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Zhongpin Inc.



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Feeding China's Future

Annual Report
2009

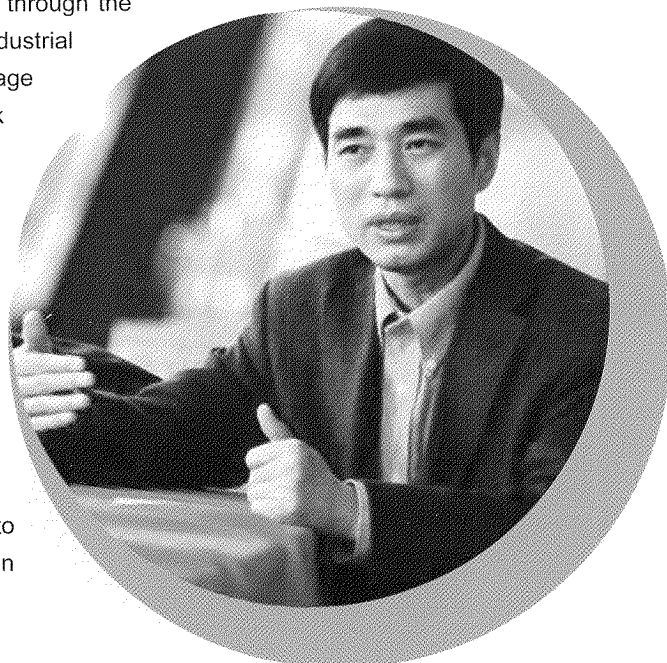


Chairman's Letter 2010

DEAR FELLOW SHAREHOLDERS :

I am pleased that our team was able to report double-digit growth for 2009, despite the lingering effects of the global economic recession. In addition to our good financial results, we received several awards in recognition of our growing stature in China's meat industry. Zhongpin received two awards at the Fifth International Meat Conference in Qingdao in September 2009, for "Most Valuable Brand in China's Meat Industry" and for "Science and Technology Innovation in China's Meat Industry 2009." In June, Zhongpin was the recipient of the highest award for local private enterprise by the Henan Provincial Government, the Award of Excellence, which goes to the top 100 companies in Henan. We also received US\$3.1 million (RMB 21.4 million) in subsidies approved by China's National Development and Reform Commission for three new pork processing facilities, reflecting policy support for our business model, aimed at introducing the highest standards of safety and efficiency in processing of chilled, frozen and prepared pork products. The Chinese government has also recognized Zhongpin's advanced information technology (IT) system, which has helped to improve our operational efficiency. All of these awards and recognitions reflect the hard work and dedication of our talented employees.

Zhongpin continues to outpace the competition by investing in world-standard processing and information technology, as well as cold-chain logistics and quality control systems. These have been key to promoting our brand identity. Our strategy has been to build recognition for the quality of our products and the Zhongpin brand through the establishment of a vertically integrated supply chain, industrial clusters, and a retail network. We project our brand message through an exclusive network of showcase stores, network stores and supermarket counters, which give maximum play to the Zhongpin brand name and specialty products. We are now extending this strategy from our base in Henan Province to the major population centers of the Bohai Gulf, including Beijing and Tianjin. Major new production facilities in Tianjin began operation in early 2010 in order to access the northern China market more effectively, adding 100,000 metric tons of annual capacity to our production of chilled and frozen pork products. Together with production facilities in Jilin and Sichuan provinces, our expansion in Henan and Tianjin municipality have given us access to core elements of the domestic market and given the Zhongpin brand a national footprint.



Internationally, China was the first to recover from the financial and economic crisis that began with the sub-prime mortgage market in the United States in 2007. China's 8.7 percent growth in Gross Domestic Product in 2009 was by far the strongest among major economies. The domestic economy was not immune to the effects of the recession, however, particularly during the first six months of the year. Incomes and employment were affected by a sharp turndown in the export sector. Demand for pork, China's most popular meat, suffered to some extent in the first part of the year as consumers traded down before stabilizing in mid-year. In April, an outbreak of H1N1 virus, commonly known as "swine flu" in Mexico led to widespread fears of a new global pandemic. Domestically, consumers avoided pork for a few weeks due to unfounded concerns that the virus could be transmitted to humans through eating pork. As a result, it took longer for hog and pork prices to stabilize than we anticipated. In June, the central government provided price support through purchases of 120,000 metric tons of frozen pork through qualified leading enterprises, including Zhongpin, and prices increased slightly in the third and fourth quarters of 2009.

For the whole year, we sold more volume of chilled and frozen pork, but at lower average price than in 2008. The rise in volume reflected substantial new capacity added during the year. Given the market conditions, a modest rise in the average price for pork products in 2009 – which also saw an increase in the volume of sales in 2009 over 2008 – reinforced our strategy of expanding our product lines, especially through the addition of high value-added prepared meat products. As of the end of December 2009, we had 358 unique meat products, 34 different categories of fruit and vegetables, and 109 new products under development.

In 2010, we expect to see a higher level of integration in the domestic meat market, with Chinese consumers insisting on higher standards and quality of meat products. Our target market is the white-collar, middle-class, higher-spending consumers. We will try to make good use of our advantages in the supply chain and the industry to improve our core competencies to attract this market segment.

BUSINESS MODEL

The China meat market has provided us with huge room to grow. Pork accounts for 65% of the meat consumed in China, and China consumes more than 50% of the world's pork consumption. Pork demand exceeds 50 million metric tons per year. Meat consumption is rising fast as a function of economic growth and higher incomes. According to projections, by 2013, China will consume 85 million tons of meat annually.

Although China's meat retail culture is still anchored in traditional wet markets, rising incomes have also translated into an increased consumer preference for so-called "dry" markets, such as supermarkets, where products are protected from the environment. By 2012, we believe that as much as 40% of the retail market will move through "dry" market channels, and that the dry sector will eventually predominate.

The trend towards the development of a frozen food market and modern retail system has been reinforced by the central government's response to the global economic recession. Since late 2008, it has subsidized purchases of appliances by rural households, many of which have bought their first refrigerators. As a result, the consumer group for frozen meat supported by a modern retail system may be growing faster than our current forecasts reflect, in markets that were previously inaccessible.

Meanwhile the Chinese meat processing industry remains fragmented, with the top four producers, including Zhongpin, accounting for less than 10% market share. In late 2009, the Ministry of Commerce issued new grading standards for Chinese slaughterhouses. These and other policies will force the market to consolidate, as government policy and market preferences combine to force out smaller butchers and sub-standard retailers. We anticipate a wave of mergers and consolidation in 2010 and beyond, and foresee significant opportunities to gain market share as the market environment changes in ways that offer advantages to our business model, based on hygienic processing, vertical control of the supply chain, and modern retailing.

Such trends support a strategy of robust capacity expansion. In 2008, we increased our production capacity of pork and pork products by nearly 45%. Over the past year, we have slowed the pace of expansion somewhat, adding just below 17% in new capacity in manufacturing, including projects that will come on-line during 2010. The new capacity has a strategic value in addition to increased ability to meet market demand. Production began at the new, state-of-the-art, US\$62 million Tianjin plant on January 20, 2010, in order to meet the expected spike in demand during the lunar New Year holidays. With an annual capacity of 70,000 metric tons of chilled pork and 30,000 metric tons of frozen pork, the Tianjin plant brings our total capacity of chilled and frozen pork to 541,760 metric tons annually, an increase of 9% over 2008. Its output is sufficient to supply 20% of chilled and frozen pork consumption in Tianjin, China's third largest city.

A prepared pork production line, warehouse, and distribution center will come on line in the same location, in the Jinghai Economic and Technical Development Area in Tianjin, by the third quarter of 2010, adding 36,000 metric tons of capacity. The advanced equipment and machinery at this facility, imported from top-tier international manufacturers, will produce quick-freeze sausages and other prepared pork products.

As the land logistics and ocean shipping port for much of northern China, Tianjin will be our springboard to the key markets of northern China and to Bohai Development Zone that includes the major port cities of the northeast. The facilities will serve another function as well. In locating, designing, engineering, and constructing the plant and our regional cold-chain logistics network, we have focused on creating a master template for our future plants and distribution networks. The Tianjin facilities will incorporate all of our knowledge and wisdom about how to produce and distribute the highest-quality, safest pork products at the most cost-effective prices.

We are adding a new, 36,000 metric ton, US\$21 million pork processing facility at our headquarters in Changge, Henan, and a new, 20,000 metric ton, US\$5.6 million premium food oil plant, also in Changge. We will have 90,000 metric tons in annual production of prepared pork products, representing a 67% increase over 2008, including the new capacity. We will increase our production of chilled meat by 36,000 tons to a total of 90,000 tons, representing a 67% increase over 2008. Food oils represent a new product category for us, but one that enables us to increase our return on investment, and more effectively utilize the raw materials from our slaughterhouse and pork processing operations, since premium food oils will be co-products from our current processing. This reflects our business strategy of investing in higher net margin products and tapping into the growing domestic market for high quality meats and convenience foods. We are also building three cold storage and distribution centers for foods and fresh and chilled agricultural products adjacent to Zhongpin's processing facilities in Zhumadian, Anyang and Luoyang in Henan Province. Each has a capacity of more than 20,000 square meters for processing, storage and allocation workshops, with adjustable multi-temperature and multi-level cold storage rooms.

On the retail side, we have maintained and even exceeded the pace of expansion in 2008. We have a unique retail model that increases brand awareness while minimizing channel conflict, through deployment of showcase stores, designed to highlight all of our products; network stores, whose owners and operators agree to use standardized physical designs and layouts for each store; and Zhongpin supermarket counters, which also make use of our standardized layout and design.

In 2009, we added 144 retail stores, for a total of 3,205 stores, compared to 2008 when we added 122 stores. Our showcase stores saw the biggest increase over the year in percentage terms, of 10% or 13 stores in all. The showcase stores, which are located mainly within Henan Province, or in major urban markets and facilities adjacent to the provincial borders, allow us to concentrate our marketing message in a convenience shopping environment, targeted at a typical two-income, middle-class family that shops daily after work. This is a model we expect to reproduce elsewhere as we build out our retail networks. We also made a substantial investment in new branded stores with 51 new stores and a 5% increase over 2008, and we opened 80 new supermarket counters that our exclusive retailers of our product lines, for an increase of 4%. Geographically, our major focus was on third-tier cities, with 59 new stores, an 18% increase. We added 14 stores in second-tier cities, a 13% increase. As of the end of 2009, we had a total of 145 showcase stores, 1,012 branded network stores, and 2,048 supermarket counter locations.

Our advertising promotes our brands rather than particular stores, in order to drive business to every retailer that carries our products and not just to our own networks. Our marketing goals are to increase the overall number of buyers of our branded products, rather than to take business from supermarkets and our other partners. In 2010, we expect to see strong demand, as the economy returns to pre-recession levels of growth, as well as higher prices for pork and pork products based on inflationary pressures that may increase as the Chinese economy accelerates.

2009 OPERATING HIGHLIGHTS

The impact of the global economic recession was felt particularly in the first half of 2009, as consumers reduced spending even on vital items such as food. The outbreak of the H1N1 virus in April caused a temporary slump in fresh, chilled and processed pork sales, briefly hurting second-quarter revenues, which rose 17.7% over the prior year after a 41.5% rise in the first quarter. Third and fourth quarter revenues turned up, with an increase of 26.7% in the third quarter, typically a slower period due to low supply of live pigs and decreased consumption of pork during the summer months. Revenue in the fourth quarter increased by 54.1%, reflecting China's economic rebound as well as higher levels of consumption of pork during the cooler season. Fortunately, Zhongpin's products are among the most trusted and value-added in stores, meeting the rising demand of increasingly sophisticated consumers for safety, freshness, and variety.

Taking all these factors into account, we revised downwards our guidance for the year in November to US\$720 million to US\$730 million, from the guidance that we gave in February 2009 of US\$780 million to US\$810 million. This action was taken largely to reflect lower pork prices that prevailed during most of the year, with hogs remaining in oversupply even through the fall months. In line with our revised guidance, revenue for the year rose by 34.5% to US\$726.0 million, from US\$539.8 million in 2008.

Our net income in 2009 increased by 32% to US\$41.6 million, or US\$1.33 earnings per share on a fully diluted basis, up from US\$31.4 million or US\$1.05 per fully diluted share in 2008. This compares with 2008, when net revenues increased by 85% and net income by 70%.

We made solid progress during the year executing our long-term growth strategy, which focuses on expanding our production capacity, building a nationally known brand, expanding our sales network, and increasing revenues, net income, and return on assets.

With the domestic economic recession largely behind us, we need to be ready to meet the rising demand curve for pork products in our home market. This is the reason we have kept building out both processing facilities and our sales network. During the year, we substantially completed a US\$93.5 million capacity expansion program, opening a new, 80,000 metric ton chilled and frozen pork production facility in Yongcheng, Henan in January, a new, 30,000 metric ton fruits and vegetable processing facility in Changge in April, and a new, 36,000 metric ton prepared pork products facility in Changge in December. In August, we upgraded a chilled and frozen pork facility in Changge, increasing capacity from 59,760 metric tons to 81,760 metric tons annually. Our new, 100,000 metric ton chilled and frozen pork processing plant in Tianjin opened in January.

We also broke ground on several other key projects, including our premium pork oil facility in Changge, which began production in April 2010. We will begin construction of our prepared pork products facility in Tianjin in April, with an expected launch of October 2010.

The impact of lower prices was felt mainly in our segments for chilled pork and frozen pork, accounting for 54.5% of sales and 30.9% of sales respectively. Both segments reported growth in revenue over the previous year – but clearly would have performed even better had prices for pork risen as expected. The fragmented nature of the hog as well as processing industries makes it difficult to forecast price behavior. Revenue from chilled and frozen pork was US\$396.1 million and US\$224.8 million respectively, up 36.9% and 19.6% respectively over 2008. Average prices for our fresh and chilled pork fell during the year by 17.6% for chilled pork and 22.6% for frozen pork. At the same time, in terms of sales volume both segments showed strong growth – sales of chilled pork grew by 66.1%, and sales of frozen pork grew by 54.5% in metric tons over the previous year.

By segment, our strongest relative performance was in processed pork products, which represents a small but growing share of revenue. In 2009, prepared pork products such as ham and sausages represented 12.8% of revenues, and flash-frozen fruit and vegetables accounted for 1.6% of revenues. We saw sales growth of 73.1% in prepared pork products to US\$93 million, with volume growth in metric tons of 67.9%, relative to 2008. We also saw a small but significant increase in prices for this segment. During the year, the average price per metric ton of prepared pork products increased by 3.1%. We view processed pork as a core product going forward, and are introducing significant new capacity, which will be reflected in our future years' sales.

Our fruit and vegetables segment also performed well. This segment represented just 1.6% of revenues in 2009, but sales grew by 34.8% with volume growth in metric tons of 24.8% over the previous year. Revenue grew by 34.8% to US\$12.1 million with volume growth in metric tons of 24.8% over 2008.

BALANCE SHEET AND CASH FLOW

Through conservative management of our balance sheet we were able to end up with significant improvements in our balance sheet despite an aggressive program of capital expansion and the weak market environment caused by the economic downturn. We ended the year with cash and cash equivalents of US\$69 million, US\$44.9 million in long-term debt and working capital of US\$31.1 million (current assets of US\$166.6 million less current liabilities of US\$135.5 million). Stockholders' equity as of December 31, 2009 was US\$292.8 million, up 53.4% from US\$190.9 million at the end of 2008.

We generated US\$40.8 million in cash flow from operating activities, a decrease of US\$25 million compared to net cash provided by operating activities of US\$65.8 million in 2008. We can attribute this in part to an increase in inventories to assist the Chinese government in building up its pork reserves. We are prevented from selling these reserves until pork prices return to the government's trigger point. This exercise cost us US\$28 million in cash flow from inventories and US\$5.2 million used to purchase more hogs to build up the inventory. Offsetting these charges was an increase in net cash provided by financing activities of US\$119 million, an increase of US\$56.4 million over 2008.

