Incorporated by reference to the Company's Form 8-K filed on December 29, 2010.
- (18) Incorporated by reference to the Company's Form 8-K filed on January 4, 2011.

(b) Exhibits required by Item 601 of Regulation S-K are listed above and filed herewith.

(c) None

**CHINA INTEGRATED ENERGY, INC.
AND SUBSIDIARIES**

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors
China Integrated Energy, Inc.
Xi'an, Shaanxi Province, China

We have audited the accompanying consolidated balance sheets of China Integrated Energy, Inc. and its subsidiaries (the "Company") as of December 31, 2011 and 2010, and the related consolidated statements of operations, comprehensive income, stockholders' equity and cash flows for each of the two years in the period ended December 31, 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based upon our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States of America). 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 for the year ended December 31, 2011. 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe 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 China Integrated Energy, Inc. and its subsidiaries as of December 31, 2011 and 2010 and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America.

We were engaged to audit, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2010, based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated January 13, 2014 expressed that the scope of our work was not sufficient to enable us to express, and we do not express an opinion on the Company's internal control over financial reporting for the year ended December 31, 2010.

RBSM LLP

New York, New York
January 13, 2014

CHINA INTEGRATED ENERGY, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31, 2011	December 31, 2010
ASSETS		
Current assets		
Cash and cash equivalents	\$ 146,135,469	\$ 90,257,218
Accounts receivable, net of allowance for doubtful accounts	24,817,495	6,329,446
Inventories	13,711,241	23,266,835
Prepayments to suppliers, net of allowance for doubtful accounts	42,794,794	39,648,018
Lease prepayments	1,718,596	3,787,878
Prepaid expenses and other current assets	5,153,760	3,280,433
Total current assets	234,331,355	166,569,828
Property, plant and equipment, net	41,557,713	35,252,441
Intangible asset, net	12,679,857	19,554,901
Land use right	10,632,635	12,845,987
Lease prepayments	15,331,118	29,357,862
Goodwill	3,961,899	3,778,151
Total assets	<u>\$ 318,494,576</u>	<u>\$ 267,359,170</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Short-term bank loans	\$ 3,654,332	\$ 6,515,152
Accounts payable	-	1,188,574
Income tax payable	2,714,082	320,183
Receipts in advance from customers	3,897,691	16,661,950
Accrued expenses and other payables	3,141,445	4,925,306
Total current liabilities	13,407,550	29,611,165
Deferred tax liabilities	5,293,602	5,158,699
Total liabilities	18,701,152	34,769,864
Commitments and contingencies		
Stockholders' equity		
Series A Convertible preferred stock, \$.001 par value (aggregate involuntary liquidation preference: \$1,530,000 as of December 31, 2011 and \$9,890,000 as of December 31, 2010). Authorized 3,000,000 shares; issued and outstanding 153,000 shares as of December 31, 2011 and 989,000 shares as of December 31, 2010	153	989
Series B Convertible preferred stock, \$.001 par value (aggregate involuntary liquidation preference: \$1,480,998 as of December 31, 2011 and \$5,860,886 as of December 31, 2010). Authorized 7,000,000 shares; issued and outstanding 405,753 shares as of December 31, 2011 and 1,605,753 shares as of December 31, 2010	405	1,605
Common stock, \$.0001 par value. Authorized 79,000,000 shares; issued and outstanding 44,503,379 shares as of December 31, 2010 and 36,049,807 shares as of December 31, 2010	4,450	3,605
Additional paid-in capital	120,139,321	94,658,021
Statutory reserves	4,920,114	4,920,114
Retained earnings	149,603,173	120,891,625
Accumulated other comprehensive income	25,125,808	12,113,347
Total stockholders' equity	299,793,424	232,589,306
Total liabilities and stockholders' equity	<u>\$ 318,494,576</u>	<u>\$ 267,359,170</u>

See accompanying notes to consolidated financial statements.

CHINA INTEGRATED ENERGY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

	<u>Years ended December 31,</u>	
	2011	2010
Sales	\$ 500,003,992	\$ 438,682,654
Cost of sales	<u>434,876,256</u>	<u>375,498,931</u>
Gross profit	65,127,736	63,183,723
Impairment on fixed assets, intangible assets and land use rights	10,459,141	-
Selling, general and administrative expenses	<u>15,125,991</u>	<u>8,938,859</u>
Income from operations	39,542,604	54,244,864
Other (expenses) income		
Interest expense, net	(131,850)	(200,809)
Subsidy income	91,058	155,856
Other expense, net	<u>(1,381,948)</u>	<u>(154,109)</u>
Total other (expenses) income, net	<u>(1,422,740)</u>	<u>(199,062)</u>
Earnings before income tax expense	38,119,864	54,045,802
Income tax expense	<u>9,408,316</u>	<u>226,801</u>
Net income	28,711,548	53,819,001
Other comprehensive item:		
Foreign currency translation adjustment, net of nil income tax	<u>13,012,461</u>	<u>6,639,927</u>
Total comprehensive income	<u>\$ 41,724,009</u>	<u>\$ 60,458,928</u>
Earnings per share:		
Basic	<u>\$ 0.66</u>	<u>\$ 1.60</u>
Diluted	<u>\$ 0.60</u>	<u>\$ 1.28</u>
Weighted average shares:		
Basic	<u>43,286,481</u>	<u>33,702,792</u>
Diluted	<u>47,668,195</u>	<u>42,199,794</u>

See accompanying notes to consolidated financial statements.

CHINA INTEGRATED ENERGY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Convertible preferred stock		Common stock		Additional paid-in capital	Statutory reserves	Retained earnings	Accumulated other comprehensive income	Total Stockholders' equity
	Shares	Amount	Shares	Amount					
Balance as of January 1, 2010	<u>3,115,753</u>	<u>\$ 3,115</u>	<u>33,269,091</u>	<u>\$ 3,326</u>	<u>\$ 75,858,994</u>	<u>\$ 4,920,114</u>	<u>\$ 67,072,624</u>	<u>\$ 5,473,420</u>	<u>\$ 153,331,593</u>
Net income	-	-	-	-	-	-	53,819,001	-	53,819,001
Foreign currency translation adjustment, net of nil income tax	-	-	-	-	-	-	-	6,639,927	6,639,927
Series A Convertible preferred stock converted	(11,000)	(11)	50,000	5	6	-	-	-	-
Series B Convertible preferred stock converted	(510,000)	(510)	510,000	51	459	-	-	-	-
Common stock issued in connection with options exercised	-	-	35,000	4	246,396	-	-	-	246,400
Common stock issued for cash (net of issuance cost of \$1,035,694)	-	-	2,185,716	219	14,264,099	-	-	-	14,264,318
Stock-based compensation	-	-	-	-	4,288,067	-	-	-	4,288,067
Balance as of December 31, 2010	<u>2,594,753</u>	<u>\$ 2,594</u>	<u>36,049,807</u>	<u>\$ 3,605</u>	<u>\$ 94,658,021</u>	<u>\$ 4,920,114</u>	<u>\$ 120,891,625</u>	<u>\$ 12,113,347</u>	<u>\$ 232,589,306</u>
Net income	-	-	-	-	-	-	28,711,548	-	28,711,548
Foreign currency translation adjustment, net of nil income tax	-	-	-	-	-	-	-	13,012,461	13,012,461
Series A Convertible preferred stock converted	(836,000)	(836)	3,800,000	380	456	-	-	-	-
Series B Convertible preferred stock converted	(1,200,000)	(1,200)	1,200,000	120	1,080	-	-	-	-
Common stock issued in connection with options exercised	-	-	-	-	-	-	-	-	-
Common stock issued for cash (net of issuance cost of \$1,271,152)	-	-	3,453,572	345	22,903,506	-	-	-	22,903,851
Stock-based compensation	-	-	-	-	2,576,258	-	-	-	2,576,258
Balance as of December 31, 2011	<u>1,638,753</u>	<u>\$ 558</u>	<u>44,503,379</u>	<u>\$ 4,450</u>	<u>\$ 120,139,321</u>	<u>\$ 4,920,114</u>	<u>\$ 149,603,173</u>	<u>\$ 25,125,808</u>	<u>\$ 299,793,424</u>

See accompanying notes to consolidated financial statements.

CHINA INTEGRATED ENERGY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years ended December 31,	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 28,711,549	\$ 53,819,001
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss on disposal of property, plant and equipment	983,946	241,031
Depreciation and amortization	2,635,513	1,638,069
Impairment on fixed assets, intangible assets and land use rights	10,459,141	-
(Decrease) increase in allowance for doubtful accounts	1,452,975	-
Deferred tax benefit	134,903	(6,056)
Stock-based compensation	2,576,258	4,288,067
Change in operating assets and liabilities:		
Accounts receivable	(19,941,025)	(2,760,471)
Inventories	9,555,594	918,808
Prepayments to suppliers	(3,146,776)	(4,828,788)
Lease prepayments	2,069,282	(5,671,144)
Prepaid expenses and other current assets	11,969,669	(9,855,778)
Receipts in advance from customers	(12,764,259)	13,892,710
Accrued expenses and other payables	(3,854,957)	(3,833,729)
Net cash provided by operating activities	30,841,813	47,841,717
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(8,019,055)	(10,718,624)
Proceeds from disposal of property, plant and equipment	-	-
Payment for land use right	-	(3,477,249)
Purchase of intangible assets	-	(1,421,939)
Payment for the acquisitions of subsidiaries, net of cash acquired of \$619,970 in 2010	-	(27,652,902)
Net cash used in investing activities	(8,019,055)	(43,270,714)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from bank loans	9,747,795	6,458,978
Repayment of bank loans	(12,608,615)	(4,338,851)
Restricted cash released	-	-
Proceeds from issuance of common stock and warrants, net of issuance cost	22,903,852	14,264,318
Proceeds from exercise of options	-	246,400
Net cash provided by financing activities	20,043,032	16,630,845
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	13,012,461	6,639,927
NET INCREASE IN CASH AND CASH EQUIVALENTS	55,878,251	27,841,775
Cash and cash equivalents at beginning of year	90,257,218	62,415,443
Cash and cash equivalents at end of year	\$ 146,135,469	\$ 90,257,218
Supplemental cash flow information:		
Cash paid for income tax	7,205,216	-
Cash paid for interest expense	601,013	270,258
Noncash investing and financing activities:		
Payable for acquisition of a subsidiary	-	924,242
Payable for purchase of property, plant and equipment	-	955,561
Other receivable re-class to fixed assets for acquisition of a subsidiary	-	7,135,897
Conversion of convertible preferred stock	2,036	521

See accompanying notes to consolidated financial statements.

CHINA INTEGRATED ENERGY INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

1. ORGANIZATION AND DESCRIPTION OF BUSINESS

A. Organization

China Integrated Energy, Inc. (the “Company”, formerly known as “AMS Marketing Inc.”, “International Imaging Systems, Inc.” or “China Bio Energy Holding Group Ltd.”) was incorporated in the State of Delaware in July 1998. On October 23, 2007, the Company entered into a share exchange agreement (the “Exchange Agreement”) with Baorun China Group Limited (“Baorun China”) and all the shareholders of Baorun China (the “Baorun China Shareholders”). Pursuant to the terms of the Exchange Agreement, the Baorun China Shareholders transferred to the Company all of their shares in exchange for 23,954,545 shares of the Company’s common stock (the “Share Exchange”). As a result of the Share Exchange, Baorun China became a wholly-owned subsidiary of the Company and the Baorun China Shareholders received approximately 94.11% of the Company’s issued and outstanding common shares. Immediately prior to the date of the Share Exchange, the Company was a publicly listed shell entity with no operations and Baorun China, through its wholly-owned subsidiary, Redsky Industrial (Xi’an) Co., Ltd. (“Redsky Industrial”) and a consolidated variable interest entity, Xi’an Baorun Industrial Development Co., Ltd. (“Xi’an Baorun”), was engaged in the wholesale and distribution of finished oil and heavy oil products, the production and sales of biodiesel, and operation of retail gas stations. The Share Exchange was accounted for as a reverse recapitalization, equivalent to the issuance of stock by Baorun China for the net monetary assets of the Company accompanied by a recapitalization.

The Company does not own an equity interest in Xi’an Baorun, but through its wholly-owned subsidiaries, has entered into a series of contractual agreements with Xi’an Baorun, which provides the Company with a controlling financial interest. The key terms of these contractual agreements and arrangements are as follows:

Exclusive Business Cooperation Agreement: Redsky Industrial has the exclusive right to provide complete technical support, business support and related consulting services, which include, among others, technical services, business consultations, equipment or property leasing, marketing consultancy and product research. Xi’an Baorun has agreed to pay the service fee on a monthly basis to Redsky Industrial equal to 100% of the monthly net income of Xi’an Baorun.

Exclusive Option Agreement: The stockholders of Xi’an Baorun irrevocably granted to Redsky Industrial, which subsequently in turn granted the right to Baorun China, an exclusive option to purchase a portion or all of their respective equity interests in Xi’an Baorun for a purchase price either to be designated by Baorun China or to be determined based on the evaluation of the equity interests required by the PRC law. Baorun China has the sole discretion to decide when to exercise the option, whether in part or in full.

Equity Pledge Agreements: The stockholders of Xi’an Baorun pledged their equity interests in Xi’an Baorun to guarantee Xi’an Baorun’s performance of its obligations under the Exclusive Business Cooperation Agreement. If Xi’an Baorun fails to perform its payment obligations under the Exclusive Business Cooperation Agreement, or if Xi’an Baorun or any of its stockholders breaches his/her respective contractual obligations under the agreement, or upon the occurrence of an event of default, Redsky Industrial is entitled to certain rights, including the right to dispose of the pledged equity interests. The stockholders of Xi’an Baorun agreed not to dispose of the pledged equity interests or take any actions that would prejudice Baorun China’s interest.

Irrevocable Powers of Attorney: Stockholders of Xi’an Baorun granted to Redsky Industrial, which in turn granted to Baorun China, the power to exercise all voting rights of such stockholder in stockholders’ meetings, including, but not limited to, the power to determine the sale, pledge or transfer of, or otherwise disposal of all or part of such stockholder’s equity interest in, and appointing and electing the directors, the legal representative (chairperson), chief executive officer and other senior management of Xi’an Baorun.

In the opinion of management, based on consultation with the Company's PRC legal counsel, the above contractual arrangements are legally binding and enforceable and do not violate current PRC laws and regulations.

Acquisition Accounting

Acquisitions of assets or entities that include inputs and processes and have the ability to create outputs are accounted for as business combinations. The purchase price is recorded for tangible and intangible assets acquired and liabilities assumed based on fair value. The excess of fair value of the consideration conveyed over the fair value of the net assets acquired is recorded as goodwill. The Consolidated Statements of Operations for the years presented include the results of operations for each acquisition from their respective date of acquisition.

In accordance with Accounting Standards Update ("ASU") 2009-17 issued by Financial Accounting Standards Board ("FASB"), Baorun China is considered to be the primary beneficiary of Xi'an Baorun and the financial statements of Xi'an Baorun have been consolidated in the Company's consolidated financial statements. Upon the execution of the above contractual agreements and arrangements, Baorun China is able to (i) direct the activities of Xi'an Baorun that most significantly impact its economic performance; and (ii) absorb losses and receive benefits from Xi'an Baorun that could potentially be significant.

During the year ended December 31, 2010, Xi'an Baorun acquired Chongqing Tianrun Energy Development Co., Ltd. ("Chongqing Tianrun"), XianyangJinzheng Oil Sales Co., Ltd. ("XianyangJinzheng"), Xinyuan Gas Station ("Xinyuan") and ShenmuErlintuHongtu Oil Co., Ltd. ("Shenmu") for a total cash consideration of approximately \$16.5 million, \$10.0 million, \$4.5 million and \$9.2 million, respectively. After these acquisitions, Chongqing Tianrun, XianyangJinzheng, Xinyuan and Shenmu became wholly-owned subsidiaries of Xi'an Baorun (See Note 18).

Total assets and total liabilities of Xi'an Baorun as of December 31, 2011 in the amount of \$317,720,003 and \$18,699,863, and sales and net income of Xi'an Baorun for the year ended December 31, 2011 in the amount of \$500,003,992 and \$31,433,343, have been included in the accompanying consolidated financial statements as of and for the year ended December 31, 2011.

Total assets and total liabilities of Xi'an Baorun as of December 31, 2010 in the amount of \$251,591,718 and \$34,759,490, and sales and net income of Xi'an Baorun for the year ended December 31, 2010 in the amount of \$438,682,654 and \$58,182,434, have been included in the accompanying consolidated financial statements as of and for the year ended December 31, 2010.

B. Nature of Business and Significant Risks

The Company, through its subsidiaries and consolidated variable interest entity (collectively, referred to as the "Group"), is an integrated energy company that is engaged in the wholesale distribution of finished oil and heavy oil products, the production and sales of biodiesel, and operation of retail gas stations in the PRC.

Wholesale and distribution of refined petroleum products including petroleum and diesel represents a significant portion of and is an important part of the Group's operations. The Group depends on the supply from certain oil refineries in the PRC. Five major suppliers accounted for 43.7% (\$182,019,683), including one major supplier who accounted for 13.0% (\$54,075,778), of the Group's inventory purchase for the year ended December 31, 2011. Five major suppliers accounted for 52.6% (\$192,169,907), including one major supplier who accounted for 20.3% (\$74,136,825), of the Group's inventory purchase for the year ended December 31, 2010. The Group's failure to obtain sufficient supply of refined petroleum products could cause significant disruption in its operations.

Five major customers accounted for 40.2% (\$201,075,294), including one major customer who accounted for 26.5% (\$132,565,072), of the Group's total sales for the year ended December 31, 2011. Five major customers accounted for 38.1% (\$166,960,387), including one major customer who accounted for 25.4% (\$111,290,240), of the Group's total sales for the year ended December 31, 2010. The major customers are distributors in the PRC petroleum industry. A loss of one or more of these customers would have a material impact on the Group's results of operations and financial condition.

The results of operations and financial condition of the Group are affected by the selling prices of refined petroleum products. The retail prices of gasoline and diesel oil sold in the PRC are subject to the government guiding ceiling price. The Administrative Measures on Oil Prices promulgated by the National Development and Reform Commission (“NDRC”) in the PRC on May 7, 2009 stipulates that the NDRC will adjust domestic refined petroleum products prices when the international market price for crude oil changes more than 4% over 22 consecutive working days. The NDRC adjusts domestic refined petroleum products prices by modifying the retail price cap for gasoline and diesel in all provinces.

NDRC implemented a new pricing regime to better reflect fluctuations in global oil prices effective as of March 26, 2013, the new system will shorten the current 22-day adjustment period to 10 days and remove the 4 percent limit, ushering in a more market-based mechanism that could better reflect production costs and energy shortages.

Although the current price-setting mechanism for refined petroleum products in China allows the PRC government to adjust prices in the PRC market when the international crude oil price fluctuates, the PRC government still retains full discretion as to whether or when to adjust the refined petroleum products price. The PRC government can also be expected to exercise price control over refined petroleum products once international crude oil price experiences sustained growth or become significantly volatile. As a result, the results of operations and financial condition of the Group may be materially and adversely affected by the fluctuation of market prices of crude oil and refined petroleum products as well as the discretionary actions of the PRC government.

The Group’s operations are carried out in the PRC. Accordingly, the Group’s business, financial condition and results of operations may be influenced by the political, economic and legal environment in the PRC as well as by the general state of the PRC’s economy. In addition, the Group’s business may be influenced by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, regulations on foreign exchange control regarding foreign exchange transactions and rates and methods of taxation, among other things.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements of the Group have been prepared in accordance with generally accepted accounting principles in the United States of America and include the financial statements of the Company and its subsidiaries and consolidated variable interest entity. All significant intercompany balances and transactions have been eliminated in consolidation. The accompanying consolidated financial statements are presented in U.S. dollar.

USE OF ESTIMATES

The preparation of consolidated financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the useful lives of property, plant and equipment; the allowance for doubtful accounts; the fair value determination of stock-based compensation and financial and equity instruments; the realizability of inventories; the recoverability of goodwill, intangible asset, land use right and property, plant and equipment; the allocation of the purchase price of the Group's acquisition; and accruals for income tax uncertainties and other contingencies. The current economic environment has increased the degree of uncertainty inherent in those estimates and assumptions.

CASH AND CASH EQUIVALENTS

The Group considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. To limit exposure to credit risk relating to deposits, the Group primarily places cash deposits only with large financial institution in the PRC and Hong Kong with acceptable credit rating.

ACCOUNTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

Accounts receivable are recorded at the invoiced amount and do not bear interest. The Group maintains an allowance for doubtful accounts for estimated losses inherent in its accounts receivable portfolio. In establishing the required allowance, management considers historical losses adjusted to take into account current market conditions and the customers' financial condition, the amount of receivables in dispute, and the current receivables aging and current payment patterns. The Group reviews its allowance for doubtful accounts monthly. Past due balances are reviewed individually for collectability. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. Individual credit evaluations are performed on all customers requiring credit. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Historically the Group has experienced no bad debt write-offs. The Company increased the allowance for doubtful accounts in the amount of \$817,437 for the year ended December 31, 2011. The financial condition of one customer that the Company have business relations with were to deteriorate, resulting in an impairment of their ability to make payments, so additional allowances were required. As of December 31, 2011 and 2010, \$817,437 and \$0- allowance for doubtful accounts has been provided, respectively.

PREPAYMENTS TO SUPPLIERS

In order to secure a stable supply of refined petroleum products, the Group makes prepayments to certain suppliers. Advance payments for the future delivery of raw materials and finished goods are recorded as "prepayments to suppliers" in the consolidated balance sheets and amounted to \$42,794,794 and \$39,648,018 as of December 31, 2011 and 2010, respectively. The balance of the "prepayments to suppliers" is reduced and reclassified to "inventories" when inventory is received and passes quality inspection. The Group makes the prepayments without collateral for such payments. As a result, the Group's claims for such prepayments would rank only as an unsecured claim, which expose the Group to the credit risks of the suppliers. As of December 31, 2011 and 2010, \$635,538 and \$0- allowance for doubtful suppliers accounts has been provided, respectively.

INVENTORIES

Inventories are stated at the lower of average cost or market. Cost is determined using the weighted average method. Cost of work in progress and finished goods comprise direct materials, direct production costs and an allocation of production overheads based on normal operating capacity.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost. Depreciation on property, plant and equipment is calculated on the straight-line method over the estimated useful lives of the assets. Estimated useful lives are as follows:

	Years
Buildings	20
Production equipment	10
Office equipment	5
Vehicles	5

Costs incurred during the construction and installation of the assets are initially capitalized as construction in progress and transferred into property, plant and equipment when the assets are ready for their intended use, at which time depreciation commences. No depreciation charge is provided in respect of construction in progress.

INTANGIBLE ASSETS

Intangible assets acquired represent gas stations operating permits that are amortized on a straight-line basis over their respective estimated useful lives which range from 17 to 49 years. The estimated useful life is the period over which the intangible asset is expected to contribute directly or indirectly to the future cash flows of the Group and which is based on the life of the related land use right where the gas station is located.

LAND USE RIGHT

Land use right represents the exclusive right to occupy and use the land in the PRC for a specified contractual term. Land use right is carried at cost, less accumulated amortization. Amortization is calculated using the straight-line method over the life of the right of 17 to 70 years.

REVENUE RECOGNITION

For sales of finished oil, heavy oil products, and bio-diesel, revenue is recognized when a formal arrangement exists, the price is fixed or determinable, the delivery is completed, no other significant obligations of the Group exist and collectability is reasonably assured. For gas station retail sales, revenue is recognized at the point of sale, which is when the fuel is delivered to the customers and cash is collected.

The Group's revenue is net of value added tax ("VAT") collected on behalf of tax authorities in respect of the sale of merchandise. VAT collected from customers, net of VAT paid for purchases, is recorded as a liability in the balance sheet until it is paid to the tax authorities.

The Group does not provide sales return, price protection or any other concessions to its customers.