Our strong balance sheet and conservative fiscal management have made it possible for us to maintain our investment in food safety, product quality, and our brands, as well as our capital expansion program.

FOOD SAFETY

We have only one production standard – to make the highest quality pork products in the world. All Zhongpin processing facilities possess the HACCP Certificate (Hazard Analysis and Critical Control Point) and are ISO9001 certified. Zhongping's inspection center received the NCAC certificate from the China National Accreditation Service for Conformity Assessment in April 2009. It is equipped with liquid chromatography, gas chromatography, and atomic absorption equipment for monitoring pesticide and drug residues. We conduct inspections on all raw materials, productions, microorganisms and antibiotics used in production. Our quality control system covers the entire supply chain system, including raw materials, semi-finished products, storage, warehousing, distribution logistics, and sales.

Food safety issues have been a focus of attention in recent years in China, due to a series of food contamination scandals as well as outbreaks of disease that originate with close contact between humans and animals, such as this year's H1N1 virus, commonly known as "swine flu". We share these concerns, and embed them at the core of our philosophy. They reflect China's increasingly sophisticated consumer culture, in which individuals cherish their quality of life and insist on the highest standards of safety, freshness and nutrition in the food they eat. Since we at Zhongpin are completely committed to these values, we enjoy a market advantage the more consumers embrace these values. Our responsibility is to meet and anticipate demands for quality, by establishing standards of production and distribution of pork that are second to none.

COMMON SHARE ISSUANCE

On October 15, Zhongpin completed a public offering of common stock, including the exercise of an over-allotment option, by issuing 4.6 million common shares at US\$13.25 per share. The stock issue resulted in gross proceeds of US\$60.95 million and net proceeds of US\$57.1 million.

Partly as a result of the change in the number of shares outstanding, in November we changed our full year guidance for diluted earnings per share to US\$1.38 to US\$1.40, down from our guidance of US\$1.50 to US\$1.63 that we provided in February 2009.

OUTLOOK

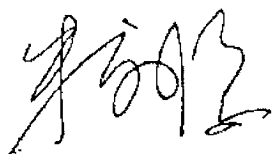
In the five years from 2005 to 2009, we experienced compound annual revenue growth of 77% and compound annual profit growth of 63%. This is an extraordinary achievement for a young company. We listed on NASDAQ just a little over two years ago. In 2009, despite the traumatic impact of the global financial crisis, we were able to maintain double-digit growth. We think we owe this growth not just to the robustness of the Chinese economy, but also to a strategy that meets and anticipates the needs of China's newly affluent middle class – families with annual income of between RMB 40,000 to RMB 120,000 (US\$5,800 to US\$17,000). Estimated at 35 million households in 2005 and expected to climb to over 92 million households by 2015, this market segment represents our future.

As we look ahead to the coming year, 2010 is likely to bring higher hog and pork prices as China's economic rebound continues, as well as an expansion of demand. China's GDP grew by an estimated 10.7% in the fourth quarter of 2009, with 8.7% growth for the full year. The central government has targeted 8% growth in 2010, although many observers expect GDP growth to exceed 9%. So many variables remain that it is difficult to make any firm forecast. However, in the weeks after the lunar Chinese New Year, which began on February 14, anecdotal evidence suggests a tight labor market and the return of inflationary pressures in property and commodity markets.

In January 2010, we issued guidance, essentially our private forecast, of revenue, gross profit, net profit, and earnings per share. Based on our current outlook, we anticipate annual revenues between US\$900 million to US\$940 million, with gross profit within the range of US\$106 million to US\$115 million and net income in the range of US\$52 million to US\$57 million. Our forecast for fully diluted earnings per share for 2010 is between US\$1.49 and US\$1.64 per share.

I take great pride in reporting our results for 2009. As a stakeholder, I can say with all sincerity that none of our accomplishments would be possible without the hard work, dedication, and values shared by all of our employees. Our unflagging pursuit of excellence makes it possible to promise you, our shareholders, that we will continue to grow our sales, profit, and long-term value for your benefit.

Sincerely,



Xianfu Zhu
Chairman, President and Chief Executive Officer

April 20, 2009



UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 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, 2009

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. 001-33593

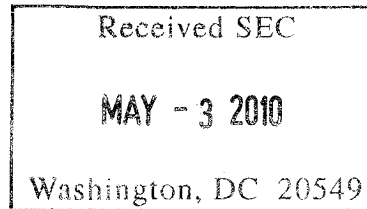
Zhongpin Inc.
(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or Other Jurisdiction
of Incorporation or Organization)

21 Changshe Road, Change City, Henan province

The People's Republic of China
(Address of Principal Executive Offices)



54-2100419

(I.R.S. Employer Identification No.)

461500

(Zip Code)

086 10-8286 1788

(Registrant's Telephone Number, Including Area Code)

Securities registered under Section 12(b) of the Exchange Act:

(Title of Class)	(Name of each exchange on which registered)
Common Stock, \$.001 par value	NASDAQ Global Select Market

Securities registered under Section 12(g) of the Exchange Act: None

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 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 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. (Check One):

Large accelerated filer Accelerated filer Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

On March 5, 2010, there were 34,725,463 shares of the registrant's common stock outstanding.

The aggregate market value of the registrant's voting and non-voting common equity held by non-affiliates of the registrant based on the closing sale price of the registrant's common stock as reported on the NASDAQ Global Select Market was approximately \$226.9 million as of June 30, 2009 (the last business day of the registrant's most recently completed second fiscal quarter). Shares of common stock held by each executive officer and director of the registrant and each person who beneficially owns 10% or more of the registrant's outstanding common stock has been excluded from the calculation. This determination of affiliated status may not be conclusive for other purposes.

Documents Incorporated by Reference: Portions of the registrant's proxy statement for its 2010 annual meeting of stockholders, which the registrant expects to file with the Securities and Exchange Commission within 120 days after December 31, 2009, are incorporated by reference into Part III of this report.

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SIGNATURES

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The statements contained in this Report that are not historical facts are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 with respect to our financial condition, results of operations and business, which can be identified by the use of forward-looking terminology, such as “estimates,” “projects,” “plans,” “believes,” “expects,” “anticipates,” “intends,” or the negative thereof or other variations thereon, or by discussions of strategy that involve risks and uncertainties. Management wishes to caution the reader of the forward-looking statements that such statements, which are contained in this Report, reflect our current beliefs with respect to future events and involve known and unknown risks, uncertainties and other factors, including, but not limited to, economic, competitive, regulatory, technological, key employee, and general business factors affecting our operations, markets, growth, services, products, licenses and other factors discussed in our other filings with the Securities and Exchange Commission, and that these statements are only estimates or predictions. No assurances can be given regarding the achievement of future results, as actual results may differ materially as a result of risks facing us, and actual events may differ from the assumptions underlying the statements that have been made regarding anticipated events.

These forward-looking statements are subject to numerous assumptions, risks and uncertainties that may cause our actual results to be materially different from any future results expressed or implied by us in those statements. Some of these risks are described in “Risk Factors” in Item 1A of this Report.

These risk factors should be considered in connection with any subsequent written or oral forward-looking statements that we or persons acting on our behalf may issue. All written and oral forward looking statements made in connection with this Report that are attributable to us or persons acting on our behalf are expressly qualified in their entirety by these cautionary statements. Given these uncertainties, we caution investors not to unduly rely on our forward-looking statements. We do not undertake any obligation to review or confirm analysts’ expectations or estimates or to release publicly any revisions to any forward-looking statements to reflect events or circumstances after the date of this document or to reflect the occurrence of unanticipated events. Further, the information about our intentions contained in this document is a statement of our intention as of the date of this document and is based upon, among other things, the existing regulatory environment, industry conditions, market conditions and prices, the economy in general and our assumptions as of such date. We may change our intentions, at any time and without notice, based upon any changes in such factors, in our assumptions or otherwise.

PART I

In this Annual Report on Form 10-K, we will refer to Zhongpin Inc., a Delaware corporation, as “our company,” “we,” “us” and “our.”

Unless otherwise noted, all translations from Renminbi to U.S. dollars were made at the middle rate published by the People’s Bank of China, or the middle rate, as of December 31, 2009, which was RMB6.8282 to \$1.00. We make no representation that the Renminbi amounts referred to in this Annual Report on Form 10-K could have been or could be converted into U.S. dollars at any particular rate or at all. On March 5, 2010, the middle rate was RMB6.8266 to \$1.00.

Item 1. – Business

Overview

We are principally engaged in the meat and food processing and distribution business in the People’s Republic of China (the “PRC”). We are developing a nationally-recognized, high-quality, fresh, healthy and nutritious meat and food products brand targeting the middle class in the PRC. At December 31, 2009, our product line included 358 unique meat products, including chilled pork, frozen pork and prepared meats, and 34 vegetable and fruit products, that are sold on a wholesale basis and on a retail basis through an exclusive network of showcase stores, network stores and supermarket counters. Our eight processing plants, which are located in Henan, Jilin and Sichuan provinces and in Tianjin in the PRC, have an aggregate processing capacity of approximately 1,504.9 metric tons per day, based on an eight-hour working day, or approximately 541,760 metric tons on an annual basis for chilled and frozen pork. Our three prepared pork products facilities, which are located in Henan province, have an aggregate production capacity of approximately 250 metric tons per day, based on an eight-hour working day, or approximately 90,000 metric tons on an annual basis. Our one vegetables and fruits processing plant, which is located in Henan province, has a production capacity of approximately 83.3 metric tons per day, based on an eight-hour working day, or approximately 30,000 metric tons on an annual basis. All of our products are sold under the “Zhongpin” brand name.

At December 31, 2009, our customers included 27 international or domestic fast food companies in the PRC, 49 processing factories and 1,686 school cafeterias, factory canteens, army posts and national departments. At such date, we also sold directly to 3,205 retail outlets, including supermarkets, within the PRC.

To differentiate our company from other market incumbents, we also have successfully implemented a unique retail strategy that includes the establishment of a network of showcase stores, branded network stores and supermarket counters that are exclusive retailers of our product lines. At December 31, 2009, we had a total of 145 showcase stores, 1,012 network stores and 2,048 supermarket counter locations.

We believe we are a market leader in the meat and meat products industry in the PRC and that the principal strengths of our company are as follows:

- We have a vertically-integrated fresh meat, meat products, fresh produce and fruit supply chain from farming, slaughtering, cutting, processing and wholesaling to retailing;
- We have a wide distribution network through major areas of the PRC;
- The “Zhongpin” brand name is well recognized in major areas of the PRC as an established and leading brand;
- We have advanced production equipment for the packaging of meat and food;
- Our customers include some of the largest supermarket chains, such as Lianhua Supermarket Group, Carrefour China and Metro (China) Group;
- We have implemented a comprehensive logistics management program and have an efficient delivery system that, at December 31, 2009, utilized 534 temperature-controlled container trucks and public railway services;
- Based upon our historical growth rates, we believe our experienced management team, led by our founder and Chairman, Mr. Zhu Xianfu, has the ability to grow and expand our business;
- We have an emphasis on quality assurance systems;
- We have a comprehensive brand building strategy and brand equity management; and
- We have an innovative product development program, with approximately 108 new products under development at December 31, 2009.

Development of Business

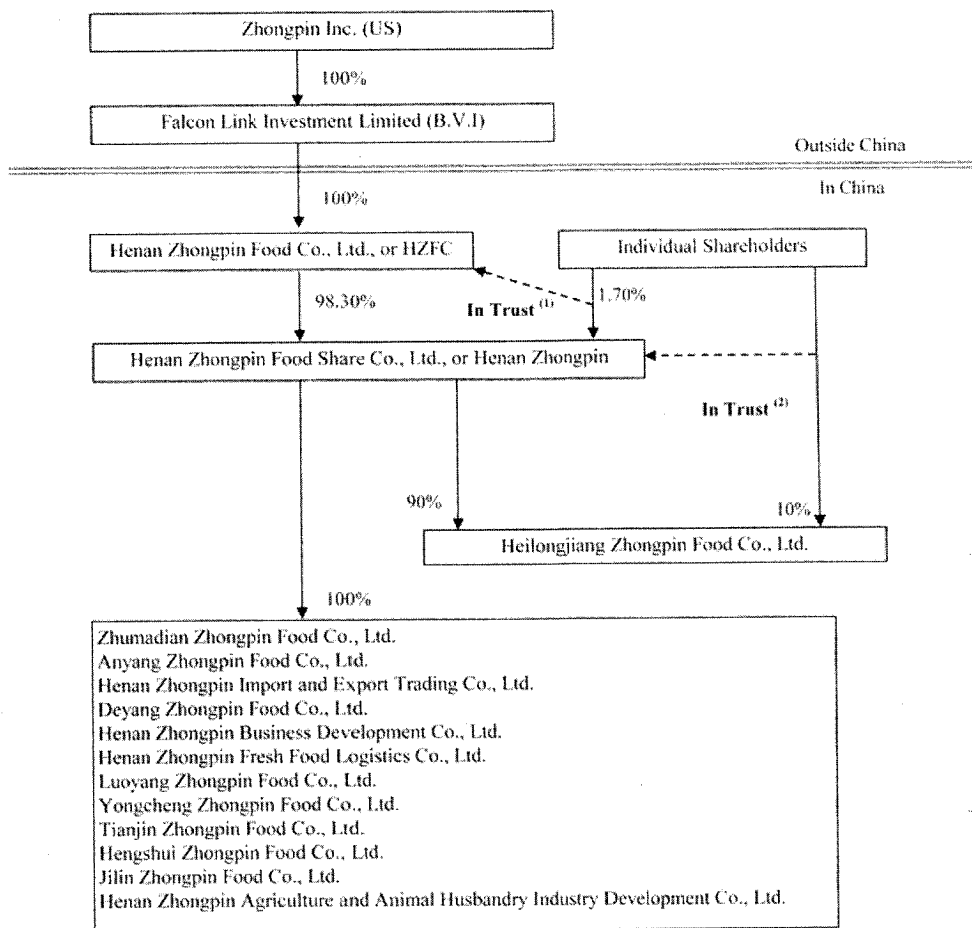
We are a holding company and conduct substantially all of our production, marketing, finance, research and development, and administrative activities through our indirect subsidiaries located in the PRC. We were incorporated in the State of Delaware under the name “Strong Technical, Inc.” on February 4, 2003. Prior to March 30, 2005, we had been engaged in the business of supplying skilled workers and engineering professionals (engineers, designers and draftspersons) to businesses on a temporary basis. From March 30, 2005 to January 30, 2006, we did not generate any significant revenue and we accumulated no significant assets as we explored business opportunities as a publicly-held “shell” corporation. We entered into our current line of business in January 2006 by acquiring Falcon Link Investment Limited, a holding company formed in the British Virgin Islands (“Falcon Link”), and its operating subsidiaries located in the PRC, including Henan Zhongpin Food Share Co., Ltd. (“Henan Zhongpin”).

In 1993, Change Meat Factory, a predecessor to Henan Zhongpin, was established in the PRC as a state-owned meat processing factory from a spin-off of a larger state-owned enterprise. In 1997, six individuals purchased the ownership of Change Meat Factory in connection with a privatization program encouraged by the Chinese government and established Change Zhongpin Food Industry Co., Ltd. as a privately-held entity. In 2000, Change Zhongpin Food Industry Co., Ltd. changed its corporate name to “Henan Zhongpin Food Share Co., Ltd.”

To raise equity capital from investors outside of the PRC, the six individual shareholders of Henan Zhongpin established Henan Zhongpin Food Co., Ltd. (“HZFC”) in May 2005 to hold their equity interest in Henan Zhongpin, and in July 2005, formed Falcon Link to hold their equity interest in HZFC. As Falcon Link is a company registered overseas, as a result of its acquisition of HZFC, HZFC became a wholly-owned foreign enterprise under the laws of the PRC.

On January 30, 2006, we acquired all of the outstanding shares of Falcon Link in exchange for the issuance by us of an aggregate of 11,250,005 restricted shares of our common stock to the shareholders of Falcon Link. In connection with such share exchange, all of our officers and directors at that time resigned as officers and directors of our company, and new directors and executive officers were appointed. As a result of our share exchange with Falcon Link, which is commonly referred to as a “reverse acquisition,” Falcon Link became our wholly-owned subsidiary and we changed our corporate name to Zhongpin Inc.