Cost of Sales

The Company includes in "Cost of Sales" all costs it incurs to acquire wholesale fuel, including the costs of purchasing, storing and transporting inventory prior to delivery to our wholesale customers. Cost of sales does not include any depreciation of our property, plant and equipment, as any amounts attributed to cost of sales would not be significant. Depreciation is separately classified in the Consolidated Statements of Operations.

RECEIPTS IN ADVANCE FROM CUSTOMERS

Receipts in advance from customers represent amounts received by the Group from customers for products that have not yet been shipped to the customers. To mitigate the credit risk, the Group requires an advance payment from certain customers prior to delivery of products. Amounts received prior to satisfying the Group's revenue recognition criteria are recorded as receipts in advance from customers. The Group recognizes the prepayments from the customers as revenue at the time the delivery of goods is made and all revenue recognition criteria are met. As of December 31, 2011 and 2010, the Company receipts in advance from customers amounts to \$3,897,691 and \$16,661,950, respectively.

Lease Accounting

The Group leases its office premises, oil depots and gas stations under non-cancelable operating leases, whose initial terms are typically five to fifteen years, along with options that permit renewals for additional periods. Minimum rent is typically expensed on a straight-line basis over the term of the lease including renewal periods that are reasonably assured at the inception of the lease. The Group is typically not responsible for payment of real estate taxes, maintenance expenses and insurance.

RESEARCH AND DEVELOPMENT COSTS

Research and development costs are expensed as incurred.

IMPAIRMENT OF LONG-LIVED ASSETS

In accordance with Impairment or Disposal of Long-Lived Assets Subsections of FASB ASC Subtopic 360-10, *Property, Plant, and Equipment - Overall*, long-lived assets, such as property, plant and equipment, lease prepayments for gas stations and purchased intangible asset subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group be tested for possible impairment, the Group first compares undiscounted cash flows expected to be generated by that asset or asset group to its carrying value. If the carrying value of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary. Total impairment expense for the years ended December 31, 2011 and 2010 was \$10,459,141 and \$0-, respectively.

GOODWILL

Goodwill represents the excess of the cost of an acquisition over the fair value of the net assets acquired. Goodwill is not amortized, but is instead tested for impairment. Goodwill is reviewed for impairment at least annually in accordance with the provisions of FASB ASC Topic 350, *Intangibles - Goodwill and Other*. The goodwill impairment test is a two-step test. Under the first step, the fair value of the reporting unit is compared with its carrying value (including goodwill). If the fair value of the reporting unit is less than its carrying value, an indication of goodwill impairment exists for the reporting unit and the enterprise must perform step two of the impairment test (measurement). Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation and the residual fair value after this allocation is the implied fair value of the reporting unit goodwill. Fair value of the reporting unit is determined using a discounted cash flow analysis. If the fair value of the reporting unit exceeds its carrying value, step two does not need to be performed.

The Group performs its annual impairment review of goodwill at December 31, and when a triggering event occurs between annual impairment tests. No impairment loss was recorded for the years ended December 31, 2011 and 2010.

INCOME TAXES

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and tax loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the consolidated statements of income and comprehensive income in the period that includes the enactment date. A valuation allowance is provided to reduce the amount of deferred tax assets if it is considered more likely than not that some portion or all of the deferred tax assets will not be realized.

The Group recognizes in the consolidated financial statements the impact of a tax position, if that position is more likely than not of being sustained upon examination, based on the technical merits of the position. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Group records interest related to unrecognized tax benefits in interest expense and penalties in selling, general and administrative expenses in the consolidated statements of income and comprehensive income.

FOREIGN CURRENCY TRANSLATION AND TRANSACTIONS

The Company's functional currency is the U.S. dollar. The financial position, results of operations and cash flows of the Company's subsidiaries and consolidated variable interest entity in the PRC are measured using the Renminbi ("RMB") as the functional currency. Assets and liabilities of the subsidiaries and consolidated variable interest entity are translated at the prevailing exchange rate in effect at each period end. Income statement accounts are translated at the average rate of exchange during the period. Translation adjustments are included in the accumulated other comprehensive income account in the consolidated statements of stockholders' equity. The statements of cash flows are translated at the weighted average rate of exchange during the period.

FAIR VALUE MEASUREMENTS

The Group applies the provisions of FASB ASC Subtopic 820-10, *Fair Value Measurements* (FASB Statement No.157, *Fair Value Measurements*) , for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the financial statements. ASC Subtopic 820-10 also establishes a framework for measuring fair value and expands disclosures about fair value measurements.

FASB ASC Subtopic 820-10 defines fair value as the price that would be received to sell 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 Group considers the principal or most advantageous market in which it would transact and it considers assumptions that market participants would use when pricing the asset or liability.

FASB ASC Subtopic 820-10 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. FASB ASC Subtopic 820-10 establishes three levels of inputs that may be used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The Group did not have any assets and liabilities that are measured at fair value on a recurring basis as of December 31, 2011 and 2010.

Cash, accounts receivable, certain other current assets, accounts payable, accrued expenses and other current liabilities are reflected in the consolidated financial statements at fair value because of the short-term maturity of the instruments.

STOCK-BASED COMPENSATION

The Group accounts for stock-based compensation under FASB ASC Subtopic 718-10, *Compensation—Stock Compensation: Overall*. Under FASB Subtopic 718-10, the Group measures the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award and recognizes the cost over the period during which an employee is required to provide service in exchange for the award, which generally is the vesting period. The amount of cost recognized is adjusted to reflect the number of share options that are forfeited prior to vesting.

The Group accounts for equity instruments issued to non-employees of the Group in accordance with the provisions of ASC subtopic 505-50, *Equity: Equity-based Payments to Non-Employees* . All transactions in which goods or services are received in exchange for equity instruments are accounted for based on the fair value of the consideration received or the fair value of the equity instrument issued, whichever is more reliably measurable. The measurement date of the fair value of the equity instrument issued is the date on which the counterparty's performance is completed.

EARNINGS PER SHARE

Basic earnings per share is computed by dividing net income attributable to the Group by the weighted average number of common shares outstanding during the period. The convertible preferred stocks are not participating securities. Diluted earnings per share reflects the potential dilution that would occur upon the exercise of outstanding warrants and options and the conversion of convertible preferred stock. Common share equivalents are excluded from the computation of the diluted earnings per share when their effect would be anti-dilutive.

SEGMENT REPORTING

The Group uses the management approach in determining operating segments. The management approach considers the internal organization and reporting used by the Group's chief operating decision maker for making operating decisions, allocating resources and assessing performance as the source of determining the Group's reportable operating segments. The Group has determined that it has three reportable operating segments as defined by FASB ASC Subtopic 280-10, *Segment Reporting: Overall*, which are the wholesale distribution of finished oil and heavy oil, production and sale of biodiesel, and the operation of retail gas stations.

Substantially all of the Group's operations and customers are located in the PRC and therefore, no geographical information is presented.

CONTINGENCIES

In the normal course of business, the Group is subject to loss contingencies, such as legal proceedings and claims arising out of its business, that cover a wide range of matters, including, among others, government investigations and tax matters. An accrual for a loss contingency is recognized when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated.

RECLASSIFICATION

Certain reclassifications have been made to the prior year's financial statements to conform to the current year presentation. These reclassifications had no effect on previously reported financial position or results.

RECENTLY ISSUED ACCOUNTING STANDARDS

In October 2009, the FASB issued Accounting Standards Update ("ASU") 2009-13, *Revenue Recognition* (Topic 605): *Multiple-Deliverable Revenue Arrangements* (EITF Issue No. 08-1, "*Revenue Arrangements with Multiple Deliverables*"). ASU 2009-13 amends FASB ASC Subtopic 605-25 to eliminate the requirement that all undelivered elements have vendor specific objective evidence of selling price ("VSOE") or third party evidence of selling price ("TPE") before an entity can recognize the portion of an overall arrangement fee that is attributable to items that already have been delivered. In the absence of VSOE or TPE for one or more delivered or undelivered elements in a multiple-element arrangement, entities will be required to estimate the selling prices of those elements. The overall arrangement fee will be allocated to each element (both delivered and undelivered items) based on their relative selling prices, regardless of whether those selling prices are evidenced by VSOE or TPE or are based on the entity's estimated selling price. Application of the "residual method" of allocating an overall arrangement fee between delivered and undelivered elements will no longer be permitted upon adoption of ASU 2009-13. Additionally, the new guidance will require entities to disclose more information about their multiple-element revenue arrangements. ASU 2009-13 is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early adoption is permitted. Management is currently evaluating the potential impact, if any, of adopting ASU 2009-13 on the Group's financial position and results of operations.

FASB ASU No. 2011-04. In May 2011, the FASB issued ASU No. 2011-04, "*Fair Value Measurement, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS* (ASC 820—*Fair Value Measurement*)." This guidance amends ASC 820 on fair value measurements and disclosures to (1) clarify the board's intent in respect of existing measurement guidance, (2) revise certain measurement guidance that changes or modifies a principle for measuring fair value, and (3) add disclosure requirements concerning the measurement uncertainty of Level 3 measurements. The ASU is effective for interim and annual periods beginning after December 15, 2011. The adoption of this amended guidance did not have a material effect on our consolidated financial position, results of operations, cash flows or related disclosures.

FASB ASU No. 2011-05. In June 2011, the FASB issued ASU No. 2011-05, "*Comprehensive Income: Presentation of Comprehensive Income* (ASC 220—*Comprehensive Income*)." This guidance removes the presentation options in ASC 220 and requires entities to report components of comprehensive income in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements. The ASU does not change the items that must be reported in other comprehensive income. It is effective for fiscal years beginning after December 15, 2011 (and for interim periods within such years). In December 2011, the FASB issued ASU No. 2011-12, which deferred certain aspects of ASU No. 2011-05. Our Predecessor adopted this accounting standard in the first quarter of Fiscal 2012. This standard affects presentation and disclosure, and therefore will not affect our consolidated financial position, results of operations or cash flows.

FASB ASU No. 2012-02. In July 2012, the FASB issued ASU No. 2012-02, "*Intangibles—Goodwill and Other*." This guidance permits an entity to first assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform the quantitative impairment test in accordance with Subtopic 350. The ASU is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. The adoption of this guidance will affect our impairment steps only but will not have an effect on our results of operations, cash flows or related disclosures.

The Company has reviewed all other recently issued, but not yet adopted, accounting standards in order to determine their effects, if any, on its results of operation, financial position or cash flows. Based on that review, the Company believes that none of these pronouncements will have a

significant effect on its consolidated financial statements.

3. ACCOUNTS RECEIVABLE

Accounts receivable Inventories at December 31, 2011 and 2010 consist of the following:

	December 31, 2011	December 31, 2010
Accounts receivable	\$ 25,634,932	\$ 6,329,446
Less: allowance for doubtful accounts	(817,437)	-
	<u>\$ 24,817,495</u>	<u>\$ 6,329,446</u>

The Company reviews the accounts receivable on a periodic basis and makes general and specific allowances when there is doubt as to the collectability of individual balances. After evaluating the collectability of individual receivable balances, the Company increased the allowance for doubtful accounts in the amount of \$817,437 for the year ended December 31, 2011.

4. INVENTORIES

Inventories at December 31, 2011 and 2010 consist of the following:

	December 31, 2011	December 31, 2010
Raw materials	\$ 2,877,991	\$ 6,765,565
Finished goods, including petroleum and diesel	10,833,250	16,501,270
	<u>\$ 13,711,241</u>	<u>\$ 23,266,835</u>

As of December 31, 2010, certain finished goods of \$3,544,776 were pledged as security for a short-term bank loan (See Note 9). As of December 31, 2011, no such finished good was pledged.

5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at December 31, 2011 and 2010 consist of the following:

	December 31, 2011	December 31, 2010
Buildings	\$ 10,990,231	\$ 4,359,495
Biodiesel and gas station equipment	10,779,296	15,918,342
Office equipment	196,652	183,956
Motor vehicles	1,479,871	1,095,256
	<u>23,446,050</u>	<u>21,557,049</u>
Less: Accumulated depreciation	5,565,963	4,915,510
Less: Impairment on fixed assets	695,674	-
	<u>17,184,413</u>	<u>16,641,539</u>
Construction in progress	24,373,300	18,610,902
Total	<u>\$ 41,557,713</u>	<u>\$ 35,252,441</u>

Total depreciation expense for the years ended December 31, 2011 and 2010 was \$1,708,958 and \$1,110,885, respectively.

During the years the unused assets was disposed and the recorded as loss on disposal of property, plant and equipment amounts to \$983,946 and \$241,031 for the years ended December 31, 2011 and 2010, respectively.

The impairment expense for the years ended December 31, 2011 and 2010 was \$695,674 and \$-0-, respectively.

As of December 2010, the Group pledged its biodiesel processing equipment with an original carrying amount of approximately \$7,458,000 as security for a short-term bank loan (See Note 9). No such equipment was pledged in 2011.

As of December 31, 2011 and 2010, the Group pledged its building with an original carrying amount of approximately \$2,256,000 as security for a short-term bank loan (See Note 9).

Construction in progress primarily represents two projects at the Tongchaun City biodiesel production plant, the first project is related to the costs paid for the construction of a new biodiesel production facility in Tongchuan city with an annual design capacity of 50,000 tons. This new production line and facility will utilize cheaper feedstock which are mainly the agriculture and forest waste in the production of biodiesel. Management had expected to complete testing in 2011, but due to the Company not being able to readily obtain the catalyst needed for bio-diesel production in 2012, the plant is not yet placed in operation as of the reporting date. Management is working with the National Chemical Institute in the PRC to utilize an alternative catalyst agent and to identify other solutions to commence operations. Additionally, the Company's management is consulting with academic professors in the PRC to find an alternative solution, and management is confident that this situation will be resolved.

The Company has initiated a second project at Chongqing biodiesel plant is related to the technological up grades and repairs to the existing biodiesel production line. The Chongqing plant originally had two production lines, and these are combined into one production line to improve the efficiency of biodiesel production. The Group commenced this project in the September 2011. The Group completed the construction in 2012 and the production line was operating by the first quarter of 2012. As a result of the Chinese government updating its environment protection requirements, In 2012, the Group encountered new requirements, which had been introduced by the Chinese government. These new environmental requirements resulted in the Chongqing facility having another technological upgrade starting in April 2012. This second upgrade was needed in order to meet the new environment protection requirements, because the original environment protection system at the Chongqing facility was not compliant with the new requirements. In July 2013, the Group completed a glycerin recycling system upgrade at the Chongqing facility..

6. INTANGIBLE ASSET

Intangible asset at December 31, 2011 represented three gas station operating permits purchased in 2010 as follows:

	December 31, 2011	December 31, 2010
Gas station operating permits	20,800,801	19,835,905
Less: Accumulated amortization	861,413	281,004
Less: Impairment on intangible assets	7,259,531	-
	<u>\$ 12,679,857</u>	<u>\$ 19,554,901</u>

As required by the PRC laws and regulations, the Group is required to have an operating permit to operate gas stations. In 2010, gas station operating permits of \$7,070,384, \$9,086,269 and \$3,679,252 was acquired in connection with the acquisition of Shenmu, Jinzheng and Xinyuan, respectively (see Note 18). The gas station operating permits are amortized over a weighted average period of approximately 35 years. Amortization expense for the years ended December 31, 2011 and 2010 was \$580,409 and \$281,004, respectively. Estimated amortization expense of intangible asset for the next five years is \$566,742 in each year from 2012 to 2016.

Total impairment expense for the years ended December 31, 2011 and 2010 was \$7,259,531 and \$0-, respectively.

7. LAND USE RIGHTS

At December 31, 2012 and 2011, land use rights consisted of the following:

	December 31, 2011	December 31, 2010
Land use rights	13,728,897	13,092,167
Less: Accumulated amortization	592,326	246,180
Less: Impairment on land use rights	2,503,936	-
	<u>\$ 10,632,635</u>	<u>\$ 12,845,987</u>

There is no private ownership of land in China. Land is owned by the government and the government grants land use rights for specified terms. The Company's land use rights have terms of 17 and 70 years. The Company amortizes the land use rights over the term of the respective land use right. For the years ended December 31, 2011 and 2010, amortization of land use rights amounted to \$346,146 and \$246,180, respectively. Estimated amortization expense of intangible asset for the next five years is \$346,146 in each year from 2012 to 2016.

Total impairment expense for the years ended December 31, 2011 and 2010 was \$2,503,936 and \$0-, respectively.

As of December 31, 2011 and 2010, the Group pledged its land use rights with an original carrying amount of approximately \$5,213,000 as security for a short-term bank loan (See Note 9).

8. LEASE PREPAYMENTS

Lease prepayments mainly represented prepaid lease for retail gas stations, and analyzed as follows:

	December 31, 2011	December 31, 2010
Prepaid lease for retail gas stations	\$ 16,582,192	\$ 32,545,123
Other lease prepayments	467,522	600,617
	17,049,714	33,145,740
Less: current portion amount to be expensed in one year	1,718,596	3,787,878
Non-current portion	\$ 15,331,118	\$ 29,357,862

The Company leases retail gas stations under long-term lease agreements of 5 to 30 years. The leases involve both land use right and gas station building and equipment. Under the terms of the lease agreements, the Group is required to make advance lease payment for the entire lease term. The leases payments are mainly attributed to the land use right elements which are accounted for as operating leases according to ASC 840, *Leases*. The remaining lease payments attributable to the gas station building and equipment element are insignificant. Expected operating lease expense for the next five years is \$1,718,596 in 2012, \$873,862 in 2013, \$873,862 in 2014, \$873,862 in 2015 and \$873,862 in 2016.

9. SHORT-TERM BANK LOANS

As of December 31, 2011, the Group has a short-term bank loan of \$3,177,680 that bears a fixed annual interest rate of 5.850% and is due on June 11, 2012. This loan is guaranteed by certain third parties (the "Guarantee Companies"). Guarantee fees were charged at 1.750% of total loan amount.

As of December 31, 2011, the Group has a short-term bank loan of \$476,652 that bears a fixed annual interest rate of 5.840% and is due on January 16, 2012. This loan is secured by the land use right and buildings of the Company with an original carrying amount of approximately \$5,213,000 and \$2,256,000, respectively, as of December 31, 2011.

As of December 31, 2010, the Group has a short-term bank loan of \$6,060,606 that bears a fixed annual interest rate of 6.116% and is due on October 27, 2011. This loan is guaranteed by certain third parties (the "Guarantee Companies"). Guarantee fees were charged at 1.882% of total loan amount.

As of December 31, 2010, the Group has a short-term bank loan of \$454,546 that bears a fixed annual interest rate of 5.840% and is due on September 24, 2011. This loan is secured by the land use right and buildings of the Company with an original carrying amount of approximately \$9,626,000 and \$2,896,000, respectively, as of December 31, 2010.

In respect of the guarantees for the short-term bank loan as of December 31, 2010, the Group collateralized its biodiesel processing equipment with an original carrying amount of approximately \$7,458,000 and certain finished goods of \$3,544,776 as of December 31, 2010, as counter-guarantee to the Guarantee Companies.

10. INCOME TAXES

The Company, its subsidiaries and consolidated variable interest entity file separate income tax returns, mainly in the U.S. and PRC.

The United States of America

The Company is incorporated in the State of Delaware in the U.S., and is subject to U.S. federal corporate income tax at gradual rates of up to 34%.

Hong Kong

Baorun China is incorporated in Hong Kong and Hong Kong's profits tax rate is 16.5% for 2011 and 2010. Baorun China did not earn any income that was derived from or arising in Hong Kong for the years ended December 31, 2011 and 2010 and therefore did not have any profits subject to Hong Kong profits tax. The payments of dividends by Hong Kong companies are not subject to any Hong Kong withholding tax.

PRC

The PRC's statutory income tax rate is 25%. The Company's PRC subsidiary and consolidated variable entity are subject to PRC income tax at 25%, unless otherwise specified. According to the approval from the tax authority in the district level of Xi'an in Shaanxi Province, Xi'an Baorun was exempt from income tax for the period from January 1, 2005 to December 31, 2010. In accordance with the relevant tax laws in the PRC, the Company is entitled to 15% tax rate due to the 'Hi-Tech Enterprise Tax Preference'.

The components of earnings (losses) before income taxes are as follows:

	Years ended December 31,	
	2011	2010
PRC, excluding Hong Kong	\$ 40,669,435	\$ 58,388,754
U.S.	(2,628,275)	(4,288,271)
Hong Kong	78,704	(54,681)
Total	<u>\$ 38,119,864</u>	<u>\$ 54,045,802</u>

PRC income tax expense for each of the years ended December 31, 2011 and 2010 are as follows:

	Years ended December 31,	
	2011	2010
Current tax expense	\$ 9,609,998	\$ 232,857
Deferred tax benefit	(201,682)	(6,056)
	<u>\$ 9,408,316</u>	<u>\$ 226,801</u>

Reconciliation between income tax expense and the amounts computed by applying the PRC statutory tax rate of 25% to earnings before income tax expense is as follows:

	Years ended December 31,	
	2011	2010
Computed expected tax expense (a)	\$ 9,529,966	\$ 13,511,451
Non-deductible expenses		
Stock-based compensation	893,613	1,458,012
Other non-deductible expenses	5,036,057	1,679,645
Tax rate differentials	(243,234)	(375,240)
Tax holiday (b)	(5,636,474)	(16,055,153)
Non-PRC entity not subject to income tax	-	9,022
Change in valuation allowance	30,070	5,120
Deferred tax benefit	(201,682)	(6,056)
Income tax expense	<u>\$ 9,408,316</u>	<u>\$ 226,801</u>

- (a) The PRC tax rate has been used because the majority of the Group's consolidated pre-tax earnings arise in the PRC.
- (b) Basic earnings per share effect of tax holiday for the years ended December 2011 and 2010 were \$0.13 and \$0.48, respectively. Diluted earnings per share effect of tax holiday for the years ended December 31, 2011 and 2010 were \$0.12 and \$0.38, respectively.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities as of December 31, 2011 and 2010 are presented below:

	Years ended December 31,	
	2011	2010
Deferred tax assets		
- Tax loss carryforwards	\$ 420,264	\$ 315,939
Total gross deferred tax assets	420,264	315,939
Less: valuation allowance	(420,264)	(315,939)
Net deferred tax assets	\$ -	\$ -
Deferred tax liabilities		
- Property, plant and equipment	\$ (264,417)	(268,598)
- Intangible asset	(4,082,255)	(3,967,217)
- Land use right	(946,930)	(922,884)
Net deferred tax liabilities	\$ (5,293,602)	\$ (5,158,699)
Classification on consolidated balance sheets		
Deferred tax liabilities – Non-current	\$ (5,293,602)	\$ (5,158,699)

The increase in valuation allowance during the years ended December 31, 2011 and 2010 were \$30,070 and \$5,120, respectively. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets depends on the generation of future taxable income during the periods in which the tax loss carryforwards are utilized. The Group considers projected future taxable income and tax planning strategies in making its assessment. As of December 31, 2011, for United States federal income tax purposes, the Group had tax loss carryforwards of approximately \$1,028,401 that would expire through December 31, 2029. As of December 31, 2010, for PRC income tax purposes, the Group had tax loss carryforwards of \$282,431 that would expire through December 31, 2016. Management has determined it is more likely than not that the deferred tax asset related to these tax loss carryforwards will not be realized, and therefore, full valuation allowance was provided as of December 31, 2011 and 2010.

According to the prevailing PRC income tax law and its relevant regulations, non-PRC-resident enterprises are levied withholding tax at 10%, unless reduced by tax treaties or similar arrangements, on dividends from their PRC-resident investees for earnings accumulated beginning on January 1, 2008, and undistributed earnings generated prior to January 1, 2008 are exempt from such withholding tax. Further, the Company's distribution from its PRC subsidiary and the consolidated variable interest entity are subject to the U.S. federal income tax at 34%, less any applicable foreign tax credits. Due to the Group's policy of reinvested permanently its earnings in its PRC business, the Group has not provided for deferred income tax liabilities for U.S. federal income tax purposes on its PRC subsidiary and consolidated variable interest entity's undistributed earnings of \$172,790,000 and \$141,357,000 as of December 31, 2011 and 2010, respectively.