Our corporate organizational chart is shown below.



- (1) Under the laws of the PRC, Henan Zhongpin is required to have at least five individual shareholders to use the word “share” in its corporate name. In connection with the transfer of a majority of their shares of Henan Zhongpin to HZFC in May 2005, each of the six individual shareholders of Henan Zhongpin (Xianfu Zhu (currently 1.22% interest in Henan Zhongpin), Baoke Ben (currently 0.13% interest in Henan Zhongpin), Shuichi Si (currently 0.09% interest in Henan Zhongpin), Qinghe Wang (currently 0.09% interest in Henan Zhongpin), Chaoyang Liu (currently 0.09% interest in Henan Zhongpin) and Juanjuan Wang (currently 0.08% interest in Henan Zhongpin)) entered into an agreement with HZFC, the controlling shareholder of Henan Zhongpin, pursuant to which such individual shareholders irrevocably assigned to HZFC all of the economic benefits to which he is or may be entitled as a shareholder of Henan Zhongpin. As a result of such agreements, HZFC, which is a wholly-owned indirect subsidiary of our company, is entitled to 100% of any cash dividends declared and paid by Henan Zhongpin and to vote all outstanding shares of capital stock of Henan Zhongpin in any action by the shareholders of Henan Zhongpin.

- (2) Under the regulations of the Heilongjiang province Administrative Bureau of Industry and Commercial, Heilongjiang Zhongpin Food Co., Ltd. (“Heilongjiang Zhongpin”) is required to have at least two shareholders. In connection with the formation of Heilongjiang Zhongpin, Chaoyang Liu, the sole individual shareholder of Heilongjiang Zhongpin, entered into an agreement with Henan Zhongpin, the controlling shareholder of Heilongjiang Zhongpin, pursuant to which such individual shareholder irrevocably assigned to Henan Zhongpin all of the economic benefits to which he is or may be entitled as a shareholder of Heilongjiang Zhongpin. As a result of such agreement, Henan Zhongpin is entitled to 100% of any cash dividends declared and paid by Heilongjiang Zhongpin and to vote all outstanding shares of capital stock of Heilongjiang Zhongpin in any action by the shareholders of Heilongjiang Zhongpin.

Industry Overview

The Meat Industry in the PRC. According to an October 2009 report of the United States Department of Agriculture, the market for pork in the PRC is the largest in the world, accounting for approximately 49% of global production and consumption. In value terms, the PRC’s overall meat industry is the second largest sector in the country’s entire retail food market basket. Historically, the vast majority of meat sales in the PRC have taken place in free wet markets, most of which are to be found in open-air markets or on streets. These markets provide a venue through which the customer can buy live poultry or freshly slaughtered meat produce direct from local farmers. However, as a result of new hygiene regulations that were introduced by the Chinese government in 1995, governmental agencies recently have encouraged the replacement of open air markets by supermarkets and convenience stores, and the market share of open air markets has continued to decline. We believe this trend will favorably affect our wholesale business and will add additional customers for the network of showcase stores, branded network stores and supermarket counters that retail our products on an exclusive basis.

The meat industry in the PRC is characterized by fragmentation, sanitation and hygiene issues, as well as social demographic trends. The meat industry is highly fragmented, and supply is extremely localized with limited distribution capability. The PRC’s vast geography and under-developed transport infrastructure have made it difficult to create national or even regional level brands in the industry and thus, there are no genuine market leaders.

There are no governmental restrictions on the ability of foreign entities to enter the meat and food processing business in the PRC, which has been designated an encouraged industry for foreign investment.

The Retail Meat Market. The retail market for fresh and processed meat and meat products in the PRC has grown substantially in value during the past several years, primarily due to the following key factors:

- Increased consumer spending power, which has lead to heightened consumer aspirations and the ability of consumers to make more frequent purchases of fresh and processed meat and meat products, as well as purchases of more expensive products;
- Development of more integrated distribution systems and infrastructure throughout the PRC, which has lead to better distribution around the country from manufacturer to retailer;
- Rationalization and consolidation of the domestic industry, which has improved industry productivity and profitability, and raised the level of market supply; and

- Increased market penetration of more organized retail outlets with chilled and frozen produce display cabinets which, in turn, has created a larger overall outlet for fresh and processed meat and meat products.

These factors have led not only to increased consumer demand, but also to improvements in the ability of meat processors and distributors to get their products to consumers in fresher condition. The meat processors also have helped to increase demand by improving the variety of products they are able to supply.

As consumer lifestyles in China's cities have become more frenetic, people are finding that they have less time to prepare meals at home from fresh products alone. This has created a market for more convenience foods, such as part-cooked meats, processed meats and ready-to-eat meals containing meat.

We believe that retail sales of frozen and chilled meat products have also been growing fast over the past several years. Improvements in the retail infrastructure helped to kick-start the growth in these sectors, but the spread of better-equipped stores containing chiller and freezer cabinets is only part of the equation. Just as important is the success of major players in developing – and generating widespread consumer interest in – new products just at a time when local consumers have been looking to spend their increased incomes on more meat products. Furthermore, the spread of more organized retailers into rural areas, particularly through the rural retail chain store program is creating the beginnings of a chill chain out into the countryside at a time when the rural appliance rebate scheme is driving strong growth in rural sales of household appliances, and especially refrigerators. This is creating potential consumer households for chilled and frozen food in rural areas that otherwise would not be, and thus is creating new potential growth for frozen and chilled meats.

We believe that total sales value by sector will follow similar trends to those seen in recent years, though probably at more consistent rates. Overall growth rates are expected to see continued slowing as the market matures, but we expect smaller processed meat sectors, particularly chilled and frozen meats, to still experience rapid growth as a result of increased demand and continuing market penetration due to the spread of modern retail outlet chains such as supermarkets, convenience stores and convenience stores.

Business Strategy

Our long-term business strategy is to establish our company as the leading provider of meats and fresh foods in the PRC. Our goal is to increase our market presence and to provide our customers with the highest quality, freshest, healthiest, most nutritious and safest meat and food products. The key elements of our growth strategy include the following:

Increase our brand recognition. We believe sustainable growth can best be achieved through a recognizable brand name, and we are focused on building the best nationally-known brand name in the food business in the PRC through various communication channels. We intend to invest heavily in building our “Zhongpin” brand as a unique identity to reflect value and to position our brand platform to create the perception and image of “*health, nutrition, freshness and quality*”.

We intend to build our brand by building a comprehensive brand awareness program that will focus on advertising and promotion, pricing strategies, distribution channels and packaging design and functionality. In addition, in order to differentiate the quality of our products from those of our competitors and to help foster strong brand recognition with consumers, we have established and implemented a network of specialty, high-end boutique grocery stores, network stores and exclusive supermarket counters to showcase our meat, vegetable and fruit products. At December 31, 2009, we had 145 showcase stores, 1,012 network stores and 2,048 “Zhongpin” supermarket counters. We believe our retail stores will help create additional brand awareness that will benefit our wholesale customers and will showcase all of our products in a manner that will provide the consumer with a broader view of our strategies and goals.

Expand our market presence. We regard our logistics capabilities as the keystone to our growth strategy and believe our comprehensive plan for logistics management, which includes the integration and coordination of our transportation and warehouses, warehouse management, inventory and transportation control systems, as well as the integration of our marketing and manufacturing efforts, will enable us to accelerate our growth by expanding our operations across the PRC. At December 31, 2009, we operated sales offices in 106 cities in the PRC and had warehouses in 83 of such cities, including Shanghai, Beijing, Guangzhou, Zhengzhou, Wuhan and Xi'an. We plan to expand our network of sales offices and warehouses in up to 12 additional cities in the PRC by the end of 2010, and are targeting cities with more than 1,000,000 and less than 3,000,000 residents, annual per capita income exceeding RMB10,000 (\$1,466), good infrastructure, including transportation and telecommunications, and a positive commercial environment.

Increase our production capacity. We are executing our strategy to increase our production capacity. We will choose areas around the major cities in the primary markets of East, Northeast and North China as our main capacity expansion areas. We will develop capacity for chilled and frozen pork and prepared pork products, as well as cold chain logistic capacity at these targeted areas. We will mainly expand our capacity through building standardized facilities, but also through acquisitions and leasing.

Expand and optimize our product lines. At December 31, 2009, our product line included 358 unique meat products and 34 different categories of vegetables and fresh fruits. In 2000, we established a research and development center to help us develop new processing technologies and food products. We also work with unaffiliated scientists and experts who act as our outside technical consultants in the development of new processes and products. Our strategic planning and marketing departments also conduct market studies, seek to spot developing trends in the meat and fresh foods industries and evaluate the ever-changing consumer consumption patterns in the PRC. We intend to strengthen our market position and accelerate our growth by introducing new lines of low temperature meat products with a view to maintaining customer interest and creating new demand. We also believe the introduction of new products will broaden our product range and make it more difficult for new competitors to enter the market or to attain significant sales or market share upon entry into the market. At December 31, 2009, we had approximately 108 new products under development.

Maintain our technological superiority. We have pursued an integrated approach in designing our operations and have formulated a strategy to address the current issues in the meat and fresh foods industry in the PRC, such as hygiene, sanitation and distribution capability, that have hindered the development of national brands in the industry. We have purchased state-of-the-art equipment and installed production lines with the most current technology in our processing plants. In addition, our advanced information technology capability furnishes management with real time information flow that enables all of our functional departments, including marketing, sales, strategic planning, logistics management, procurement, retail, trading and export, to exploit and utilize timely information on pricing of raw materials and products, demand, transportation and inventory levels. We believe our logistics management capabilities also provide us a competitive advantage by allowing us to implement significant modifications in our logistics systems on a quick response basis. With feedback from our marketing and sales teams, procurement department and strategic planning group, we can modify our systems in response to changes in the marketplace, competition, government regulations and technology, such as the use of bar codes and electronic interchange to enhance the speed and accuracy of information.

Our Products

Our Pork Products. The chilled and frozen pork products we produce are sold as various cuts of meat, such as the shoulder, the ribs, the loin or the leg. Other parts of the pig, such as the head, ears, trotters and internal organs, have a ready market in the PRC and are also distributed and sold by us.

The pork products produced by our slaughterhouses are sold to a wide variety of customers, such as meat and food distributors, wholesalers, food processing companies and supermarkets. Our pork products are distributed and sold locally in the domestic market and also are exported.

Chilled Pork. In our production of chilled pork, meat is chilled but not frozen at a temperature of between 32° F (0°C) and 39.2° F (4° C), immediately after it is cut and packed, and thereafter maintained at that temperature during storage or transportation. This serves to preserve the freshness and quality of the meat. Chilled pork will usually have to be consumed within one week from the time of slaughter.

While chilled pork generally is more costly than frozen pork, our market research indicates a trend among customers toward chilled pork and away from frozen pork. Most of the chilled pork we produce is distributed and sold to domestic customers who comprise mainly fresh food distributors and wholesalers, markets and supermarkets located within a 500 km delivery radius of our processing facilities.

Frozen Pork. In the production of our frozen pork, the meat is frozen at -31°F (-35°C) to -40°F (-40° C) for 48 hours, after which it is stored or transported at a constant temperature of between -0.4° F (-18° C) to -13° F (-25° C). Generally, frozen pork can be kept for about 12 months from the time of slaughter. Frozen pork is cheaper relative to chilled pork at the retail level. Food and food processing companies usually require frozen pork in their production of processed meats such as luncheon meat and canned, stewed meat. In the PRC, most of the pork sold in markets, supermarkets and restaurants is frozen. The domestic customers for our frozen pork include food processing companies and food distributors.

Pig By-Products and Variety Meats. Pig heads, ears and trotters and the internal organs, such as the kidneys, livers, stomachs and intestines, are commonly used in Chinese cuisine and therefore have a ready market. We usually sell these by-products and variety meats to domestic customers. These items are also sold to food processing companies to be used as raw materials for other meat and meat-based products.

Prepared Meats. We also produce a line of prepared meats, such as sausages, hams and Chinese cured hams that includes more than 150 items that are marketed under our “Zhongpin” brand.

Live pigs and raw pork are the principal raw materials used in our production. See “Item 1A. Risk Factors - Risks Relating to Our Business - If there are any interruptions to or a decline in the amount or quality of our live pigs, raw pork or other major raw material supply, our production or sales could be materially and adversely affected.”

Our Vegetable and Fruit Products. We contract with more than 100 farms in Henan province and nearby areas to produce high-quality vegetable varieties and fruits suitable for export purposes. We have contracted with farms close in proximity to our operations to ensure freshness from harvest to processing. The farms are relatively small, ranging in size from less than 25 acres to 123.5 acres (10-50 hectares), with the largest being approximately 1,358.5 acres (550 hectares). We contract to grow more than 34 categories of vegetables and fruits, including asparagus, sweet corn, broccoli, mushrooms, lima beans, strawberries and capsicum. In recent years, we have worked closely with the Henan Academy of Agricultural Sciences in the PRC to improve the yield and quality of crops.

Since 2001, we have been contracting with farms to produce selected vegetables and fruits. Our technicians are sent to candidate farms to test the soil and water quality and to evaluate local climatic conditions. Vegetables and fruits grown at the candidate farms are evaluated in our laboratories. If the quality of the farm products meets our standards, we enter into a contract with the farm for the purchase of a stated minimum amount of products. Seeds, fertilizer and pesticides are generally provided by us to the contracted farm at wholesale prices. During the growing season, the vegetables or fruits at the contracted farms are monitored and tested. At harvest, produce is tested and purchased based on product criteria stated in the contract.

Manufacturing and Production

For each of the years ended December 31, 2009, 2008 and 2007 substantially all of our assets, including all of our material assets, were located in the PRC.

As of March 1, 2010, we owned and operated seven slaughterhouses, including one in Changge City, Henan province, one in Zhumadian City, Henan province, one in Anyang City, Henan province, one in Luoyang City, Henan province, one in Yongcheng City, Henan province, one in Tianjin, and one in Deyang City, Sichuan province, and we leased and operated one additional slaughterhouse in Gongzhuling City, Jilin province, to carry out the business of slaughtering pigs and the production and sale of chilled and frozen pork products. Our current total production capacity for chilled pork and frozen pork is approximately 1,504.9 metric tons per day, based on an eight-hour working day, or approximately 541,760 metric tons on an annual basis. At such date, we owned three facilities for prepared pork products, all in Changge City, Henan province. We have production capacity for prepared pork products of 250 metric tons per eight-hour day, or approximately 90,000 metric tons on an annual basis. We also have production capacity for fruits and vegetables of 83.3 metric tons per eight-hour day, or approximately 30,000 metric tons on an annual basis. We utilize state-of-the-art equipment in all of our slaughterhouses and processing facilities.

We believe we must continue to expand our production capacity to seize additional market share. As a result, we are currently constructing, or plan to construct, the following additional production facilities to expand our production capacity:

- We are investing approximately \$61.0 million, not including the cost of land use rights, to build a production facility, warehouse and distribution center, and research and development center in Tianjin. This facility will have a production capacity of approximately 100,000 metric tons for chilled and frozen pork, of which 70% will be for chilled pork and 30% for frozen pork, and 36,000 metric tons for prepared foods. We put the new facility for chilled and frozen pork into use ahead of schedule in January 2010. After chilled and frozen pork production at this new facility commenced, we terminated the lease for our existing production facilities in Tianjin. Following such closure and with the addition of the production capacity from the new facility, our annual chilled and frozen pork production will increase by approximately 9% to 541,760 metric tons from the current production of 494,760 metric tons. The facility for prepared foods will be put into operation in October 2010.

- We are also investing approximately \$5.6 million to build an additional production facility in Changge City, Henan province. This facility is being designed with a production capacity of 20,000 metric tons for food oil (pork oil). We expect to put this facility into operation by April 2010.