As of January 1, 2009 and for each of the years ended December 31, 2010 and 2011, the Company, its subsidiaries and consolidated variable interest entity did not have any unrecognized tax benefits, and therefore no interest or penalties related to unrecognized tax benefits were accrued. The Group does not expect that the amount of unrecognized tax benefits will change significantly within the next 12 months.

The Company is subject to U.S. federal income tax examination by tax authorities for tax years beginning in 2007. According to the PRC Tax Administration and Collection Law, the statute of limitations is three years if the underpayment of taxes is due to computational errors made by the taxpayer or the withholding agent. The statute of limitations is extended to five years under special circumstances where the underpayment of taxes is more than RMB 100,000 (\$15,000). In the case of transfer pricing issues, the statute of limitations is ten years. There is no statute of limitations in the case of tax evasion. The PRC tax returns for the Company's PRC subsidiary and consolidated variable interest entity are open to examination by the PRC tax authorities for the tax years beginning in 2005.

11. ACCRUED EXPENSES AND OTHER PAYABLES

Accrued expenses and other payables mainly represented payables for VAT, purchases of equipment and other general administrative expenses.

12. STOCKHOLDERS' EQUITY

(a) COMMON STOCK AND ASSOCIATED WARRANTS

Holders of common stock are entitled to one vote per share, and to receive dividends and, upon liquidation or dissolution, are entitled to receive all assets available for distribution to common stockholders. The holders have no preemptive or other subscription rights and there are no redemption or sinking fund provisions with respect to such shares. Common stock is subordinate to the convertible preferred stock with respect to dividend rights and rights upon liquidation, winding up and dissolution of the Company. As of December 31, 2011 and 2010, the Company has 79,000,000 authorized shares at a par value of \$0.0001 per share.

On November 4, 2009, the Company completed a public equity offering and issued 5,000,000 shares of common stock with a par value of \$0.0001 per share, at a price of \$5.75 per share. On November 18, 2009, the Company issued an additional 750,000 shares of common stock with a par value of \$0.0001 per share, at a price of \$5.75 per share, upon the exercise of over-allotment option granted to the underwriters in the public offering. The aggregate gross proceeds were \$33,062,500. Underwriting commissions, legal fees and offering expenses were \$2,378,366 and were recorded as a reduction of additional paid-in-capital.

On December 28, 2010, the Company entered into a securities purchase agreement with certain investors for the private placement of an aggregate of 2,185,716 shares of the Company's common stock with a par value of \$0.0001 per share and 2,185,716 warrants to purchase 1,092,858 shares of the Company's common stock. The warrants issued have a six-month exercise period with an exercise price of \$7.00 per share. The warrants were exercisable and fully vested upon issuance. The total gross proceeds received were \$15,300,012. Underwriting commissions, legal fees and offering expenses were \$1,035,694 and were recorded as a reduction of additional paid-in-capital. The common stock and warrants were recorded at their relative fair value of \$12,428,425 and \$1,838,893, respectively. The fair value of the warrants was estimated on the date of grant using the Black-Scholes Option Pricing Model with the following assumptions: discount rate of 0.21%, expected dividend yield of 0%; expected volatility rate of 74.46%, fair value of the underlying common stock of US\$7.41, and an expected term of 0.5 years.

On January 3, 2011, the Company entered into a securities purchase agreement with certain investors for the private placement of an aggregate of 3,453,572 shares of the Company's common stock with a par value of \$0.0001 per share and 3,453,572 warrants to purchase 1,726,786 shares of the Company's common stock. The warrants issued have a six-month exercise period with an exercise price of \$7.00 per share. The warrants were exercisable and fully vested upon issuance. The total gross proceeds received were \$24,175,004. Underwriting commissions, legal fees and offering expenses were \$1,271,152 and were recorded as a reduction of additional paid-in-capital. The common stock and warrants were recorded at their relative fair value of \$19,269,486 and \$3,634,365, respectively. The fair value of the warrants was estimated on the date of grant using the Black-Scholes Option Pricing Model with the following assumptions: discount rate of 0.29%, expected dividend yield of 0%; expected volatility rate of 72.26%, fair value of the underlying common stock of US\$7.47, and an expected term of 1 year.

(b) SERIES A CONVERTIBLE PREFERRED STOCK AND ASSOCIATED WARRANTS

Concurrently with the Share Exchange in 2007, the Company entered into a Series A Convertible Preferred Stock purchase agreement (the “Series A Purchase Agreement”) with International Imaging System, Inc. for the sale of securities consisting of 1,000,000 shares of the Company’s Series A Convertible Preferred Stock (the “Series A Preferred Stock”) for an aggregate purchase price of \$10,000,000 or \$10 per Series A Preferred Stock share. In conjunction with the issuance of the Series A Preferred Stock, the Company issued to International Imaging System, Inc. (i) a Series A-1 Warrant to purchase 3,409,091 shares of the Company’s common stock at an exercise price of \$3.00 per share, and (ii) a Series A-2 Warrant to purchase 2,272,728 shares of the Company’s common at an exercise price of \$4.40 per share.

The significant terms of Series A Preferred Stock are as follows:

Conversion

The holders of Series A Preferred Stock have the right, subject to certain limitation as discussed below, to convert all or any portion of their holdings into a number of shares of common stock equal to the quotient of the liquidation preference amount per share of Series A Preferred Stock, or \$10.00, divided by the conversion price, which initially is \$2.20 per share, or approximately 4,545,455 shares of common stock if all 1,000,000 shares of Series A Preferred Stock are converted, subject to adjustments for, among other things, cash dividends, subdivision or consolidation of shares, capital distribution, change of control and other events which have a dilutive effect, or when additional shares of common stock are issued or issuable pursuant to additional convertible securities issued at a price less than the applicable conversion price of Series A Preferred Stock. The number of shares converted should not be in excess of 4.99% of the then issued and outstanding shares of common stock outstanding at such time, unless a waiver notice is obtained.

Voting Rights

The holders of the Series A Preferred Stock do not have voting rights except for affirmative vote or consent for the Company to carry out the following:

- (i) authorize, create, issue or increase the authorized or issued amount of any class or series of preferred stock, which class or series, in any such case, ranks paripassu or senior to the Series A Preferred Stock, with respect to the distribution of assets on liquidation, dissolution or winding up;
- (ii) amend, alter or repeal the provisions of the Series A Preferred Stock, whether by merger, consolidation or otherwise, so as to adversely affect any right, preference, privilege or voting power of the Series A Preferred Stock; provided, however, that any creation and issuance of another series of junior stock shall not be deemed to adversely affect such rights, preferences, privileges or voting powers;
- (iii) repurchase, redeem or pay dividends on, shares of common stock or any other shares of the Company's junior stock (other than de minimus repurchases from employees of the Company in certain circumstances or repurchases pursuant to a plan approved by the Board of Directors);
- (iv) amend the Certificate of Incorporation or By-Laws of the Company so as to affect materially and adversely any right, preference, privilege or voting power of the Series A Convertible Preferred Stock; provided, however, that any creation and issuance of another series of junior stock shall not be deemed to adversely affect such rights, preferences, privileges or voting powers;
- (v) effect any distribution with respect to junior stock other than as permitted hereby;
- (vi) reclassify the Company's outstanding securities;
- (vii) voluntarily file for bankruptcy, liquidate the Company's assets or make an assignment for the benefit of the Company's creditors; or
- (viii) materially change the nature of the Company's business

Liquidation Preference

In the event of the liquidation, dissolution or winding up of the affairs of the Company, whether voluntary or involuntary, the holders of shares of Series A Preferred Stock then outstanding shall be entitled to receive, out of the assets of the Company available for distribution to its stockholders, an amount equal to \$10.00 per share of the Series A Preferred Stock before any payment shall be made or any assets distributed to the holders of the common stock or any other junior stock. All payments shall be in cash, property or a combination.

Redemption

Series A Preferred Stock does not contain redemption features that are not solely within the Company's control, other than ordinary liquidation. The holders of Series A Convertible Preferred Stock has the right to require the Company to redeem all or a portion of such holder's shares of Series A Convertible Preferred Stock at its liquidation preference value in cash upon occurrence of the following:

- (i) the Company deregisters its shares of common stock and as a result such shares of common stock are no longer publicly traded
- (ii) the Company consummates a "going private" transaction and as a result the common stock is no longer registered under Sections 12(b) or 12(g) of the Securities Exchange Act of 1934, as amended.

Participating Rights

Series A Preferred Stock does not participate in any dividends with common stock.

Series A-1 and Series A-2 Warrants

The Series A Preferred Stock, Series A-1 Warrant and Series A-2 Warrant were recorded at their relative fair value of \$8,414,369, \$1,206,793 and \$378,838, respectively, in aggregate or \$8.41, \$0.35, \$0.17, respectively, on a per share basis. The Series A Preferred Stock was initially recorded at \$8,414,369, (net of the discount that arose from the allocation of the proceeds to the warrants). The detached warrants were recorded in additional paid-in capital at \$1,585,631. An aggregate amount of \$1,812,903, or \$0.40 per share beneficial conversion feature attributable to the Series A Preferred Stock at the commitment date was recognized as a reduction to the carrying amount of the Series A Preferred Stock with a corresponding increase to additional paid-in-capital, since \$1.85, the effective conversion price of the Series A Preferred Stock, was less than \$2.25, the fair value of each of the Company's common stock at the commitment date. As Series A-1 Warrant and Series A-2 Warrant were exercisable at anytime upon issuance, the total discount of \$3,398,534 (including the beneficial conversion feature and the allocation of the proceeds to the warrants) was accounted for as a dividend to the preferred stockholder at the commitment date. Series A-1 Warrant and Series A-2 Warrant expire five years after the date of grant. Issuance cost of \$225,007 was reflected as a reduction to additional paid-in-capital.

The estimated fair value of the underlying Series A Preferred Stock at the commitment date was determined by management, supplemented by the forecasted profitability and cash flows of the Company's business. The fair value of the Series A-1 Warrant and Series A-2 Warrant was estimated on the date of grant using the Black-Scholes Option Pricing Model with the following assumptions: discount rate of 1.37%, expected dividend yield of 0%; expected volatility rate of 30%, exercise price of US\$1.85, and an expected term of 5 years.

During the year ended December 31, 2011, 836,000 shares of Series A Preferred Stock were converted into 3,800,000 shares of common stock.

During the year ended December 31, 2010, 11,000 shares of Series A Preferred Stock were converted into 50,000 shares of common stock.

The outstanding numbers of Series A-1 Warrants were 1,704,545 as of December 31, 2011 and 2010. The outstanding numbers of Series A-2 Warrants were 2,272,728 as of December 31, 2011 and 2010.

(c) SERIES B CONVERTIBLE PREFERRED STOCK

On October 14, 2008, the Company entered into a Convertible Debenture purchase agreement (“Debenture Purchase Agreement”) with China Bio Energy Holding Group Co. Ltd. for the issuance and sale of a non-interest bearing convertible debenture in an aggregate amount of \$9,000,000, which automatically converts into 2,465,753 shares of Series B Convertible Preferred Stock (the “Series B Preferred Stock”) at \$3.65 per share upon the date of the filing with the Secretary of the State of Delaware of an amendment to the Company’s Certificate of Incorporation to increase the authorized shares of preferred stock from 1,000,000 shares to 10,000,000 shares and the filing of a certificate of designation of the Series B Preferred Stock, which was completed by the end of 2008. Each Series B Preferred Stock is convertible into one share of common stock initially, or 2,465,753 shares of common stock if all 2,465,753 shares of Series B Preferred Stock are converted, subject to adjustments for, among other things, cash dividends, subdivision or consolidation of shares, capital distribution, change of control and other events which have a dilutive effect, or when additional shares of common stock are issued or issuable pursuant to additional convertible securities issued at a price less than the applicable conversion price of Series B Preferred Stock. In the event of the liquidation, dissolution or winding up of the affairs of the Company, whether voluntary or involuntary, the holders of shares of Series B Preferred Stock then outstanding shall be entitled to receive, out of the assets of the Company available for distribution to its stockholders, an amount equal to \$3.65 per share of the Series A Preferred Stock before any payment shall be made or any assets distributed to the holders of the common stock or any other junior stock. All other significant terms for Series B Preferred Stock are substantially the same as those of the Series A Preferred Stock.

Series B Preferred Stock does not contain redemption features that are not solely within the Company’s control, other than ordinary liquidation.

An aggregate amount of \$863,013, or \$0.35 per share, beneficial conversion feature attributable to the Series B Preferred Stock at the issuance date was recognized as a reduction to the carrying amount of Series B Preferred Stock and a corresponding increase to additional paid-in-capital, since \$3.65, the effective conversion price of each of the Series B Preferred Stock, was less than \$4.00, the fair value of each of the Company’s common stock at the commitment date. Such discount was accounted for as a dividend to the preferred stockholder at the commitment date.

During the year ended December 31, 2010, 510,000 shares of Series B Preferred Stock were converted into 510,000 shares of common stock. During the year ended December 31, 2011, 1,200,000 shares of Series B Preferred Stock were converted into 1,200,000 shares of common stock.

(d) OTHER WARRANTS

On February 5, 2010, as part of the service fee, the Company granted warrants to an investor relations consulting firm for the purchase of 30,000 shares of the Company’s common stock at an exercise price of \$10.00 per share. The warrants vest one year from the date of grant and expire 18 months from the date of vesting. The Company determined, based on the Black-Scholes Option Pricing Model, that the estimated fair value of the warrants at grant date was approximately \$3.65 per share. The amount of stock-based compensation expense recognized for the warrant was \$36,241 and \$73,391, for the years ended December 31, 2011 and 2010, respectively.

Following is a summary of warrant activities for the two years ended December 31, 2011:

	Number of shares	Average exercise price per share	Weighted average remaining contractual term in years
Outstanding at December 31, 2008	3,977,273	\$ 3.80	3.81
Granted	30,000	6.00	
Outstanding at December 31, 2009	4,007,273	\$ 3.82	2.80
Granted	1,122,858	7.08	
Outstanding at December 31, 2010	5,130,131	\$ 4.53	1.96
Exercisable at December 31, 2010	5,100,131	4.50	1.96
Forfeited	1,152,858	\$ 7.00	
Granted	1,726,786	7.50	
Outstanding at December 31, 2011	5,704,059	\$ 4.92	0.96
Exercisable at December 31, 2011	5,704,059	4.80	0.96

(e) STATUTORY RESERVES

The Company's PRC subsidiaries and consolidated variable interest entity are required to transfer 10% of their respective net income, as determined under generally accepted accounting principal in the PRC to a statutory reserve until the reserve balance reaches 50% of their respective registered capital. The statutory reserve is non-distributable, other than during liquidation, and can be used to fund previous years' losses, if any, and may be converted into share capital by issuing new shares to existing shareholders in proportion to their share holding or by increasing the par value of the shares currently held by them, provided that the remaining balance of the statutory reserve after such issue is not less than 25% of the registered capital.

As of December 31, 2011 and 2010, the Company's PRC subsidiaries and consolidated variable interest entity did not make appropriations to statutory reserves, as the accumulated balance of such reserves had reached 50% of their respective registered capital. The accumulated balance of such reserves maintained at the Company's PRC subsidiaries and consolidated variable interest entity as of December 31, 2011 and 2010 was \$4,920,114. The same amount was appropriated at the Company level.

13. STOCK-BASED COMPENSATION

The Company's stock option plans permit the grant of stock options to its employees and nonemployees under 2003 Equity Incentive Program ("Program"), under which 6,000,000 options were authorized by the Board of Directors and the Compensation Committee. The Company believes that such awards better align the interests of the stock option grantees with those of its stockholders. Option awards are generally granted with an exercise price not less than the fair market value of a share on the date of the grant of the options. The option awards granted should be exercised by the grantees no later than the tenth anniversary (the fifth anniversary if the grantees is a ten percent stockholder) of the grant date. The outstanding numbers of options under the Program were 2,248,000 and 3,028,000 as of December 31, 2011 and 2010.

On January 1, 2010, the Company granted non-transferable stock options to purchase 2,752,000 shares of the Company's common stock to employees. The exercise price is \$7.04 per share. The options vest evenly each quarter over a five-year period and expire six years from the date of grant. The Company determined, based on the Black-Scholes Option Pricing Model, that the estimated fair value of the option at granted date was approximately \$5.25 per share. The amount of stock-based compensation expense recognized for the options was \$2,076,864 and \$2,810,192 for the year ended December 31, 2011 and 2010, respectively.

On January 4, 2010, the Company granted non-transferable stock options to the purchase 20,000 shares of the Company's common stock to each of the two independent directors. The exercise price is \$7.30 per share. The options vest evenly each quarter in one year and expire ten years from the date of grant. The Company determined, based on the Black-Scholes Option Pricing Model, that the estimated fair value of the options at grant date was approximately \$6.07 per share. The amount of stock-based compensation expense recognized for the options was nil and \$242,808 for the year ended December 31, 2011 and 2010, respectively.

On June 23, 2010, the Company granted non-transferable stock options to purchase 60,000 shares of the Company's common stock to an employee. The exercise price is \$8.98 per share. The option vest evenly each quarter over a five-year period and expire six years from the date of grant. The Company determined, based on the Black-Scholes Option Pricing Model, that the estimated fair value of the options at grant date was approximately \$6.50 per share. The amount of stock-based compensation expense recognized for the options was \$19,512 and \$39,024 for the year ended December 31, 2011 and 2010, respectively. As the holder of this option was resigned the company therefore the same was forfeited during the year 2011.

On September 30, 2010, as part of the service fee, the Company granted non-transferable stock options to purchase 20,000 shares of the Company's common stock to a financial advisory consultant. The exercise price is \$7.04 per share. The option vest one year and expire six years from the date of grant. The Company determined, based on the Black-Scholes Option Pricing Model, that the estimated fair value of the options at grant date was approximately \$4.61 per share. The amount of stock-based compensation expense recognized for the options was \$69,108 and \$23,037 for the year ended December 31, 2011 and 2010, respectively.

On December 7, 2010, the Company granted non-transferable stock options to purchase 20,000 shares of the Company's common stock to each of the two independent directors. The exercise price is \$7.38 per share. The option vest evenly each quarter in one year and expire ten years from the date of grant. The Company determined, based on the Black-Scholes Option Pricing Model, that the estimated fair value of the options at grant date was approximately \$5.98 per share. The amount of stock-based compensation expense recognized for the options was \$59,839 and \$14,799 for the year ended December 31, 2011 and 2010, respectively. As the holder of this option was resigned the company therefore the same was forfeited during the year 2011.

On May 26, 2011, the Company granted non-transferable stock options to purchase 180,000 shares of the Company's common stock to each of the two independent directors. The exercise price is \$1.84 per share. The option vest evenly each quarter in one year and expire ten years from the date of grant. The Company determined, based on the Black-Scholes Option Pricing Model, that the estimated fair value of the options at grant date was approximately \$1.45 per share. The amount of stock-based compensation expense recognized for the options was \$152,545 for the year ended December 31, 2011.

On May 26, 2011, as part of the service fee, the Company granted non-transferable stock options to purchase 300,000 shares of the Company's common stock to a financial advisory consultant firm. The option vest two year and expire three years from the date of grant. The Company determined, the exercise price is \$1.84 per share. The Company determined, based on the Black-Scholes Option Pricing Model, that the estimated fair value of the options at grant date was approximately \$0.83 per share. The amount of stock-based compensation expense recognized for the options was \$77,438, for the year ended December 31, 2011.

On May 30, 2011, the Company granted non-transferable stock options to purchase 300,000 shares of the Company's common stock to an employee. The exercise price is \$1.84 per share. The option vest evenly each quarter in one year and expire ten years from the date of grant. The Company determined, based on the Black-Scholes Option Pricing Model, that the estimated fair value of the options at grant date was approximately \$1.45 per share. The amount of stock-based compensation expense recognized for the options was \$84,712 for the year ended December 31, 2011.

The Black-Scholes Option Pricing model incorporates expected various and highly subjective assumption. The Company estimates the expected volatility of its common stock using a weighted-average historical volatility of the Company's common stock. The risk free interest rate assumption is determined using the Federal Reserve nominal rates for U.S. Treasury zero-coupon bonds with maturities similar to those of the expected term of the award being valued. There is no expected dividend yield, as the Company has not paid dividend and does not anticipates to pay dividend over the term of the grants.

Summary of assumptions for the valuation of stock options granted based on the Black-Scholes Option Pricing Model during the years ended December 31, 2011 and 2010:

	Options granted in 2011	Options granted in 2010
Expected dividend yield	Nil	Nil
Expected volatility	73.26~73.33%	76.93~87.99%
Risk-free interest rate	0.83~3.07%	0.08~3.36%
Expected term	3~10 years	5~10 years
Fair value of underlying common stock (per share)	\$ 1.84	\$ 6.75~8.98

Following is a summary of stock option activities for the two years ended December 31, 2011:

	Number of options	Weighted average exercise prices per share	Weighted average remaining contractual term in years	Aggregate intrinsic value
Balance at December 31, 2008	40,000	\$ 4.00	9.88	
Granted	20,000	7.09		
Balance at December 31, 2009	60,000	\$ 5.03	7.91	
Granted	2,912,000	7.09		
Exercised	35,000	7.04		
Forfeited	25,000	7.04		
Balance at December 31, 2010	2,912,000	\$ 7.05	5.18	\$ 925,680
Exercisable at December 31, 2010	468,550	\$ 6.82	5.51	\$ 247,375
Granted	780,000	1.84		
Exercised	-	-		
Forfeited	638,500	7.04		
Balance at December 31, 2011	3,053,500	\$ 5.75	3.61	\$ -
Exercisable at December 31, 2011	3,053,500	\$ 5.71	4.70	\$ -

The weighted average grant date fair value of options granted during the years ended December 31, 2011 and 2010 was \$5.29 and \$5.29 per share respectively. The total intrinsic value of options exercised during the years ended December 31, 2011 and 2010 was nil and \$90,191, respectively.

As of December 31, 2011, there was \$7,646,261 of total unrecognized compensation cost related to non-vested stock options. That cost is expected to be recognized over a weighted average period of 2.51 years. The total fair value of stock options vested during the years ended December 31, 2011 and 2010 was \$4,570,402 and \$2,452,312, respectively.

Total stock-based compensation expenses for the years ended December 31, 2011 and 2010 were \$2,540,018 and \$4,214,675, respectively that were recorded in selling, general and administrative expenses in the consolidated statements of income and comprehensive income.

14. FAIR VALUE MEASUREMENTS

The carrying amounts, at face value or cost plus accrued interest, of all financial instruments approximate their fair value because of the short maturity of these instruments.

15. LEASE COMMITMENTS

In 2010, in connection with the construction of a new 50,000-ton biodiesel production plant, the Group entered into a 15-year non-cancelable and renewable lease of land (land use right) for a term of 15 years. The Group also has several non-cancelable operating leases, primarily for oil storage facilities and gas stations (see Note 8).

Minimum lease payments under operating leases are recognized on a straight-line basis over the term of the lease including any periods of free rent. Rental expenses of operating leases, including lease of gas stations, for the years ended December 31, 2011 and 2010 amounted to \$2,459,167 and \$3,541,407, respectively.