We procure pigs from local pig farms and breeders located in close proximity to our slaughterhouses. All the pigs we purchase for slaughtering in our slaughterhouses must have all the health certificates issued by the relevant authorities in the PRC to ensure that the pigs have been under strict and consistent supervision during the rearing period and are in good health when they are purchased by us. In addition, the pigs slaughtered in our slaughterhouses are also subject to inspections by our own team of certified veterinarians.

Production of Chilled and Frozen Pork Products. Our veterinarians ensure that only healthy pigs are slaughtered at our slaughterhouses. We maintain all of the required licenses and certificates from the relevant central and local government authorities with regard to our pork production business. In May 2002, we were awarded ISO 9001 certification that covers our production, research and development and sales activities. The ISO 9001 certification indicates that our slaughterhouses and pork production operations comply with international standards of quality assurance established by the International Organization of Standardization. All of our production lines have also passed HACCP (Hazard Analysis and Critical Control Point) under GMP (Good Manufacturing Practice) and SSOP (Sanitation Standard Operating Procedure in the PRC).

When pigs arrive at the slaughterhouses, our certified veterinarians, together with the local Animal Husbandry Department inspectors, conduct a physical inspection of the pigs to ascertain whether they are fit for human consumption. Blood and urine samples are obtained from a random sample of pigs which are tested for disease. The pigs are then weighed and are quarantined for approximately 6-12 hours, during which time only water is provided to the pigs.

After the quarantine period has passed, we conduct another physical inspection of the pigs. This physical inspection is conducted jointly with the inspectors from the Animal Husbandry Department. Pigs that are found fit for human consumption will be slaughtered while those found to be deficient are immediately culled. We shower the pigs with water before and after slaughter to clean them. Instruments used for slaughtering and cutting up the carcasses are sterilized several times a day.

Quality control checks are conducted at all production stages to detect and remove meat that is spoiled or has been infected by bacteria. The appearance of the skin, internal organs and the meat itself is subject to physical observation and laboratory testing to see if the pig is diseased. Every pig that is slaughtered in our slaughterhouses is assigned a serial number so that a trace can be run on any processed pig. All of these quality control checks are conducted by our veterinarians and quality control staff.

A high level of hygiene is maintained at our slaughterhouses. All staff and visitors who enter the slaughterhouses must first put on protective clothing and be sterilized with disinfectant. All packaging materials used for meat also must be sterilized.

At December 31, 2009, a total of 289 employees worked in our quality assurance program, of which 71 were quality control engineers and 218 were staff. The quality control laboratory meets and exceeds all standards set by the authorities and relevant agencies in the PRC.

Storage and Transportation of Pork Products. The pork products from freshly slaughtered pigs at our slaughterhouses are blast frozen after slaughtering to prevent deterioration of the meat caused by bacteria or chemical changes. Frozen meat is stored in cold storage facilities at a temperature of between -9.4°F (-23°C) and -0.4°F (-18°C) for 24 hours before being transported. Chilled meat is chilled to between 32°F (0°C) and 39.2°F (4°C) before being transported to customers. The chilled and frozen pork is maintained within the requisite temperature ranges during subsequent handling, transportation and distribution to retain freshness and to prevent deterioration of the meat.

Sales, Marketing and Distribution

Our key customers are principally wholesalers, restaurants, supermarkets, large retailers and food services, such as food processing factories, school cafeterias and canteens, in the PRC. For the years ended December 31, 2009, 2008 and 2007, sales to our five largest customers amounted in the aggregate to approximately \$85.5 million, \$81.2 million and \$48.4 million, respectively, accounting for approximately 12%, 15% and 17%, respectively, of our total revenue. For the years ended December 31, 2009, 2008 and 2007, no customer accounted for 10% or more of our consolidated revenues. No material amount of our business is dependent on government contracts.

Sales volume for the meat industry typically increases during the period leading to the one-week celebration of the Chinese Spring Festival, which usually takes place in late January or early February. In general, demand for pork tends to be the greatest during the first quarter of the year due to the tendency of consumers to eat greater amounts of meat during the Spring Festival and the colder period of the year. The third quarter typically is the slower season for the industry due to the lower supply of live pigs as well as the slight drop in meat consumption during the hot summer months. In general, we do not expect a material seasonal effect on our revenues.

At December 31, 2009, we had sales offices in 106 cities in the PRC, extending from Henan province, in which our headquarters is located, to South China, East China, North China and the South midland of the PRC, and had warehouses in 83 of such cities. We plan to further expand our network of sales offices and warehouses to 12 other cities in the PRC by the end of 2010 in order to meet consumer demand.

We market our pork products through a sales team and a network of agents in 24 provinces, including four cities with special legal status, throughout the PRC. The sales team is responsible for securing orders for our pork products, maintaining and building relationships with existing customers and for securing new customers. Our sales team is also involved in identifying new markets in line with the existing customer base and our geographical expansion plans.

Our sales teams travel to major cities in the PRC, such as Shanghai, Beijing, Wuhan and Zhengzhou, to market and sell our pork products to wholesale markets and selected retail chains in those cities. We usually transport pork products by refrigerated trucks. Railroads are used for transporting pork products to those cities that are located at a further distance from our operations facilities.

In addition, our sales teams travel and market pork products, vegetables and fruits to potential customers in Europe, Russia, Hong Kong and other selected countries in Asia and South Africa. During the years ended December 31, 2009, 2008 and 2007, we exported approximately 3,692 metric tons, 1,857 metric tons and 5,419 metric tons, respectively, of pork products, and 843 metric tons, 445 metric tons and 10,261 metric tons, respectively, of vegetables and fruits.

The following table shows for the three years ended December 31, 2009 the amount and percentage of our revenues derived from our sales of products to customers located in the United States, the PRC and all foreign countries other than the PRC based on the locations to which our products were shipped. All of our long-lived assets are located in the PRC.

	Years Ended December 31,					
	2009		2008		2007	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
	(U.S. dollars in millions)					
The People's Republic of China	\$ 718.9	99%	\$ 534.5	99%	\$ 275.3	94%
United States of America	-	-	-	-	-	-
Other foreign countries	7.1	1	5.3	1	16.1	6
Totals	<u>\$ 726.0</u>	<u>100%</u>	<u>\$ 539.8</u>	<u>100%</u>	<u>\$ 291.4</u>	<u>100%</u>

We also sell directly to selected chains and independent resellers. Some of the major selection criteria we employ to screen resellers are as follows:

- Market potential of the reseller's location;
- Competitiveness of the local market;
- Location and coverage;
- Traffic density; and
- Credibility of the operator and market development capacity.

Retail Operations

We have successfully established a unique, vertically-integrated fresh meat and meat products supply chain from farming, slaughtering, cutting, processing and wholesaling to retailing via an exclusive network of showcase stores, network stores and supermarket brand counters. We believe our unique business model differentiates our company from other major national meat and meat products producers in the PRC. We have supplemented our wholesale channels by establishing a unique retail network to establish a second sales channel while minimizing channel conflict. We believe that by broadening awareness of our entire product line, our retail stores will help drive the revenues of all of our business lines, including the revenues of the retailers that are wholesaling portions of our product line.

Our advertising also generally promotes our brands rather than a particular store, in an effort to drive business to every retailer that carries our products and not just to our network of retail stores. The Company's marketing goals are not designed to take business from the supermarkets or other partners of our company, but to increase the overall number of buyers of our branded products.

Showcase Stores. Based on market research and evolving consumption trends, we have taken a customer-driven marketing approach and have focused on a core customer segment that consists of the middle class in the PRC, which generally includes the rapidly increasing number of households with annual income above RMB40,000-120,000 (U.S.\$5,800-\$17,000). We believe this consumer segment has disposable income and a willingness to spend on quality goods and services. A market analysis prepared in July 2008 by Access Asia concluded the middle-class segment of the PRC numbered approximately 35 million households in 2005 and is expected to climb sharply to over 92 million households by 2015. As a result, we are pursuing a first-mover advantage and have developed the concept of high-end specialty boutique grocery chain stores to offer our products and other merchandise for the convenience of a typical two-income, middle-class family that shops daily after work.

The showcase stores are designed to highlight all of our products, as well as to provide customers with a broad view of our strategies and goals. At December 31, 2009, there were 145 showcase stores, most of which were located at “Main & Main” locations in major cities within Henan province. The showcase stores are owned and operated by independent operators, but share the same design and physical layout, and are managed in accordance with our operating procedures. All employees of these stores are required to undergo our vigorous three-month training program. In addition, we establish the merchandising and pricing policies of these stores. During the year ended December 31, 2009, approximately 89% of all revenues generated in these stores are derived from sales of our products.

Network Stores. In addition to the showcase stores, we sell products through network stores that are owned and operated by independent operators. At December 31, 2009, there were 1,012 network stores that were generally located in the larger cities in Henan province and adjoining provinces. We provide the operators of the network stores standardized physical designs and layouts for each store, and the operators of the network stores manage the business following our management guidelines and pricing policies. Each store has the right to use “Zhongpin” logos and brands. During the year ended December 31, 2009, approximately 75% of the revenues generated from such stores are derived from the sale of our branded products.

Zhongpin Supermarket Counters. We also have established “Zhongpin” supermarket counters in supermarkets and local markets. At December 31, 2009, there were 2,048 Zhongpin supermarket counters. The counters are exclusive purveyors of our meats and meat products and are owned and operated by the supermarkets and local markets. A majority of the “Zhongpin” counters at supermarkets use our standardized physical design and layout in addition to related rules and guidelines provided by the supermarket partners.

Research and Development

Research and development continues to be a significant component of our strategy to extend our existing brands and product lines and expand into new branded items and product lines. In 1999, Henan Zhongpin founded Zhongpin Technology Research and Development Center, a food research institute in Change City, Henan province. In 2000, Henan Zhongpin established a technology center, which has evolved into the technical research center for the entire meat industry in Henan province. At December 31, 2009, the research center employed 115 scientists and technicians. The mission of the research center is to develop new processing technologies and food products. In addition, our product development team works with the China Meat Processing Research Center, the premier research institute for meat processing technology in the PRC, and we have jointly established a research center in Beijing. We also work with scientists and researchers from Beijing University, China Agricultural University, the Chinese Academy of Agricultural Science, Henan Agricultural University and other universities to develop production technologies and innovative meat products. At December 31, 2009, we had relationships with 76 scientists and experts who acted as our outside technical consultants.

The meat and meat processing industry in the PRC is regarded by the Central Government of the PRC as a “key” industry and certain participants in the industry, including our company, receive special technology subsidies and research grants for undertaking “technologies plan projects” for the government. To receive these subsidies and grants, the recipients must complete the research and development objectives assigned by the government, and all funds must be used to pay project-related costs, such as training fees, laboratory costs or the costs of importing technology. As a qualified company, we are undertaking research and development projects for both the Central Government of the PRC and the Henan provincial government. Please refer to Note 15 to our audited financial statements for more information about government subsidies.

During 2009, we launched 78 new products that were developed in our technology center and, at December 31, 2009, we had approximately 108 new products under development. Our expenditures for research and development for the years ended December 31, 2009, 2008 and 2007 were approximately \$2.8 million, \$3.2 million and \$1.8 million, respectively.

Intellectual Property

We regard brand positioning as the core of our competitive strategy. Since the ultimate aim of our business strategy is to satisfy the customer, gaining a valued position in the minds of customers is of paramount importance. Our branding process seeks to create a unique identity and to properly position our brand platform. We intend to position our “Zhongpin” brand, and to protect our brand identity, in order to create the perception and image of *“health, nutrition, freshness and quality”* in the minds of our customers.

We have registered our “Zhongpin” trademark in the PRC (including Hong Kong and Macau), Australia, Belgium, Canada, France, Germany, Holland, Italy, Japan, Luxemburg, the Philippines, Russia, Singapore, South Korea, Spain, the United Kingdom and the United States.

We cannot give any assurance that the protection afforded our intellectual property will be adequate. It may be possible for third parties to obtain and use, without our consent, intellectual property that we own or are licensed to use. Unauthorized use of our intellectual property by third parties, and the expenses incurred in protecting our intellectual property rights, may adversely affect our business. See “Item 1A. Risk Factors - Risks Related to Our Business - Failure to adequately protect our intellectual property rights may undermine our competitive position, and litigation to protect our intellectual property rights may be costly.”

Competition

The production and sale of meat and food products in the PRC and internationally are highly competitive. There are numerous producers of processed meat products in the PRC, a number of which market their products under different brand names. We believe most of these producers have only one or two lines of production facilities and sell their products primarily in the areas surrounding their facilities. Due to the lack of logistics capabilities, we believe there are no national market leaders in the meat industry in the PRC. As a result, our products compete with different brands in different areas of the PRC. A number of our competitors, including Henan Shuanghui (Shineway) Food Co., Ltd., Yurun Food Group Limited and People’s Food Holdings Limited, have greater resources, own or control more processing plants and equipment, or offer a larger product line than we do. In addition, a number of the world’s largest food processing companies have recently established joint ventures with food manufacturers or producers in the PRC, and we expect competition from these ventures to increase in the future.

We believe all food segments in the PRC compete on the basis of price, product quality, brand identification and customer service. Our competitive strategy is to provide, through our aggressive marketing and strong quality assurance programs, a higher quality of products that possess strong brand recognition, which will in turn support higher value perceptions from customers.

Government Regulation

The PRC government is actively promulgating a plan for “safe meat” and is expected to raise the proportion of slaughtering automation to over 70% of all meat and actively enforce authorized slaughtering and quarantine. Special grants, subsidized financing, preferential tax policies, governmental funding and other subsidies are provided to enterprises in order to acquire state-of-the-art technology and equipment in meat processing. Such government incentives provide competitive advantages and opportunities to well-performing companies because such policies work to raise the bar for entering the industry and to eliminate inefficient companies in the industry. We expect such government support for the processing of agricultural products to continue for a number of years in the foreseeable future. However, the determination as to whether we can continue to benefit from such government programs in the future will depend on how the government administers its incentive programs and how well we perform. If we maintain the current trend in our performance, it is possible we may obtain further government support through such incentive programs.

The 11th Five-Year Development Program of the China Meat Industry, promulgated in 2006, set the following guidelines in agriculture.

- To develop a modern agriculture industry and to optimize production to promote high-yield, environmentally friendly, high quality and safe products;
- To integrate agricultural information resources to promote advanced technology in rural areas and to provide services to farmers;
- To increase the income of farmers by developing high-value-added products, creating jobs for farmers and providing direct government subsidies; and
- To support the development of a competitive and quality domestic market.

We are also subject to stringent environmental regulations. See “Item 1A. Risk Factors - Risks Relating to Our Business - Our failure to comply with increasingly stringent environmental regulations and related litigation could result in significant penalties, damages and adverse publicity for our business.”

Employees

As of December 31, 2009, we employed 6,256 employees, of whom 4,489 were operating personnel, 1,273 were sales personnel, 115 were research and development personnel and 379 were administrative personnel. We are not subject to any collective bargaining agreement and we believe our relationship with our employees is good.

Additional Available Information

We are a reporting company and file annual, quarterly and special reports, proxy statements and other information with the SEC. You may read and copy these reports, proxy statements and other information at the SEC's Public Reference Room at 100 F Street N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 or e-mail the SEC at publicinfo@sec.gov for more information on the operation of the public reference room. Our SEC filings are also available at the SEC's website at <http://www.sec.gov>. Our Internet address is <http://www.zpfood.com>. There we make available, free of charge, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and any amendments to those reports, as soon as reasonably practicable after we electronically file such material with, or furnish such material to, the SEC. However, the information on our website is not a part of, nor is such information to be deemed incorporated by reference into, this report.

Item 1A. – Risk Factors

Risks Relating To Our Business

If there are any interruptions to or a decline in the amount or quality of our live pigs, raw pork or other major raw material supply, our production or sales could be materially and adversely affected.

Live pigs and raw pork are the principal raw materials used in our production. We procure all of our live pigs and some of our raw meat from a number of third-party suppliers. The supply of pork is dependent on the output of pig farms, which may be affected by outbreaks of diseases or epidemics. Our current suppliers may not be able to provide live pigs or raw pork of sufficient quality to meet our stringent quality control requirements. Any interruptions to or decline in the amount or quality of our live pigs or raw pork supply could materially disrupt our production and adversely affect our business. In addition to live pigs and raw pork, we also use additives and packaging in our production, which we source from third-party suppliers, and resell a wide variety of fruits and vegetables, which we purchase from third-party farms. Any interruptions to or decline in the amount or quality of our additives or packaging supply, or in the fruits or vegetables we procure, could also disrupt our production or sales and adversely affect our business. We are vulnerable to further increases in the price of raw materials (particularly of live pigs and raw pork) and other operating costs, and we may not be able to entirely offset these increasing costs by increasing the prices of our products, particularly our processed meat products.

We may be unable to anticipate changes in consumer preferences for processed meat products, which may result in decreased demand for our products.

Our continued success in the processed meat products market is in large part dependent on our ability to anticipate and develop products that appeal to the changing tastes, dietary habits and preferences of our customers. If we are not able to anticipate and identify new consumer trends and develop new products accordingly, demand for our products may decline and our operating results may be adversely affected. In addition, we may incur significant costs relating to developing and marketing new products or expanding our existing product lines in reaction to what we perceive to be a consumer preference or demand. Such development or marketing may not result in the level of market acceptance, volume of sales or profitability anticipated.

If the chilled and frozen pork market in the PRC does not grow as we expect, our results of operations and financial condition may be adversely affected.

We believe chilled and frozen pork products have strong growth potential in the PRC and, accordingly, we have continuously increased our sales of chilled and frozen pork. If the chilled and frozen pork market in the PRC does not grow as we expect, our business may be harmed, we may need to adjust our growth strategy and our results of operations may be adversely affected.

We require various licenses and permits to operate our business, and the loss of or failure to renew any or all of these licenses and permits could require us to suspend some or all of our production or distribution operations.

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 slaughtering permit in respect of each of our chilled and frozen pork production facilities and a permit for production of industrial products in respect of each of our processed meat production facilities. We are required to comply with applicable hygiene and food safety standards in relation to our production processes. Our premises and transportation vehicles are subject to regular inspections by the regulatory authorities for compliance with applicable regulations. Failure to pass these inspections, or the loss of or failure to renew our licenses and permits, could require us to temporarily or permanently suspend some or all of our production or distribution operations, which could disrupt our operations and adversely affect our revenues and profitability.

Our ability to export may be restricted if we cannot maintain current licenses or obtain additional licenses in other countries and regions.

For the three years ended December 31, 2009, 2008 and 2007, revenue attributable to our export business as a percentage of our total revenue was approximately 1%, 1% and 6%, respectively. We must maintain certain licenses from applicable foreign governments in order to continue to export to those jurisdictions. In addition, we must apply for licenses from applicable foreign governments should we desire to export our products to countries with which we currently do not have business relations. We cannot assure you that we can maintain our current licenses for export or obtain licenses to export to countries with which we do not currently have business relations. The loss of any licenses or the inability to obtain new licenses to export may adversely affect the aggregate amount of our export sales and the profitability of our business.

The loss of senior management or key research and development personnel or our inability to recruit additional personnel may harm our business.

We are highly dependent on our senior management to manage our business and operations and our key research and development personnel for the development of new processing technologies and food products and the enhancement of our existing products. In particular, we rely substantially on our chairman and chief executive officer, Mr. Xianfu Zhu, and our executive vice president, Mr. Baoke Ben, to manage our operations. We also depend on our key research personnel for the development of new products and manufacturing methods, on our key information technology and logistics personnel for the production, storage and shipment of our products and on our key marketing and sales personnel, engineers and other personnel with technical and industry knowledge to transport, market and sell our products. We do not maintain key man life insurance on any of our senior management or key personnel. The loss of any one of them, in particular Mr. Zhu or Mr. Ben, would have a material adverse effect on our business and operations. Competition for senior management and our other key personnel is intense and the pool of suitable candidates is limited. We may be unable to locate a suitable replacement for any senior management or key personnel that we lose. In addition, if any member of our senior management or key personnel joins a competitor or forms a competing company, they may compete with us for customers, business partners and other key professionals and staff members of our company. Although each of our senior management and key personnel has signed a confidentiality and non-competition agreement in connection with his employment with us, we cannot assure you that we will be able to successfully enforce these provisions in the event of a dispute between us and any member of our senior management or key personnel.

We compete for qualified personnel with other food processing companies, food retailers, logistics companies and research institutions. Intense competition for these personnel could cause our compensation costs to increase significantly, which could have a material adverse effect on our results of operations. Our future success and ability to grow our business will depend in part on the continued service of these individuals and our ability to identify, hire and retain additional qualified personnel. If we are unable to attract and retain qualified employees, we may be unable to meet our business and financial goals.

Our growth strategy may prove to be disruptive and divert management resources, which could adversely affect our existing businesses.

Over the last three years, we constructed, leased or acquired several new production facilities, both within and outside of Henan province. Our growth strategy includes the continued expansion of our manufacturing operations and may include acquisitions of additional products, manufacturing or production capabilities or sources of supply. In addition, we intend to expand our network of sales offices and warehouses to additional cities in the PRC. The implementation of such strategy may involve large transactions and present financial, managerial and operational challenges, including diversion of management attention from existing businesses, difficulty with integrating personnel and financial and other systems, increased expenses, including compensation expenses resulting from newly-hired employees, assumption of unknown liabilities and potential disputes. We also could experience financial or other setbacks if any of our growth strategies incur problems of which we are not presently aware.

We may require additional financing in the future and our operations could be curtailed if we are unable to obtain required additional financing when needed.

We may need to obtain additional debt or equity financing to fund future capital expenditures. Additional equity may result in dilution to the holders of our outstanding shares of capital stock. Additional debt financing may include conditions that would restrict our freedom to operate our business, such as conditions that:

- limit our ability to pay dividends or require us to seek consent for the payment of dividends;
- increase our vulnerability to general adverse economic and industry conditions;
- require us to dedicate a portion of our cash flow from operations to payments on our debt, thereby reducing the availability of our cash flow to fund capital expenditures, working capital and other general corporate purposes; and

- limit our flexibility in planning for, or reacting to, changes in our business and our industry.

We cannot guarantee that we will be able to obtain any additional financing on terms that are acceptable to us, or at all.

If the world-wide financial crisis intensifies, potential disruptions in the capital and credit markets may adversely affect our business, including the availability and cost of short-term funds for liquidity requirements, our ability to meet short-term and long-term commitments and our ability to grow our business; each could adversely affect our results of operations, cash flows and financial condition.

The global economy has recently experienced a significant contraction, with an almost unprecedented lack of availability of business and consumer credit. We rely on the credit markets, particularly for short-term borrowings from banks in the PRC, as well as the capital markets, to meet our financial commitments and short-term liquidity needs if internal funds are not available from our operations. Disruptions in the credit and capital markets, as have been experienced since mid-2008, could adversely affect our ability to draw on our short-term bank facilities. Our access to funds under these credit facilities is dependent on the ability of the banks that are parties to those facilities to meet their funding commitments, which may be dependent on governmental economic policies in the PRC. Those banks may not be able to meet their funding commitments to us if they experience shortages of capital and liquidity or if they experience excessive volumes of borrowing requests from us and other borrowers within a short period of time.

Long-term disruptions in the credit and capital markets, similar to those that have been experienced since mid-2008, could result from uncertainty, changing or increased regulation, reduced alternatives or failures of significant financial institutions and could adversely affect our access to liquidity needed for our business. Any disruption could require us to take measures to conserve cash until the markets stabilize or until alternative credit arrangements or other funding for our business needs can be arranged. Such measures could include deferring capital expenditures, and reducing or eliminating discretionary uses of cash.

Continued market disruptions could cause broader economic downturns, which may lead to lower demand for our products and increased incidence of customers' inability to pay their accounts. Further, bankruptcies or similar events by customers may cause us to incur bad debt expense at levels higher than historically experienced. These events would adversely affect our results of operations, cash flows and financial position.

Our operations are cash intensive and our business could be adversely affected if we fail to maintain sufficient levels of working capital.

We expend a significant amount of cash in our operations, principally to fund our raw material procurement. Our suppliers, in particular, suppliers of pigs, typically require payment in full within seven days after delivery, although some of our suppliers provide us with credit. In turn, we typically require our customers of chilled and frozen pork to make payment in full on delivery, although we offer some of our long-standing customers credit terms. We generally fund most of our working capital requirements out of cash flow generated from operations. If we fail to generate sufficient revenues from our sales, or if we experience difficulties collecting our accounts receivable, we may not have sufficient cash flow to fund our operating costs and our profitability could be adversely affected.

We may be unable to maintain our profitability in the face of a consolidating retail environment in the PRC.

We sell substantial amounts of our products to supermarkets and large retailers. The supermarket and food retail industry in the PRC has been, and is expected to continue, undergoing a trend of development and consolidation. As the retail food trade continues to consolidate and our retail customers grow larger and become more sophisticated, they may demand lower pricing and increased promotional programs. Furthermore, larger customers may be better able to operate on reduced inventories and potentially develop or increase their focus on private label products. If we fail to maintain a good relationship with our large retail customers, or maintain a wide offering of quality products, or if we lower our prices or increase promotional support of our products in response to pressure from our customers and are unable to increase the volume of our products sold, our profitability could decline.

Our operating results may fluctuate from period to period and if we fail to meet market expectations for a particular period, our share price may decline.

Our operating results have fluctuated from period to period and are likely to continue to fluctuate as a result of a wide range of factors, including seasonal variations in live pig supply and processed meat products consumption. For example, demand for our products in general is relatively high before the Chinese New Year in January or February each year and lower thereafter. Our production and sales of chilled and frozen pork are generally lower in the summer due to a lower supply of live pigs, as well as a slight drop in meat consumption during the hot summer months. Interim reports may not be indicative of our performance for the year or our future performance, and period-to-period comparisons may not be meaningful due to a number of reasons beyond our control. We cannot assure you that our operating results will meet the expectations of market analysts or our investors. If we fail to meet their expectations, there may be a decline in our share price.

We derive a substantial portion of our revenues from sales in the PRC and any downturn in the Chinese economy could have a material adverse effect on our business and financial condition.

Substantially all of our revenues are generated from sales in the PRC. We anticipate that revenues from sales of our products in the PRC will continue to represent a substantial proportion of our total revenues in the near future. Any significant decline in the condition of the PRC economy could, among other things, adversely affect consumer buying power and discourage consumption of our products, which in turn would have a material adverse effect on our revenues and profitability.

We rely on our exclusive network of showcase stores, network stores and supermarket brand counters for the success of our sales and our brand image, and should they perform poorly, our revenues and brand image could be materially and adversely affected.

In addition to our sales to wholesale customers, we sell our products through showcase stores, network stores and supermarket brand counters. All of these retail-based stores exclusively sell our pork products and display the Zhongpin logo on the fascia of the stores. For the years ended December 31, 2009, 2008 and 2007, these retail outlets accounted for approximately 41%, 42% and 44%, respectively, of our total revenue. Any significant deterioration in the sales performance of our retail-based stores could adversely affect our financial results. In addition, any sanitation, hygiene or food quality problems that might arise from the retail-based stores could adversely affect our brand image and lead to a loss of sales. We do not own or franchise any of the retail-based stores.

We rely on the performance of our large retailers and mass merchant customers for the success of our sales, and should they perform poorly or give priority to our competitors' products, our sales performance and branding image could be materially and adversely affected.

In addition to our retail sales channel, we sell our products to supermarkets and large retailers, which in turn sell the products to end consumers. Any significant deterioration in the sales performance of our wholesale customers could adversely affect the performance of our products. Furthermore, our wholesale customers also carry products that directly compete with our products for retail space and consumer purchases. There is a risk that our wholesale customers may give higher priority to products of, or form alliances with, our competitors. If our wholesale customers do not continue to purchase our products, or provide our products with similar levels of promotional support, our sales performance and brand imaging could be adversely affected.

The loss of any of our significant customers could reduce our revenues and our profitability.

Our key customers are principally supermarkets and large retailers in the PRC. For the years ended December 31, 2009, 2008 and 2007, sales to our five largest customers amounted in the aggregate to approximately \$85.5 million, \$81.2 million and \$48.4 million, respectively, accounting for approximately 12%, 15% and 17%, respectively, of our total revenue. We have not entered into long-term supply contracts with any of these major customers. Therefore, there can be no assurance that we will maintain or improve the relationships with these customers, or that we will be able to continue to supply these customers at current levels or at all. If we cannot maintain long-term relationships with our major customers, the loss of a significant portion of our sales to them could have an adverse effect on our business, financial condition and results of operations.

Recent regulatory enforcement crackdowns on food processing companies in the PRC could increase our compliance costs and reduce our profitability.

We believe we are in compliance in all material respects with all applicable regulatory requirements of the PRC and all local jurisdictions in which we operate. However, the PRC government authorities recently have taken certain measures to maintain the PRC food market in good order and to improve the integrity of the PRC food industry, such as enforcing full compliance with industry standards and closing certain food processing companies in the PRC that did not meet regulatory standards. While the closing of competing meat processing plants that do not meet regulatory standards could increase our revenues in the long term, we may also experience increased regulatory compliance costs that could reduce our profitability. We also cannot assure you that our businesses and operations will not be affected as a result of the deteriorating reputation of the food industry in the PRC due to recent scandals regarding food products.

Our failure to comply with increasingly stringent environmental regulations and related litigation could result in significant penalties, damages and adverse publicity for our business.

Our operations and properties are subject to extensive and increasingly stringent laws and regulations pertaining to, among other things, the discharge of materials into the environment and the handling and disposition of wastes (including solid and hazardous wastes) or otherwise relating to protection of the environment. Failure to comply with any laws and regulations and future changes to them may result in significant consequences to us, including civil and criminal penalties, liability for damages and negative publicity.

We have incurred, and will continue to incur, significant capital and operating expenditures to comply with these laws and regulations. We cannot assure you that additional environmental issues will not require currently unanticipated investigations, assessments or expenditures, or that requirements applicable to us will not be altered in ways that will require us to incur significant additional costs.

Our largest stockholder has significant influence over our management and affairs and could exercise this influence against your best interests.

At March 5, 2010, Mr. Xianfu Zhu, our founder, Chairman of the Board and Chief Executive Officer and our largest stockholder, beneficially owned approximately 18.3% of our outstanding shares of common stock, and our other executive officers and directors collectively beneficially owned an additional 4.2% of our outstanding shares of common stock. As a result, pursuant to our By-laws and applicable laws and regulations, our controlling shareholder and our other executive officers and directors are able to exercise significant influence over our company, including, but not limited to, any stockholder approvals for the election of our directors and, indirectly, the selection of our senior management, the amount of dividend payments, if any, our annual budget, increases or decreases in our share capital, new securities issuance, mergers and acquisitions and any amendments to our By-laws. Furthermore, this concentration of ownership may delay or prevent a change of control or discourage a potential acquirer from making a tender offer or otherwise attempting to obtain control of us, which could decrease the market price of our shares.

Deterioration of our perishable products may occur due to delivery delays, malfunctioning of freezer facilities or poor handling during transportation, which could adversely affect our revenues and the goodwill of our business.

The condition of our food products (being perishable goods) may deteriorate due to shipment or delivery delays, malfunctioning of freezer facilities or poor handling during delivery by shippers or intermediaries. We are not aware of any instances whereby we were made to compensate for delivery delays, malfunctioning of freezer facilities or poor handling during transportation. However, there is no assurance that such incidents will not occur in the future. In the event of any delivery delays, malfunctioning of freezer facilities or poor handling during transportation, we may have to make compensation payments and our reputation, business goodwill and revenue will be adversely affected.

If we fail to develop and maintain an effective system of internal controls, we may not be able to accurately report our financial results or prevent fraud; as a result, current and potential shareholders could lose confidence in our financial reports, which could harm our business and the trading price of our common stock.