Future minimum lease payments under non-cancelable operating leases as of December 31, 2011 are as follows:

Years ending December 31, 2011:

2012	\$	111,218
2013		238,326
2014		238,326
2015		238,326
2016		238,326
Years thereafter, through 2024		1,016,858
Total minimum lease payments	\$	2,081,380

16. EARNINGS PER SHARE

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

	Years ended December 31,	
	2011	2010
Numerator:		
Net income attributable to China Integrated Energy Inc.	\$ 28,711,548	\$ 53,819,001
Shares (denominator):		
Weighted average ordinary shares outstanding-basic	43,286,481	33,702,792
Plus: Weighted average incremental shares from assumed conversion of convertible preferred stock	4,381,714	6,256,605
Weighted average incremental shares from assumed exercise of warrants and options	-	2,240,397
Weighted average ordinary shares outstanding used in computing diluted earnings per ordinary share	47,668,195	42,199,794
Earnings per ordinary share-basic	\$ 0.66	\$ 1.60
Earnings per ordinary share-diluted	\$ 0.60	\$ 1.28

As of December 31, 2011, the Group had 8,757,559 warrants and options outstanding that were excluded in the computation of diluted earnings per share as their effect would have been anti-dilutive. The Series A and Series B Convertible Preferred Stock are not participating securities.

17. SEGMENT REPORTING

The Group's operating segments are business units that have different customer group. Each operating segment is independently managed, requires different technology and marketing strategies and has separate financial information evaluated regularly by the Group's chief operating decision maker in determining resource allocation and assessing performance. The Group's chief operating decision maker uses gross profit as a primary indicator of financial operating performance and as a measure of cash generating capability.

The Group has three reportable operating segments: (1) wholesale distribution of finished oil and heavy oil, (2) production and sale of biodiesel, and (3) operation of retail gas stations. The wholesale distribution of finished oil and heavy oil segment sells a variety of oil products including gasoline, diesel, heavy oil and naphtha. This segment purchases the oil products from local refineries and sells to regional distributors. The production and sale of biodiesel segment produces biodiesel using non-edible seed oil, waste cooking oil and vegetable oil residual as raw materials. This segment sells the finished biodiesel products to power plants and marine transportation companies. The operation of retail gas stations segment sells gasoline and diesel to motor vehicle drivers at the Group's gas stations. There were no transactions between reporting segments during the years ended December 31, 2011 and 2010, respectively.

Segment information is as follows:

	Years ended December 31,	
	2011	2010
Sales		
Wholesale distribution of finished oil and heavy oil	\$ 359,644,889	\$ 273,082,322
Production and sale of biodiesel	59,892,918	74,916,830
Operation of retail gas stations	80,466,185	90,683,502
Total	\$ 500,003,992	\$ 438,682,654
Cost of sales		
Wholesale distribution of finished oil and heavy oil	\$ 321,391,842	\$ 244,638,195
Production and sale of biodiesel	42,796,851	52,040,039
Operation of retail gas stations	70,687,563	78,820,697
Total	\$ 434,876,256	\$ 375,498,931
Gross profit		
Wholesale distribution of finished oil and heavy oil	\$ 38,253,047	\$ 28,444,127
Production and sale of biodiesel	17,096,067	22,876,791
Operation of retail gas stations	9,778,622	11,862,805
Total	\$ 65,127,736	\$ 63,183,723
Total assets		
Wholesale distribution of finished oil and heavy oil	\$ 223,287,431	\$ 146,648,200
Production and sale of biodiesel	57,681,770	59,126,210
Operation of retail gas stations	37,525,375	61,584,760
Total	\$ 318,494,576	\$ 267,359,170
Capital expenditures		
Wholesale distribution of finished oil and heavy oil	\$ 6,595,588	\$ 161,196
Production and sale of biodiesel	1,423,466	27,530,335
Operation of retail gas stations	-	15,579,183
Total	\$ 8,019,055	\$ 43,270,714
Depreciation and amortization		
Wholesale distribution of finished oil and heavy oil	\$ 360,879	\$ 230,910
Production and sale of biodiesel	1,475,749	991,015
Operation of retail gas stations	798,885	416,144
Total	\$ 2,635,513	\$ 1,638,069

The following is a reconciliation of the Group's gross profit to earnings before income tax:

	Years ended December 31,	
	2011	2010
Gross profit	65,127,736	63,183,723
Unallocated head office expenses	25,585,132	8,938,859
Income from operations	39,542,604	54,244,864
Other (expenses) income	(1,422,740)	(199,062)
Earnings before income tax	38,119,864	54,045,802

18. ACQUISITION

On October 28, 2010, the Group acquired 100% equity interest in Chongqing Tianrun for cash consideration of approximately \$16.5 million (the "Acquisition"). Chongqing Tianrun is principally engaged in the manufacturing and sales of biodiesel products in Chongqing, the PRC. The reason the Group acquired Chongqing Tianrun is to expand its production capacity and to leverage its distribution network.

The operating results of Chongqing Tianrun have been included in the consolidated financial statements since the Acquisition date on October 28, 2010. The transaction costs of the Acquisition were not material, and have been recorded in selling, general and administrative expenses.

The following table summarizes the amounts of fair value of the assets acquired and liabilities assumed at the acquisition date:

	Fair value	Useful life
Cash	\$ 626,593	
Current assets	4,800,472	
Property, plant and equipment		
- Buildings	3,227,467	20 years
- Biodiesel processing equipment	5,307,825	10 years
- Office equipment	21,669	5 years
- Motor vehicles	49,088	5 years
Total property, plant and equipment	8,606,049	
Land use right	5,099,485	50 years
Other long-term assets	19,015	
Current liabilities	(4,438,914)	
Deferred tax liabilities	(1,197,591)	
Total identifiable net assets acquired	12,888,516	
Goodwill	3,778,151	
Consideration	\$ 16,666,667	

The goodwill of \$3,778,151 arising from the Acquisition is mainly for the synergies and cost reduction expected to be achieved. All of the goodwill is allocated to the production and sale of biodiesel segment and is not deductible for tax purpose.

During the year ended December 31, 2010, Xi'an Baorun also acquired Shenmu, Jinzheng and Xinyuan for a total cash consideration of approximately \$9.15 million, \$10.3 million and \$4.5 million. Shenmu, Jinzheng and Xinyuan is engaged in the operation of a retail gas station located in Shenmu County, Shaanxi Province, the PRC. After this acquisition, Shenmu, Jinzheng and Xinyuan became a wholly-owned subsidiary of Xi'an Baorun. The acquisition of Shenmu, Jinzheng and Xinyuan was not significant to the Group.

On April 8, 2011, Xi'an Baorun Industrial Development Co., Ltd. ("Xi'an Baorun"), the variable interest entity and deemed subsidiary through certain contractual relationships of China Integrated Energy, Inc., a Delaware corporation (the "Company"), received a written notice dated April 6, 2011 (the "Termination Notice") from Shaanxi Highway Services Co., Ltd. (the "Shaanxi Highway Department") notifying Xi'an Baorun that the Shaanxi Highway Department is terminating the Gas Station Leasing and Operation Agreement dated May 20, 2008 (the "Agreement") between Xi'an Baorun and the Shaanxi Highway Department, pursuant to which four gas stations are leased to Xi'an Baorun by the Shaanxi Highway Department. The Shaanxi Highway Department has recalled all of the 32 gas stations that are currently being leased by the Shaanxi Highway Department to third parties, including the four gas stations operated by Xi'an Baorun. This reduces the total number of gas stations leased by Xi'an Baorun from thirteen to nine.

NOTE 19 – COMMITMENTS AND CONTINGENCIES

On May 16, 2011, China Integrated Energy, Inc. (the "Company") received a letter from The NASDAQ Stock Market LLC ("Nasdaq"). Nasdaq indicated in its letter that the continued listing of the Company's securities on Nasdaq is no longer warranted based on criteria.

On July 8, 2011, China Integrated Energy, Inc. (the "Company") received a termination notice from the owners of the Shaanxi Fangwei Road Gas Station that due to their immediate need for funding and because the Company would not agree to the owners' previous requests to increase the Company's rental rate for the Fangwei Road Gas Station above what had been negotiated in the Gas Station Contract with the Company in May 2009, the owners decided to sell the gas station for RMB60 million. Pursuant to the notice, the Company was given five days to exercise its preemptive right under the Gas Station Contract to purchase the gas station, and if the Company chose not to do so, the lease would be terminated. After due consideration, the Company determined that the purchase price was excessive and chose not to exercise the option to buy the Fangwei Road Gas Station. As a result, as of July 20, 2011, the lease was terminated.

On July 11, 2011, the Company received notice from the owner of the Xi'an Baqiao District Lantian Gas Station that due to the renovation and expansion of the Wangcun Subdistrict where the Lantian Gas Station is located, the Xi'an Municipal government has required Lantian Gas Station to complete the preparations by July 20, 2011 for demolition and relocation. As a result, the Gas Station Lease Contract entered into with the Company on July 27, 2009 could no longer be performed.

Appointment of Directors and Officers

On April 21, 2011, the board of directors (the "Board") of China Integrated Energy, Inc. (the "Company") received notification from Mr. Larry Goldman that effective immediately, he resigned as a member of the Board of the Company. At the time of his resignation, Mr. Goldman also served as Chairman of the Audit Committee.

On April 28, 2011, the board of directors (the "Board") of China Integrated Energy, Inc. (the "Company") appointed Mr. Steven Markscheid as a director and a member and Chairman of the Audit Committee. The Board determined that Mr. Markscheid is an "independent director" as that term is defined in accordance with Rule 5605(a)(2) of the Marketplace Rules of The NASDAQ Stock Market, LLC and Section 10A(m)(3) of the Securities Exchange Act of 1934, as amended.

On May 3, 2011, the board of directors (the "Board") of China Integrated Energy, Inc. (the "Company") received notification from Mr. Wenbing Christopher Wang that effective immediately, he resigned as a member of the Board of the Company. At the time of his resignation, Mr. Wang also served as a member of the Audit Committee.

On May 19, 2011, China Integrated Energy, Inc. (the “Company”) appointed Mr. Jeff Chan Kok Wee, age 34, to serve as Chief Financial Officer of the Company. On September 18, 2012, Mr. Jeff Chan tendered a letter of resignation from his position as Chief Financial Officer of the Company, which will be effective as of September 30, 2012 and Ms. Gaihong Li (Lisa), age 35, will succeed Mr. Chan as Chief Financial Officer. Ms. Gaihong Li (Lisa) is currently Executive Vice President, Financial Controller, Chief Financial Officer and Director of the Company.

On May 31, 2011, the board of directors (the “Board”) of China Integrated Energy, Inc. (the “Company”) appointed Mr. Liren Wei as a director and a member of the Audit Committee, the Nominating and Governance Committee and the Compensation Committee.

Litigation

The Company is subject to certain legal proceedings and claims, which arise in the ordinary course of its business. Although occasional adverse decisions or settlements may occur, the Company believes that the final disposition of such matters should not have a material adverse effect on its financial position, results of operations or liquidity. The following are two litigation matters still in process.

Larry Brown, et al. v. China Integrated Energy, Inc. et al., (Consolidated Class Action), District Court for the Central District of California; Case No. CV-11-02559-MMM-PLA: This is a shareholder consolidated class action initiated on March 25, 2011 against the Company, certain of its current and former officers and directors, and its former auditors alleging violations of the United States securities laws (including alleged misrepresentations as to the Company’s financial condition and the non-disclosure of related-party transactions in violation of sections 10b and 20(a) of the Securities Exchange Act of 1934, and sections 11 and 15 of the Securities Act of 1933). The Consolidated Class Action Complaint, filed on December 20, 2011, seeks the recovery of unspecified compensatory damages, as well as the costs of suit, primarily based upon short-seller analyst reports published in or about March 2011 (which reports prompted a thorough independent review by the Company’s audit committee). On February 22, 2012, the Company filed a motion to dismiss the action for failure to state a legally viable claim. By Order dated April 2, 2012, the Court denied the Company’s motion to dismiss. Thereafter, the proceeding has entered into the discovery phase, and on August 15, 2013, plaintiff filed a motion for class certification. Discovery as to issues related to class certification is ongoing, and the defendants’ opposition to plaintiff’s motion is currently scheduled to be filed on or before February 17, 2014. The Company intends to vigorously defend the claims. As of this date, and given the ongoing and early stages of discovery in the action, we are unable to provide an evaluation of the likely outcome or give a range of potential loss.

In re China Integrated Energy, Inc. Stockholder Litigation, (Consolidated) Delaware Court of Chancery, C.A. No. 6625-VCL: Initiated by three separate shareholder actions filed on June 30, 2011, July 7, 2011 and May 2, 2012 following a number of short-seller analyst reports, this is a consolidated derivative action brought on behalf of the Company against current and former officers and directors of the Company alleging that certain officers and directors made misrepresentations concerning the Company’s financial condition; entered into transactions that were not authorized by the Board of Directors; and/or otherwise breached their fiduciary duties. The shareholders asserted an independent claim against the Company, seeking to compel an annual meeting of the shareholders pursuant to section 8 of the Delaware Corporate Law. Each of the Company’s current and former officers and directors filed motions to dismiss the claims asserted against them, and intend to vigorously defend the claims asserted against them. Prior to the resolution of the pending motions, in March 2013, the parties stipulated to stay further litigation of the claims pending the resolution of a class action litigation initiated in California (described below). By further stipulation, the shareholder plaintiffs and the Company agreed upon conditions for the scheduling and occurrence of a shareholder meeting, and by amended order of the court dated October 7, 2013, the Company has been directed to hold such a meeting on or before December 31, 2013. The annual meeting was held on December 20, 2013.

20. SUBSEQUENT EVENTS

On February 2, 2012, May 16, 2012 and May 17, 2012 the Group received termination notices from Shaanxi Andong Gas Station, Jindou Gas Station and Huaifu Gas Station for the gas stations leased by Xi'an Baorun at those locations. The termination of the operating lease for Andong Gas Station is due to the expected demolition of this gas station due to the reconstruction project, a project undertaken by the local government. The termination of the Jindou and Huaifu Gas Station lease results from the owner's decision to sell the gas station. According to the Gas Station Leasing and Operation with the Andong and Huaifu Gas Station, the Group were given priority to acquire the gas station in the event of a sale by its owner. However, the price demanded by the owner was in the opinion of the Company unreasonably high and was outside the internal guidelines and policies the Group have in place with respect to acquisitions. The Company expects to receive a refund for the advance lease payments made amounting to approximately \$11.3 million for the three gas stations (approximately equivalent to RMB71 million).

On September 24, 2012, the Group received termination notices from Xi'an BaQiao district government for the gas stations the Group owned at this locations. According to the new BaQiao government regional development planning, a modern agricultural demonstration zone named "Bailuyuan agricultural demonstration zone" will be built. Xinyuan Gas Station will be demolished station due to the reconstruction project, this project undertaken by the local government. As at the ceased date, the net book value for Xinyuan gas station was approximately \$4.1 million (approximately equivalent to RMB25.8 million). The Group have accrued impairment approximately \$3.0 million for the operation permit and the fixed assets in 2012.

Due to the road rebuilding project in ShenmuHongjiannao area, traffic flow decrease sharp for our Shenmu gas station. There is a new PetroChina gas station which nearby our Shenmu gas station started operation in December 2012, the Group have lost a lot of customers for Shenmu gas station. The management decided to sell the Shenmu gas station. In March 24, 2013, the Group sold this gas station in a net loss approximately \$7.4 million (approximately equivalent to RMB46.7 million).

Starting in mid 2012, The Group's biodiesel production plant located in Tongchuan City, commenced the process of being repaired and modernized due to the corrosion of certain production equipment. The Tongchaun City plant has a 100,000-ton design capacity, but a 90,000 ton production capacity. The Group has to perform a technological upgrade to its production equipment and process to utilize a new non-acid based catalyst. The Group begun this project in the second fiscal quarter of 2012 and expects to complete the construction and testing in the first quarter of 2014.

The Group also has constructed a 50,000-ton biodiesel production plant in Tongchuan City. The Group expected to complete testing in 2012, but due to an issue regarding the sourcing of the required catalyst agent that occurred in 2012, the plant is not yet placed into operations as of the reporting date. The Group is working with National Chemical Institute in the PRC to locate an alternative catalyst agent and other solution to start operations by 2015 The Group is also actively consulting with academic experts in biodiesel production the PRC to find solutions and management expects to have solutions in 2015.

On June 30, 2013, Mr. Junrong Guo, an independent director of the Company advised the Company that he has decided to resign from his position as a director on the Company's Board of Directors, and from his position as a member of the Audit, Compensation and Nominating and Corporate Governance Committees, for personal reasons.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

China Integrated Energy, Inc.

By: /s/ Gao Xincheng

Name: Gao Xincheng

Title: Chief Executive Officer and President

January 14, 2014

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
<u>/s/ Gao Xincheng</u> Gao Xincheng	Chairman of the Board, Chief Executive Officer and President (principal executive officer)	January 14, 2014
<u>/s/ Gaihong Li</u> Li Gaihong	Chief Financial Officer (principal financial and accounting officer), Executive Vice President and Director	January 14, 2014
<u>/s/ Stephen Markscheid</u> Stephen Markscheid	Director	January 14, 2014
<u>/s/ Liren Wei</u> Liren Wei	Director	January 14, 2014

Exhibit Index

Exhibit Number	Description
2.1	Share Exchange Agreement dated as of October 23, 2007 (1)
2.2	Agreement and Plan of Merger, dated November 15, 2007 (2)
3.1	Certificate of Correction filed on July 24, 2007 (3)
3.1	Certificate of Amendment filed on June 11, 2007 (4)
3.1	Articles of Incorporation (5)
3.1	Certificate of Amendment to Articles of Incorporation (6)
3.1	Certificate of Ownership and Merger, dated November 15, 2007 (2)
3.1	Certificate of Incorporation of China Integrated Energy, Inc. (7)
3.2	By-laws (5)
4.1	Form of Warrant (1)
4.2	Amended and Restated Certificate of Designation of the Relative Rights and Preferences of the Series A Convertible Preferred Stock (1)
4.3	Amended and Restated Certificate of Designation of the Relative Rights and Preferences of Series B Convertible Preferred Stock (10)
4.4	Form of Debenture (9)
4.5	Series A-1 Warrant Amendment, dated January 22, 2010(15)
4.6	Series A-2 Warrant Amendment, dated January 22, 2010 (15)
4.7	Form of Common Stock Purchase Warrant dated December 31, 2010 (18)
4.8	Form of Common Stock Purchase Warrant dated January 6, 2011 (19)
10.3	Exclusive Option Agreement by and between Gao Huiling and Baorun Industrial, dated as of October 19, 2007 (7)
10.4	Exclusive Option Agreement by and between Liu Yunlong and Baorun Industrial, dated as of October 19, 2007 (7)
10.5	Equity Pledge Agreement by and among Redsky China, Baorun Industrial and Gao Xincheng, dated as of October 19, 2007 (7)
10.6	Equity Pledge Agreement by and among Redsky China, Baorun Industrial and Gao Huiling, dated as of October 19, 2007 (7)
10.7	Equity Pledge Agreement by and among Redsky China, Baorun Industrial and Liu Yunlong, dated as of October 19, 2007 (7)
10.8	Power of Attorney of Gao Xincheng (8)
10.9	Power of Attorney of Gao Huiling (8)
10.10	Power of Attorney of Liu Yunlong (8)
10.11	Nominee Letter between Redsky China and Gao Xincheng (8)
10.12	Nominee Letter between Redsky China and Gao Huiling (8)
10.13	Nominee Letter between Redsky China and Liu Yunlong (8)
10.14*	Employment Agreement between Baorun Industrial and Gao Xincheng, dated as of October 25, 2010 (16)
10.15*	Employment Agreement between Baorun Industrial and Li Gaihong, dated as of October 25, 2010 (16)
10.16	Amendment to Exclusive Business Cooperation Agreement, dated March 24, 2008 (8)
10.17	Securities Purchase Agreement, dated as of October 14, 2008 (9)
10.18	Registration Rights Agreement, dated as of October 14, 2008 (9)
10.19	Share Escrow Agreement, dated as of October 14, 2008 (9)
10.20	Management Escrow Agreement, dated as of October 14, 2008 (9)
10.21	Form of Warrant Exercise Agreement (9)
10.22*	Employment Agreement with Albert C. Pu, dated as of January 22, 2009 (11)
10.23	Gas Station Lease Agreement with Xinyuan Gas Station, dated as of February 1, 2007 (13)
10.24	Land Lease Agreement, dated as of April 20, 2006 (13)
10.25	Oil Storage Service Agreement, effective as of January 1, 2009 (13)
10.26	Oil Storage Service Agreement, dated as of August 26, 2008 (13)
10.27	Finished Oil Sales Contract by and between Yanchang Petroleum Oil (Group) Co., Ltd. and Xi'an Baorun Industrial, effective as of December 23, 2008 (13)

Exhibit Number	Description
10.28	Finished Oil Sales Contract by and between China Petroleum & Chemical Corporation Chuanyu Trading Co., Ltd. and Xi'an Baorun Industrial, dated as of January 25, 2009 (13)
10.29	Registration Rights Agreement, dated September 10, 2009, by and between the Company and Longgen Zhang and Yuan Gong (14)
10.30	Lease Contract, dated April 30, 2008, amending the terms of the Land Lease Agreement, dated April 20, 2006 (14)
10.31	2003 Equity Incentive Program (6)
10.32	Finished Oil Products Sales Contract by and between Yanchang Petroleum (Group) Corp. Ltd. and Xi'an Baorun Industrial Development Co. (17)
10.33	Finished Oil Products Sales Contract by and between Yanchang Petroleum (Group) Corp. Ltd. and Xi'an Baorun Industrial Development Co. (17)
10.34	Gas Station Lease Agreement with Andong Gas Station, dated December 17, 2009 (17)
10.35	Gas Station Lease Agreement with Xi'an Jindou Gas Station, dated December 15, 2009 (17)
10.36	Finished Oil Sales Contract by and between Chongqing Oil Subsidiary Company of China Petroleum & Chemical Corporation, dated as of January 6, 2010 (17)
10.37	Equity Transfer Agreement for Hanyang Jinzheng Petroleum Sales Co., Ltd, dated December 13, 2009 (17)
10.38	Securities Purchase Agreement dated as of December 28, 2010 (18)
10.39	Securities Purchase Agreement dated as of January 3, 2011 (19)
14	Code of Business Conduct and Ethics (8)
21	List of Subsidiaries (7)
31.1+	Certification of Chief Executive Officer pursuant to Rule 13A-14(A)/15D-14(A) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2+	Certification of the Principal Financial Officer pursuant to Rule 13A-14(A)/15D-14(A) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32+	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. 1350 (Section 906 of the Sarbanes-Oxley Act of 2002)

+ Filed herewith.

* Management Contract or Compensatory Arrangement

- (1) Incorporated by reference to the Company's Form 8-K filed on October 29, 2007.
- (2) Incorporated by reference to the Company's Form 8-K filed on November 23, 2007.
- (3) Incorporated by reference to the Company's Form 10-QSB filed on November 13, 2007.
- (4) Incorporated by reference to the Company's Form 10-QSB filed on August 3, 2007.
- (5) Incorporated by reference to the Company's Registration Statement on Form 10-SB.
- (6) Incorporated by reference to the Company's Definitive Information Statement filed on September 19, 2003.
- (7) Incorporated by reference to the Company's Registration Statement on Form S-1 initially filed on December 7, 2007.
- (8) Incorporated by reference to the Company's Form 10-K filed on March 31, 2008.
- (9) Incorporated by reference to the Company's Form 8-K filed on October 20, 2008.
- (10) Incorporated by reference to the Company's Form 10-K filed on March 25, 2009.
- (11) Incorporated by reference to the Company's Form 10-Q filed on May 13, 2009.
- (12) Incorporated by reference to the Company's Form 10-Q filed on August 11, 2009.
- (13) Incorporated by reference to the Company's Registration Statement on Form S-1 filed on September 10, 2009.
- (14) Incorporated by reference to the Company's Registration Statement on Form S-1/A filed on October 5, 2009.
- (15) Incorporated by reference to the Company's Form 8-K filed on January 28, 2010.
- (16) Incorporated by reference to the Company's Form 8-K filed on December 23, 2010.
- (17) Incorporated by reference to the Company's Form 10-K filed on March 31, 2010.
- (18) Incorporated by reference to the Company's Form 8-K filed on December 29, 2010.
- (19) Incorporated by reference to the Company's Form 8-K filed on January 4, 2011.