Effective internal controls are necessary for us to provide reliable financial reports and effectively prevent fraud. Section 404 of the Sarbanes-Oxley Act of 2002 requires us to evaluate and report on our internal controls over financial reporting and have our independent registered public accounting firm annually attest to our evaluation, as well as issue their own opinion on our internal controls over financial reporting. We cannot be certain that the measures we have undertaken to comply with Section 404 will ensure that we will maintain adequate controls over our financial processes and reporting in the future. Furthermore, if we are able to rapidly grow our business, the internal controls that we will need will become more complex, and significantly more resources will be required to ensure our internal controls remain effective. Failure to implement required controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to meet our reporting obligations. If we or our auditors discover a material weakness in our internal controls, the disclosure of that fact, even if the weakness is quickly remedied, could diminish investors' confidence in our financial statements and harm our stock price. In addition, non-compliance with Section 404 could subject us to a variety of administrative sanctions, including the suspension of trading, ineligibility for listing on one of the national securities exchanges and the inability of registered broker-dealers to make a market in our common stock, which could reduce our stock price.

If we are required to make a payment under our guarantee of the indebtedness of Huanghe Group Co., Ltd., our liquidity may be adversely affected, which could harm our financial condition and results of operations.

In June 2009, Henan Zhongpin entered into a mutual guarantee agreement with Huanghe Group Co., Ltd., a group corporation based in Henan province, PRC that is not affiliated with our company or with any of our subsidiaries (“Huanghe Group”). Under the agreement, Henan Zhongpin agreed to guarantee bank loans of Huanghe Group in an amount up to \$8.8 million and Huanghe Group agreed to guarantee Henan Zhongpin’s bank loans in an amount up to \$8.8 million. The agreement expires in June 2010. In September 2009, Henan Zhongpin entered into a mutual guarantee agreement with Huanghe Group. Under the agreement, Henan Zhongpin agreed to guarantee bank loans of Huanghe Group in an amount up to \$5.9 million and Huanghe Group agreed to guarantee Henan Zhongpin’s bank loans in an amount up to \$5.9 million. The agreement expires in September 2010. At the expiration of the agreements, each party will remain obligated under its guarantee for any loans of the other party that are outstanding on the date of expiration of the agreements. At December 31, 2009, Henan Zhongpin had outstanding guarantees for \$14.6 million of Huanghe Group’s bank loans under the agreements. All of the bank loans of Huanghe Group guaranteed by Henan Zhongpin will mature within the next 12 months. However, we may extend the mutual guarantee agreement with Huanghe Group or enter into a similar mutual guarantee agreement with another unaffiliated entity in the future. If Huanghe Group or any other entity with which we have a mutual guarantee agreement defaults on its bank loans and we or one of our subsidiaries is required to pay all or a portion of such loans under a mutual guarantee agreement, we or such subsidiary will be required to seek reimbursement for such payment from the unaffiliated entity. In such event, it is unlikely that the unaffiliated entity will be able to make such reimbursement and we may be unable to recoup the amount we paid at such time, if ever. Further, under a mutual guarantee agreement, we or such subsidiary may be required to make payment at a time when we or such subsidiary does not have sufficient cash to make such payment and at a time when we or such subsidiary may be unable to borrow such funds on terms that are acceptable, if at all. As a result, any demand for payment under a mutual guarantee agreement to which we or one of our subsidiaries is a party may have an adverse affect on our liquidity, financial condition and results of operations.

A general economic downturn, a recession or a sudden disruption in business conditions in the PRC may affect consumer purchases of discretionary items, including food products, which could adversely affect our business.

Consumer spending is generally affected by a number of factors, including general economic conditions, the level of unemployment, inflation, interest rates, energy costs, gasoline prices and consumer confidence generally, all of which are beyond our control. Consumer purchases of discretionary items tend to decline during recessionary periods, when disposable income is lower, and may affect sales of our products. In addition, sudden disruption in business conditions as a result of a terrorist attack, retaliation and the threat of further attacks or retaliation, war, adverse weather conditions and climate changes or other natural disasters, pandemic situations or large scale power outages can have a short or, sometimes, long-term effect on consumer spending. A downturn in the economy in the PRC, including any recession or a sudden disruption of business conditions in those economies, could adversely affect our business, financial condition or results of operation.

Risks Relating To Our Industry

The recent outbreak of swine influenza (swine flu) or other diseases could adversely affect our business, results of operations and financial condition.

A spread of swine influenza (A/H1N1 flu), a form influenza, or any outbreak of other epidemics in the PRC affecting animals or humans might result in material disruptions to our operations, material disruptions to the operations of our customers or suppliers, a decline in the supermarket or food retail industry or slowdown in economic growth in the PRC and surrounding regions, any of which could have a material adverse effect on our operations and sales revenue. According to the World Health Organization (WHO), over 12,000 people have died of A/H1N1 flu worldwide in 2009. Since June 11, 2009, WHO has maintained its flu alert level at level 6, the highest level, which indicates a pandemic, although the WHO maintains that the severity of the pandemic is moderate. As of December 31, 2009 more than 120,000 confirmed cases of A/H1N1 in humans were reported by health officials in China, with the death toll at 648. According to the U.S. Center for Disease Control and Prevention, A/H1N1 flu cannot be contracted by humans through eating properly-handled and cooked pork or pork products. In addition, our procurement and production facilities have not been affected by A/H1N1 flu and we are not aware of any recent cases of A/H1N1 flu anywhere in the PRC. However, negative association of the A/H1N1 flu with pigs and pork products could have a negative impact on sales of pork products. Moreover, there can be no assurance that our facilities or products will not be affected by A/H1N1 flu or similar influenzas in the future, or that the market for pork products in the PRC will not decline as a result of fear of such disease. If either case should occur, our business, results of operations and financial condition would be adversely and materially affected.

The pig slaughtering and processed meat industries in the PRC are subject to extensive government regulation, which is still evolving and could adversely affect our ability to sell products in the PRC or increase our production costs.

The pig slaughtering and processed meat industries in the PRC are heavily regulated by a number of governmental agencies, including primarily the Ministry of Agriculture, the Ministry of Commerce, the Ministry of Health, the General Administration of Quality Supervision, Inspection and Quarantine and the State Environmental Protection Administration. These regulatory bodies have broad discretion and authority to regulate many aspects of the pig slaughtering and processed meat industries in the PRC, including, without limitation, setting hygiene standards for production and quality standards for processed meat products. In addition, the pig slaughtering and processed meat products regulatory framework in the PRC is still in the process of being developed. If the relevant regulatory authorities set standards with which we are unable to comply or which increase our production costs and hence our prices so as to render our products non-competitive, our ability to sell products in the PRC may be limited.

The pig slaughtering and processed meat industries in the PRC may face increasing competition from both domestic and foreign companies, as well as increasing industry consolidation, which may affect our market share and profit margin.

The pig slaughtering and processed meat industries in the PRC are highly competitive. Our processed meat products are targeted at mid- to high-end consumers, a market in which we face increasing competition, particularly from foreign suppliers. In addition, the evolving government regulations in relation to the pig slaughtering industry has driven a trend of consolidation through the industry, with smaller operators unable to meet the increasing costs of regulatory compliance and therefore at a competitive disadvantage. We believe that our ability to maintain our market share and grow our operations within this landscape of changing and increasing competition is largely dependent upon our ability to distinguish our products and services.

We cannot assure you that our current or potential competitors will not develop products of a comparable or superior quality to ours, or adapt more quickly than we do to evolving consumer preferences or market trends. In addition, our competitors in the raw meat market may merge or form alliances to achieve a scale of operations or sales network which would make it difficult for us to compete. Increased competition may also lead to price wars, counterfeit products or negative brand advertising, all of which may adversely affect our market share and profit margin. We cannot assure you that we will be able to compete effectively with our current or potential competitors.

The outbreak of animal diseases or other epidemics could adversely affect our operations.

An occurrence of serious animal diseases, such as foot-and-mouth disease, or any outbreak of other epidemics in the PRC affecting animals or humans might result in material disruptions to our operations, material disruptions to the operations of our customers or suppliers, a decline in the supermarket or food retail industry or slowdown in economic growth in the PRC and surrounding regions, any of which could have a material adverse effect on our operations and turnover. In 2006, there was an outbreak of streptococcus suis in pigs, principally in Sichuan province, PRC, with a large number of cases of human infection following contact with diseased pigs. There also were unrelated reports of diseased pigs in Guangdong province, PRC. Our procurement and production facilities are located in Henan province, PRC and were not affected by the streptococcus suis infection. In March 2010, there were reports of an outbreak of foot-and-mouth disease in Guangdong province, PRC and a total of 8,382 pigs have been culled after such disease break as of March 2, 2010. There can be no assurance that our facilities or products will not be affected by an outbreak of this disease or similar ones in the future, or that the market for pork products in the PRC will not decline as a result of fear of disease. In either case, our business, results of operations and financial condition would be adversely and materially affected.

Consumer concerns regarding the safety and quality of food products or health concerns could adversely affect sales of our products.

Our sales performance could be adversely affected if consumers lose confidence in the safety and quality of our products. Consumers in the PRC are increasingly conscious of food safety and nutrition. Consumer concerns about, for example, the safety of pork products, or about the safety of food additives used in processed meat products, could discourage them from buying certain of our products and cause our results of operations to suffer.

We may be subject to substantial liability should the consumption of any of our products cause personal injury or illness and, unlike most food processing companies in the United States, we do not maintain product liability insurance to cover our potential liabilities.

The sale of food products for human consumption involves an inherent risk of injury to consumers. Such injuries may result from tampering by unauthorized third parties or product contamination or degeneration, including the presence of foreign contaminants, chemical substances or other agents or residues during the various stages of the procurement and production process. While we are subject to governmental inspections and regulations, we cannot assure you that consumption of our products will not cause a health-related illness in the future, or that we will not be subject to claims or lawsuits relating to such matters.

Even if a product liability claim is unsuccessful or is not fully pursued, the negative publicity surrounding any assertions that our products caused personal injury or illness could adversely affect our reputation with customers and our corporate and brand image. Unlike most food processing companies in the United States, but in line with industry practice in the PRC, we do not maintain product liability insurance. Furthermore, our products could potentially suffer from product tampering, contamination or degeneration or be mislabeled or otherwise damaged. Under certain circumstances, we may be required to recall products. Even if a situation does not necessitate a product recall, we cannot assure you that product liability claims will not be asserted against us as a result. A product liability judgment against us or a product recall could have a material adverse effect on our revenues, profitability and business reputation.

Our product and company name may be subject to counterfeiting and/or imitation, which could have an adverse effect upon our reputation and brand image, as well as lead to higher administrative costs.

We regard brand positioning as the core of our competitive strategy, and intend to position our “Zhongpin” brand to create the perception and image of “health, nutrition, freshness and quality” in the minds of our customers. There have been frequent occurrences of counterfeiting and imitation of products in the PRC in the past. We cannot guarantee that counterfeiting or imitation of our products will not occur in the future or that we will be able to detect it and deal with it effectively. Any occurrence of counterfeiting or imitation could negatively affect our corporate and brand image, particularly if the counterfeit or imitation products cause sickness, injury or death to consumers. In addition, counterfeit or imitation products could result in a reduction in our market share, a loss of revenues or an increase in our administrative expenses in respect of detection or prosecution.

Failure to adequately protect our intellectual property rights may undermine our competitive position, and litigation to protect our intellectual property rights may be costly.

We have registered our trademark “Zhongpin” in the PRC for the product categories for which it is currently used. However, there can be no assurance that additional applications, if any, we make to register such mark, or any other tradename or trademark we may seek to register, will be approved and/or that the right to the use of any such trademarks outside of their respective current areas of usage will not be claimed by others. We also own the rights to two domain names that we use in connection with the operation of our business. We believe that such trademarks and domain names provide us with the opportunity to enhance our marketing efforts for our products. Failure to protect our intellectual property rights may undermine our marketing efforts and result in harm to our reputation and the growth of our business.

PRC intellectual property-related laws and their implementation are still under development. Accordingly, intellectual property rights in China may not be as effective as in the United States or many other countries. Litigation may be necessary to enforce our intellectual property rights and the outcome of any such litigation may not be in our favor. Given the relative unpredictability of China’s legal system and potential difficulties enforcing a court judgment in China, there is no guarantee that we would be able to halt the unauthorized use of our intellectual property through litigation in a timely manner or at all. Furthermore, any such litigation may be costly and may divert management attention away from our business and cause us to expend significant resources. An adverse determination in any such litigation will impair our intellectual property rights and may harm our business, prospects and reputation. We have no insurance coverage against litigation costs so we would be forced to bear all litigation costs if we cannot recover them from other parties. All of the foregoing factors could harm our business and financial condition.

Risks Relating To Conducting Business in the PRC

Substantially all of our assets and operations are located in the PRC, and substantially all of our revenue is sourced from the PRC. Accordingly, our results of operations and financial position are subject to a significant degree to economic, political and legal developments in the PRC, including the following risks:

Changes in the political and economic policies of the PRC government could have a material adverse effect on our operations.

Our business operations may be adversely affected by the political and economic environment in the PRC. The PRC has operated as a socialist state since 1949 and is controlled by the Communist Party of China. As such, the economy of the PRC differs from the economies of most developed countries in many respects, including, but not limited to:

- structure
- government involvement
- level of development
- growth rate
- capital re-investment
- allocation of resources
- control of foreign exchange
- rate of inflation

In recent years, however, the government has introduced measures aimed at creating a “socialist market economy” and policies have been implemented to allow business enterprises greater autonomy in their operations. Nonetheless, a substantial portion of productive assets in the PRC is still owned by the PRC government. Changes in the political leadership of the PRC may have a significant effect on laws and policies related to the current economic reforms program, other policies affecting business and the general political, economic and social environment in the PRC, including the introduction of measures to control inflation, changes in the rate or method of taxation, the imposition of additional restrictions on currency conversion and remittances abroad, and foreign investment. Moreover, economic reforms and growth in the PRC have been more successful in certain provinces in the PRC than in others, and the continuation or increases of such disparities could affect the political or social stability in the PRC.

Although we believe the economic reform and the macroeconomic measures adopted by the Chinese government have had a positive effect on the economic development in the PRC, the future direction of these economic reforms is uncertain and the uncertainty may decrease the attractiveness of our company as an investment, which may in turn materially adversely affect the price at which our stock trades.

Social Conditions in the PRC could have a material adverse effect on our operations as the PRC government continues to exert substantial influence over the manner in which we must conduct our business activities.

The government of the PRC 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 the PRC may be adversely affected by changes in Chinese laws and regulations, including those relating to taxation, import and export tariffs, environmental regulations, land use rights, property and other matters. We believe our operations in the PRC are in compliance with all applicable legal and regulatory requirements. However, the central or local governments 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. Were the PRC government, or local municipalities, to limit our ability to develop, produce, import or sell our products in the PRC, or to finance and operate our business in the PRC, our business could be adversely affected.

Recent regulatory reforms in the PRC may limit our ability as a foreign investor to acquire additional companies or businesses in the PRC, which could hinder our ability to expand in the PRC and adversely affect our long-term profitability.

Our long-term business plan may include an acquisition strategy to increase the number or types of products we offer, increase our manufacturing or production capabilities, strengthen our sources of supply or broaden our geographic reach. Recent PRC regulations relating to acquisitions of PRC companies by foreign entities may limit our ability to acquire PRC companies and adversely affect the implementation of our strategy as well as our business and prospects.

On August 8, 2006, the PRC Ministry of Commerce, the State-owned Assets Supervision and Administration Commission, the State Administration of Taxation, the State Administration for Industry and Commerce, the China Securities Regulatory Commission and the State Administration of Foreign Exchange jointly promulgated a new rule entitled “Provisions Regarding Mergers and Acquisitions of Domestic Enterprises by Foreign Investors” (the “M&A Rules”), which became effective on September 8, 2006, relating to acquisitions by foreign investors of businesses and entities in the PRC. The M&A Rules provide the basic framework in the PRC for the approval and registration of acquisitions of domestic enterprises in the PRC by foreign investors.

The M&A Rules establish additional procedures and requirements that could make some acquisitions of Chinese companies by foreign investors more time-consuming and complex than in the past. After the promulgation of the M&A Rules, the PRC government can now exert more control over the acquisitions of Chinese companies, including requirements in some instances that the Ministry of Commerce be notified in advance of any change-of-control transaction in which a foreign investor takes control of a Chinese domestic enterprise.

The M&A Rules stress the necessity of protecting national economic security in the PRC in the context of foreign acquisitions of domestic enterprises. Foreign investors must comply with comprehensive reporting requirements in connection with acquisitions of domestic companies in key industrial sectors that may affect the security of the “national economy” or in connection with acquisitions of domestic companies holding well-known trademarks or traditional brands in the PRC. Failure to comply with such reporting requirements that cause, or may cause, significant affect on national economic security may be terminated by the relevant ministries or be subject to other measures as are deemed necessary to mitigate any adverse effect.

Our business operations or future strategy could be adversely affected by the M&A Rules. For example, if we decide to acquire a PRC company, complying with the requirements of the M&A Rules to complete such transactions could be time-consuming, and any required approval processes, including obtaining approval from the Ministry of Commerce, may delay or inhibit our ability to complete such transactions. This may restrict our ability to implement our acquisition strategy and adversely affect our business and prospects.

PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may subject our PRC resident shareholders to personal liability and limit our PRC subsidiaries' ability to distribute profits to us, or otherwise materially and adversely affect us.

The PRC State Administration of Foreign Exchange, or SAFE, issued a public notice in October 2005 named Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in Financing and Return Investments via Overseas Special Purpose Vehicles, or the Circular 75, requiring PRC residents, including both legal persons and natural persons, to register with an appropriate local SAFE branch before establishing or controlling any company outside of China, referred to as an "offshore special purpose company," for the purpose of acquiring any assets of or equity interest in PRC companies and raising fund from overseas. When a PRC resident contributes the assets or equity interests it holds in a PRC company into the offshore special purpose company, or engages in overseas financing after contributing such assets or equity interests into the offshore special purpose company, such PRC resident shall modify its SAFE registration in light of its interest in the offshore special purpose company and any change thereof. In addition, any PRC resident that is the shareholder of an offshore special purpose company is required to amend its SAFE registration with the local SAFE branch, with respect to that offshore special purpose company in connection with any increase or decrease of capital, transfer of shares, merger, division, equity investment or creation of any security interest over any assets located in China. PRC residents who have established or acquired direct or indirect control of offshore companies that have made onshore investments in the PRC in the past are required to complete the registration procedures by March 31, 2006. To further clarify the implementation of Circular 75, SAFE issued Circular 124 and Circular 106 on November 24, 2005 and May 29, 2007, respectively. Under Circular 106, PRC subsidiaries of an offshore special purpose company are required to coordinate and supervise the filing in a timely manner of SAFE registrations by the offshore holding company's shareholders who are PRC residents. If these shareholders fail to comply, the PRC subsidiaries are required to report to the local SAFE authorities. If the PRC subsidiaries of the offshore parent company do not report to the local SAFE authorities, they may be prohibited from distributing their profits and proceeds from any reduction in capital, share transfer or liquidation to their offshore parent company and the offshore parent company may be restricted in its ability to contribute additional capital into its PRC subsidiaries. Moreover, failure to comply with the above SAFE registration requirements could result in liabilities under PRC laws for evasion of foreign exchange restrictions.

We are committed to complying, and to ensuring that our shareholders, who are PRC citizens or residents, comply with the SAFE Circular 75 requirements. We believe that all of our current PRC citizen or resident shareholders and beneficial owners have completed their required registrations with SAFE. However, we may not at all times be fully aware or informed of the identities of all our beneficial owners who are PRC citizens or residents, and we may not always be able to compel our beneficial owners to comply with the SAFE Circular 75 requirements. As a result, we cannot assure you that all of our shareholders or beneficial owners who are PRC citizens or residents will at all times comply with, or in the future make or obtain any applicable registrations or approvals required by, SAFE Circular 75 or other related regulations. Failure by any such shareholders or beneficial owners to comply with SAFE Circular 75 could subject us to fines or legal sanctions, restrict our overseas or cross-border investment activities, limit our PRC subsidiaries' ability to make distributions or pay dividends or affect our ownership structure, which could adversely affect our business and prospects.

In addition, the PRC National Development and Reform Commission, or the NDRC, promulgated a rule in October 2004, or the NDRC Rule, which requires NDRC approvals for overseas investment projects made by PRC entities. The NDRC Rule also provides that approval procedures for overseas investment projects of PRC individuals must be implemented with reference to this NDRC Rule. However, there exist extensive uncertainties as to interpretation of the NDRC Rule with respect to its application to a PRC individual's overseas investment and, in practice, we are not aware of any precedents that a PRC individual's overseas investment has been approved by the NDRC or challenged by the NDRC based on the absence of NDRC approval. Our current beneficial owners who are PRC individuals did not apply for NDRC approval for investment in us. We cannot predict how and to what extent this will affect our business operations or future strategy. For example, the failure of our shareholders who are PRC individuals to comply with the NDRC Rule may subject these persons or our PRC subsidiary to certain liabilities under PRC laws, which could adversely affect our business.

Fluctuation in the value of the RMB may have a material adverse effect on our financial condition and results of operations.

At present, all of our domestic sales are denominated in RMB and our export sales are denominated primarily in U.S. dollars. In addition, we incur a portion of our cost of sales in Euros, U.S. dollars and Japanese yen in the course of our purchase of imported production equipment and raw materials. The value of the RMB against the U.S. dollar and other currencies is affected by, among other things, changes in China's political and economic conditions and China's foreign exchange policies. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the RMB to the U.S. dollar. However, the People's Bank of China regularly intervenes in the foreign exchange market to limit fluctuations in RMB exchange rates and achieve policy goals. Following the removal of the U.S. dollar peg, the RMB appreciated more than 20% against the U.S. dollar over the following three years. While international reaction to the RMB revaluation has generally been positive, there remains significant international pressure on the PRC government to adopt an even more flexible currency policy, which could result in further and more significant appreciation of the RMB against the U.S. dollar and other foreign currencies. As we rely entirely on dividends paid to us by our PRC subsidiaries, any significant revaluation of the RMB may have a material adverse effect on our revenues and financial condition, and the value of any dividends payable on our shares in foreign currency terms. Furthermore, 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.

As very limited types of hedging transactions are available in the PRC to reduce our exposure to exchange rate fluctuations, we have not entered into any such hedging transactions. Accordingly, we cannot predict the impact of future exchange rate fluctuations on our results of operations and may incur net foreign exchange losses in the future.

Governmental control of currency conversion may affect the ability of our company to obtain working capital from our subsidiaries located in the PRC and the value of your investment.

The PRC government imposes controls on the convertibility of RMB into foreign currencies and, in certain cases, the remittance of currency out of the PRC. We receive substantially all of our revenues in RMB, which currently is not a freely convertible currency. Under our current structure, our income is primarily derived from the operations of Henan Zhongpin. Shortages in the availability of foreign currency may restrict the ability of Henan Zhongpin to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy its foreign currency denominated obligations. Under existing PRC foreign exchange regulations, payments relating to "current account transactions", including dividend payments, interest payments and expenditures from trade-related transactions, can be made in foreign currencies without prior approval from the PRC State Administration of Foreign Exchange by complying with certain procedural requirements. However, approval from appropriate government authorities is required in those cases in which RMB is to be converted into foreign currency and remitted out of the PRC in connection with "capital account transactions", such as the repayment of loans denominated in foreign currencies. Our PRC subsidiaries are able to pay dividends in foreign currencies to us without prior approval from the SAFE, by complying with certain procedural requirements. Our PRC subsidiaries may also retain foreign currency their respective current account bank accounts for use in payment of international current account transactions. However, we cannot assure you that the PRC government will not take measures in the future to restrict access 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 dividends in foreign currencies to our shareholders.

Our PRC subsidiaries are subject to restrictions on making payments to us, which could adversely affect our cash flow and our ability to pay dividends on our capital stock.

We are a holding company incorporated in the State of Delaware and do not have any assets or conduct any business operations other than our investment in our operating subsidiaries in the PRC. As a result of our holding company structure, we will rely entirely on contractual payments or dividends from our PRC subsidiaries for our cash needs, including the funds necessary to pay any dividends and other cash distributions to our shareholders, to service any debt we may incur and to pay our operating expenses. The payment of dividends by entities established in China is subject to limitations. Regulations in China currently permit payment of dividends only out of accumulated profits as determined in accordance with accounting standards and regulations in China. Each of our PRC subsidiaries, including Henan Zhongpin, is required to set aside at least 10% of its after-tax profit based on PRC accounting standards each year to its general reserves or statutory capital reserve fund until the aggregate amount of such reserves reaches 50% of its respective registered capital. As a result, our PRC subsidiaries are restricted in their ability to transfer a portion of their net assets to us in the form of dividends, loans or advances. We anticipate that in the foreseeable future our PRC subsidiaries will need to continue to set aside 10% of their respective after-tax profits to their statutory reserves. Further, as Henan Zhongpin has in the past, and Henan Zhongpin and our other subsidiaries in the PRC may in the future, incur debt on its or their own, the instruments governing such debt may restrict such subsidiary's ability to make contractual or dividend payments to any parent corporation or other affiliated entity. If we are unable to receive all of the funds we require for our operations through contractual or dividend arrangements with our PRC subsidiaries, we may not have sufficient cash flow to fund our corporate overhead and regulatory obligations in the United States and may be unable to pay dividends on our shares of capital stock.

Uncertainties with respect to the PRC legal system could adversely affect our ability to enforce our legal rights.

We conduct our business primarily through Henan Zhongpin, our subsidiary in the PRC. Our operations in the PRC are governed by PRC laws and regulations. We are generally subject to laws and regulations applicable to foreign investments in the PRC and, in particular, laws applicable to wholly foreign-owned enterprises. The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value.

Since 1979, PRC legislation and regulations have significantly enhanced the protections afforded to various forms of foreign investments in the PRC. However, the PRC has not developed a fully-integrated legal system and recently-enacted laws and regulations may not sufficiently cover all aspects of economic activities in the PRC. In particular, because these laws and regulations are relatively new, and because of the limited volume of published decisions and their nonbinding 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 the violation. The uncertainties regarding such regulations and policies present risks that may affect our ability to achieve our business objectives. If we are unable to enforce any legal rights we may have under our contracts or otherwise, our ability to compete with other companies in our industry could be materially and adversely affected. In addition, any litigation in the PRC may be protracted and result in substantial costs and diversion of our resources and management attention.

It may be difficult to effect service of process upon us or our directors or senior management who live in the PRC or to enforce any judgments obtained from non-PRC courts.

Our operations are conducted and our assets are located within the PRC. In addition, all but one of our directors and all of our senior management personnel reside in the PRC, where substantially all of their assets are located. You may experience difficulties in effecting service of process upon us, our directors or our senior management as it may not be possible to effect such service of process outside the PRC. In addition, the PRC does not have treaties with the United States and many other countries providing for reciprocal recognition and enforcement of court judgments. Therefore, recognition and enforcement in the PRC of judgments of a court in the United States or certain other jurisdictions may be difficult or impossible.

Recent changes in the PRC's labor law restricts our ability to reduce our workforce in the PRC in the event of an economic downturn and may increase our production costs.

In June 2007, the National People's Congress of the PRC enacted new labor law legislation called the Labor Contract Law, which became effective on January 1, 2008. On September 18, 2008, the PRC State Council issued the implementing rules for the Labor Contract Law. The Labor Contract Law formalized workers' rights concerning overtime hours, pensions, layoffs, employment contracts and the role of trade unions. Considered one of the strictest labor laws in the world, among other things, the Labor Contract Law provides for specific standards and procedures for the termination of an employment contract and places the burden of proof on the employer. In addition, the law requires the payment of a statutory severance pay upon the termination of an employment contract in most cases, including the case of the expiration of a fixed-term employment contract. Further, the law requires an employer to conclude an "employment contract without a fixed-term" with any employee who either has worked for the same employer for 10 consecutive years or more or has had two consecutive fixed-term contracts with the same employer. An "employment contract without a fixed term" can no longer be terminated on the ground of the expiration of the contract, although it can still be terminated pursuant to the standards and procedures set forth under the Labor Contract Law. Finally, under the Labor Contract Law, downsizing of either more than 20 people or more than 10% of the workforce may occur only under specified circumstances, such as a restructuring undertaken pursuant to the PRC's Enterprise Bankruptcy Law, or where a company suffers serious difficulties in production and/or business operations, or where there has been a material change in the objective economic circumstances relied upon by the parties at the time of the conclusion of the employment contract, thereby making the performance of such employment contract not possible. To date, there has been very little guidance and precedents as to how such specified circumstances for downsizing will be interpreted and enforced by the relevant PRC authorities. All of our employees working for us exclusively within the PRC are covered by the Labor Contract Law and thus, our ability to adjust the size of our operations when necessary in periods of recession or less severe economic downturns may be curtailed. Accordingly, if we face future periods of decline in business activity generally or adverse economic periods specific to our business, the Labor Contract Law can be expected to exacerbate the adverse effect of the economic environment on our results of operations and financial condition.

PRC regulation of loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from using the proceeds we received from our public offerings to make loans to our PRC subsidiaries or to make additional capital contributions to our PRC subsidiaries, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

We are an offshore holding company conducting our operations in China through our PRC subsidiaries. In utilizing the proceeds we received from any offering, we plan to make loans to our PRC subsidiaries, whether currently in existence or to be formed in the future, or make additional capital contributions to our PRC subsidiaries.

Any loans we make to our PRC subsidiaries cannot exceed statutory limits and must be registered with the PRC State Administration of Foreign Exchange, or SAFE, or its local counterparts. Under applicable PRC law, the government authorities must approve a foreign-invested enterprise's registered capital amount, which represents the total amount of capital contributions made by the shareholders that have registered with the registration authorities. In addition, the authorities must also approve the foreign-invested enterprise's total investment, which is equal to the company's registered capital plus the amount of shareholder loans it is permitted to borrow under the law. The ratio of registered capital to total investment cannot be lower than the minimum statutory requirement. If we make loans to Henan Zhongpin Food Co., Ltd., our first-tier PRC subsidiary, that do not exceed its current maximum amount of borrowings, we will have to register each loan with SAFE or its local counterpart for the issuance of a registration certificate of foreign debts. In practice, it could be time-consuming to complete such SAFE registration process. Alternatively or concurrently with the loans, we might make capital contributions to Henan Zhongpin Food Co., Ltd. and such capital contributions involve uncertainties of their own. Further, SAFE promulgated a new circular (known as Circular 142) in August 2008 with respect to the administration of conversion of foreign exchange capital contributions of a foreign invested enterprise. The circular clarifies that RMB converted from foreign exchange capital contributions can only be used for the activities within the approved business scope of such foreign invested enterprise and cannot be used for domestic equity investments unless otherwise permitted.

We cannot assure you that we will be able to complete the necessary government registrations or obtain the necessary government approvals on a timely basis, if at all, with respect to future loans by us to our PRC subsidiaries or with respect to future capital contributions by us to our PRC subsidiaries. If we fail to complete such registrations or obtain such approvals, our ability to use the proceeds we receive from public offerings and to capitalize or otherwise fund our PRC operations may be negatively affected, which could adversely and materially affect our liquidity and our ability to fund and expand our business.

We may be subject to fines and legal sanctions by SAFE or other PRC government authorities if we or our employees who are PRC citizens fail to comply with PRC regulations relating to employee stock options granted by offshore listed companies to PRC citizens.

On March 28, 2007, SAFE promulgated the Operating Procedures for Foreign Exchange Administration of Domestic Individuals Participating in Employee Stock Ownership Plans and Stock Option Plans of Offshore Listed Companies, or Circular 78. Under Circular 78, Chinese citizens who are granted share options by an offshore listed company are required, through a Chinese agent or Chinese subsidiary of the offshore listed company, to register with SAFE and complete certain other procedures, including applications for foreign exchange purchase quotas and opening special bank accounts. We and our Chinese employees who have been granted share options are subject to Circular 78. Failure to comply with these regulations may subject us or our Chinese employees to fines and legal sanctions imposed by SAFE or other PRC government authorities and may prevent us from further granting options under our share incentive plans to our employees. Such events could adversely affect our business operations.

We may be classified as a “resident enterprise” for PRC enterprise income tax purposes, which could result in unfavorable tax consequences to us and our non-PRC shareholders.

The new PRC Enterprise Income Tax Law, or the New EIT Law, that became effective January 1, 2008 provides that enterprises established outside of China whose “de facto management bodies” are located in China are considered “resident enterprises” and are generally subject to the uniform 25% enterprise income tax rate on their worldwide income. A recent circular issued by the PRC State Administration of Taxation regarding the standards used to classify certain Chinese-invested enterprises controlled by Chinese enterprises or Chinese group enterprises and established outside of China as “resident enterprises” clarified that dividends paid by such “resident enterprises” and other income paid by such “resident enterprises” will be considered to be PRC source income, subject to PRC withholding tax, currently at a rate of 10%, when received or recognized by non-PRC resident enterprise shareholders. This recent circular also subjects such “resident enterprises” to various reporting requirements with the PRC tax authorities. Under the implementation regulations to the New EIT Law, a “de facto management body” is defined as a body that has material and overall management and control over the manufacturing and business operations, personnel and human resources, finances and assets of an enterprise. In addition, the recent circular mentioned above specifies that certain Chinese-invested enterprises controlled by Chinese enterprises or Chinese group enterprises will be classified as “resident enterprises” if the following are located or resident in China: senior management personnel and departments that are responsible for daily production, operation and management; financial and personnel decision-making bodies; key properties, accounting books, company seal, and minutes of board meetings and shareholders’ meetings; and half or more of senior management or directors having voting rights.

If the PRC tax authorities determine that we are a “resident enterprise,” a number of unfavorable PRC tax consequences could follow. First, we will be subject to income tax at the rate of 25% on our worldwide income. Second, although under the New EIT Law and its implementing rules, dividends paid to us from our PRC subsidiaries would qualify as “tax-exempted income”, we cannot assure you that such dividends will not be subject to a 10% withholding tax, as the PRC foreign exchange control authorities, which enforce the withholding tax, have not yet issued guidance with respect to the processing of outbound remittances to entities that are treated as resident enterprises for PRC enterprise income tax purposes. Finally, dividends payable by us to our investors and gain on the sale of our shares may become subject to PRC withholding tax. This could have the effect of increasing our effective income tax rate and could also have an adverse effect on our net income and results of operations, and may require us to withhold tax on our non-PRC shareholders.

Risk Relating to an Investment in Our Securities

While cash dividends were paid by a deemed predecessor to our company in the past, we have not paid any cash dividends and no cash dividends will be paid in the foreseeable future.

Henan Zhongpin, a deemed predecessor to our company and our subsidiary in the PRC, paid cash dividends to its stockholders in 2002 and 2003. However, we do not anticipate paying cash dividends on our common stock in the foreseeable future and we may not have sufficient funds legally available to pay dividends. Even if the funds are legally available for distribution, we may nevertheless decide not to pay, or may be unable to pay, any dividends. We intend to retain all earnings for our company’s operations.

The market price for our common stock may be volatile and subject to wide fluctuations, which may adversely affect the price at which you can sell our shares.

The market price for our common stock may be volatile and subject to wide fluctuations in response to factors including the following:

- actual or anticipated fluctuations in our quarterly operations results;
- changes in financial estimates by securities research analysts;
- conditions in foreign or domestic meat processing or agricultural markets;
- changes in the economic performance or market valuations of other meat processing companies;
- announcements by us or our competitors of new products, acquisitions, strategic partnerships, joint ventures or capital commitments;
- addition or departure of key personnel;
- fluctuations of exchange rates between the RMB and the U.S. dollar;
- intellectual property litigation; and
- general economic or political conditions in the PRC.

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. These market fluctuations may also materially and adversely affect the market price of our stock.

Future sales of shares of our common stock may decrease the price for such shares.

In 2007, our four registration statements on Form S-1 were declared effective by the Securities and Exchange Commission registering the resale from time to time in the open market of an aggregate of 22,619,385 shares of our common stock, some of which shares have since been sold. In addition, in 2009, our registration statement on Form S-3 was declared effective by the Securities and Exchange Commission registering securities that may be offered by us from time to time with an aggregate offering price of up to \$80,000,000. In October 2009, we issued 4,600,000 shares of common stock pursuant to this registration statement on Form S-3 for an aggregate purchase price of \$60,950,000. Our board of directors has the discretion to issue additional securities under this registration statement on Form S-3. Actual sales of such shares, or the prospect of sales of such shares by the holders of such shares, may have a negative effect on the market price of the shares of our common stock. We may also register for resale additional outstanding shares of our common stock or shares that are issuable upon exercise of outstanding warrants or reserved for issuance under our stock option plan. Once such shares are registered, they can be freely sold in the public market. If any of our stockholders either individually or in the aggregate cause a large number of securities to be sold in the public market, or if the market perceives that these holders intend to sell a large number of securities, such sales or anticipated sales could result in a substantial reduction in the trading price of shares of our common stock and could also impede our ability to raise future capital.

Item 1B. – Unresolved Staff Comments

None.

Item 2. – Properties**Properties**

The following table shows certain information relating to our corporate offices and other facilities.

Location	Approximate Floor Area⁽¹⁾ (Square Feet)	Ownership Status⁽²⁾	Principal Uses
21 Changshe Road Changege City, Henan province	221,241	Owned	Corporate headquarters
South Part, Changxing Road Changege City, Henan province	622,650	Owned	Meat products processing plant
South Part, Changxing Road Changege City, Henan province	676,804	Owned	Meat, fruit and vegetable products processing plant
South Part, Changxing Road Changege City, Henan province	545,325	Owned	Logistic center, warehouse and prepared meat processing plant
East Part, North Weiwu Road Changege City, Henan province	2,142,475	Owned	Logistic center, warehouse and processing facility for fruits and vegetables
Food Industrial Park, Tangyin County Anyang City, Henan province	1,684,589	Owned	Meat products processing plant
17 Luogui Road, Cangshan County Zhongjiang City, Sichuan province	717,604	Owned	Meat products processing plant
Industrial Park Suiping City, Henan province	1,771,483	Owned	Meat products processing plant
Jinghai Economic Development Zone, Tianjin	933,339	Leased ⁽³⁾	Meat products processing plant

Location	Approximate Floor Area⁽¹⁾ (Square Feet)	Ownership Status⁽²⁾	Principal Uses
Shouyang Mountain Industry Park, Yanshi, Luoyang City, Henan province	1,653,432	Owned	Meat products processing plant
Tuonan Industry Park Yongcheng City, Henan province	1,711,293	Owned	Meat products processing plant
No. 208, East Gongzhu Avenue Gongzhuling City, Jilin province	446,706	Leased ⁽⁴⁾	Meat products processing plant
South of Xiliucheng Bridge, Jinghai, Tianjin	1,435,200	Owned	Meat products processing plant, logistic center, warehouse, prepared meat processing plant, and research and development center

(1) Calculated based upon the measurements of the land upon which the facility is situated.

(2) According to the laws of the PRC, the government owns all of the land in the PRC and companies or individuals are authorized to use the land only through land use rights granted by the PRC government. We have long-term leases with the PRC government affording us the right to use the land on which our production facilities are located. With respect to those properties in this table for which our ownership status is "owned," we own all of the buildings and other land improvements on the land.

(3) This facility is leased pursuant to a lease that expires in March 2010 and provides for aggregate rental payments of 2,640,000 RMB (\$386,473) for year 2009 and 690,000 RMB (\$101,010) for year 2010 for the lease term.

(4) This facility is leased pursuant to a three-year lease that expires in December 2011 and provides for aggregate rental payments of 2,800,000 RMB (\$410,407) per year for the lease term.

Item 3. – Legal Proceedings

Neither our company nor any of our subsidiaries is a party to any legal proceedings that, individually or in the aggregate, are material to our company as a whole.

Item 4. – (Removed and Reserved)

PART II

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

Our shares began trading on the NASDAQ Global Select Market on December 27, 2007 under the symbol "HOGS." From January 31, 2006 to December 26, 2007, our shares traded on the OTC Bulletin Board under the symbol "ZHNP."

The following table contains information about the range of high and low closing prices for our common stock based upon reports of transactions on the NASDAQ Global Select Market for each full quarterly period during the period January 1, 2008 to December 31, 2009.

	<u>High</u>	<u>Low</u>
2008		
First Quarter	\$ 14.45	\$ 8.50
Second Quarter	13.05	9.55
Third Quarter	12.97	9.88
Fourth Quarter	12.00	6.81
2009		
First Quarter	\$ 12.30	\$ 7.39
Second Quarter	13.13	8.30
Third Quarter	14.93	9.20
Fourth Quarter	16.29	12.33

These quotations reflect inter-dealer prices, without retail mark-up, mark-down or commissions and may not represent actual transactions. The high and low prices listed have been rounded up to the next highest two decimal places.

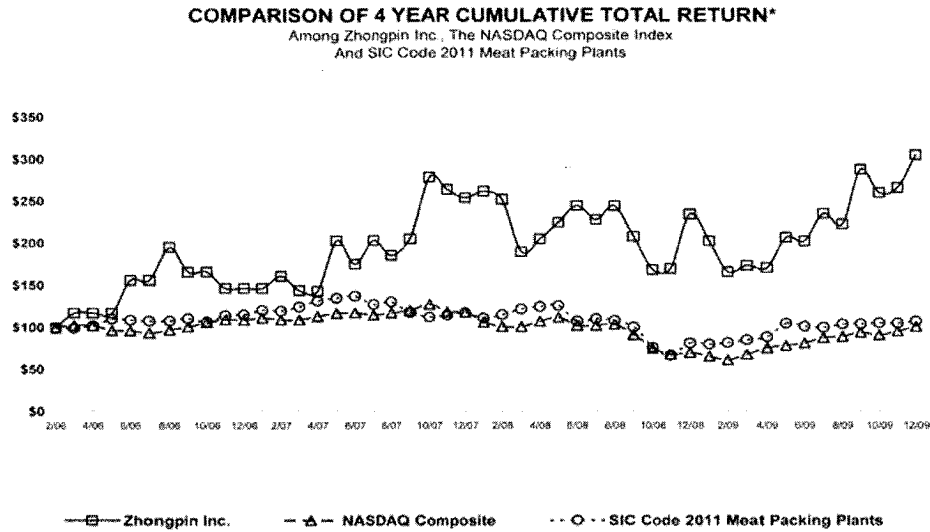
As of March 5, 2010, there were approximately 68 holders of record of our common stock. On March 5, 2010, the closing sale price of our common stock as reported by the NASDAQ Global Select Market was \$13.39 per share.

While cash dividends were paid in 2003 and 2002 by Henan Zhongpin, which is a deemed predecessor to our company and our subsidiary in the PRC, we have never paid or declared any dividend on our common stock and we do not anticipate paying cash dividends in the foreseeable future. As a result of our holding company structure, we would rely entirely on contractual or dividend payments from our PRC subsidiaries for our cash flow to pay dividends on our common stock. The PRC government imposes controls on the conversion of RMB into foreign currencies and the remittance of currencies out of the PRC, which also may affect our ability to pay cash dividends in the future. See "Item 1A. Risk Factors - Risks Relating to Conducting Business in the PRC - Governmental control of currency conversion may affect the ability of our company to obtain working capital from our subsidiaries located in the PRC and the value of your investment," "- Our PRC subsidiaries are subject to restrictions on making payments to us, which could adversely affect our cash flow and our ability to pay dividends on our capital stock" and Note 1 to our audited consolidated financial statements. In addition, under our credit agreement with Rabobank Nederland Shanghai Branch that matures in July 2011, Henan Zhongpin is prohibited from paying dividends in an amount in excess of 50% of its related earnings during the term of the credit facility. There have been no stock repurchases in our history.

Performance Graph

The following graph compares the cumulative total return on our common stock, the NASDAQ Composite Index and a peer group over the period commencing on February 28, 2006 (the first date on which there was any significant trading of our common stock following our acquisition of our existing business operations on January 30, 2006) and ending on December 31, 2009. The peer group is comprised of companies that are engaged in the production and sale of meat products (SIC Code 2011), and includes Diamond Ranch Foods Limited, Hormel Foods Corp. and Tyson Foods Inc.

The performance graph assumes the value of the investment in the common stock of each index was \$100 and that all dividends were reinvested. This graph is not necessarily indicative of future price performance.



*\$100 invested on 2/28/06 in stock or index, including reinvestment of dividends.
 Fiscal year ending December 31.

The performance graph in this Item 5 is not deemed to be “soliciting material” or to be “filed” with the SEC or subject to Regulation 14A or 14C under the Exchange Act or to the liabilities of Section 18 of the Exchange Act, and will not be deemed to be incorporated by reference into any filings under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent we specifically incorporate it by reference into such a filing.

Securities Authorized for Issuance under Equity Compensation Plans

On January 30, 2006, our board of directors and stockholders adopted and approved, and on February 27, 2007, our Board of Directors and stockholders approved the amendment and restatement of, our 2006 Equity Incentive Plan (the "Incentive Plan"). The Incentive Plan allows for awards of stock options, restricted stock grants and share appreciation rights for up to 1,800,000 shares of common stock. On April 21, 2008, the Compensation Committee of our board of directors approved, and on June 26, 2008 our stockholders approved, an amendment to the Incentive Plan for the purpose of increasing the authorized shares from 1,800,000 shares to 2,500,000 shares.

As of December 31, 2009, options to purchase an aggregate of 916,333 shares of common stock had been granted under the Incentive Plan. Options granted in the future under the Incentive Plan are within the discretion of our board of directors. The following table summarizes the number of shares of our common stock authorized for issuance under our equity compensation plans.

Plan Category	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options	(b) Weighted- Average Exercise Price of Outstanding Options	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding options granted)
Equity compensation plans approved by security holders	763,000	\$ 10.83	1,583,667*
Equity compensation plans not approved by security holders	0	N/A	0
Total	<u>763,000</u>	<u>\$ 10.83</u>	<u>1,583,667</u>

* Including options to purchase 547,000 shares of common stock that were issued under the Incentive Plan that are not considered outstanding for financial reporting purposes because the exercise prices of such options are based on the closing price of our common stock on future dates.

Item 6. – Selected Financial Data

The following selected consolidated income statement data for the three years ended December 31, 2009, 2008 and 2007 and the selected consolidated balance sheet data as of December 31, 2009 and 2008 have been derived from our audited consolidated financial statements included elsewhere in this Report. These consolidated financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the financial statements and related notes included elsewhere in this Report. Our selected consolidated income statement data for the years ended December 31, 2006 and 2005 and the selected consolidated balance sheet data as of December 31, 2007, 2006 and 2005 have been derived from our audited financial statements which are not included in this Report. The historical results presented below are not necessarily indicative of the results that may be expected in any future period.

Years Ended December 31,

	2009	2008	2007	2006	2005
	(In thousands, except per share amounts)				
Selected Income Statement Data:					
Net Sales	\$ 726,037	\$ 539,825	\$ 291,373	\$ 143,812	\$ 73,400
Gross Profit	86,478	68,561	37,504	20,616	12,179
Income From Operations	52,908	36,781	21,917	3,537	7,484
Net Income	45,590	31,377	18,525	4,109	5,914
Net Income per Common Share:					
Basic	1.48	1.06	0.84	0.23	0.50
Diluted	1.46	1.05	0.80	0.20	0.50

December 31,

	2009	2008	2007	2006	2005
	(In thousands)				

Selected Balance Sheet Data:

Property, Plant, Equipment	\$ 189,589	\$ 133,868	\$ 66,430	\$ 32,597	\$ 10,213
Total Assets	498,112	329,783	217,104	102,222	53,254
Long-Term Loans (Less Current Maturities)	44,913	23,475	1,635	1,912	2,264
Stockholders' Equity	296,843	190,914	143,018	52,697	14,516

December 31,

	2009	2008	2007	2006	2005
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Selected Operating Data:

Production Capacity (M/T)					
Pork and Pork Products	584,760	501,560	346,760	166,800	102,600
Vegetables and Fruits	30,000	12,600	23,400	12,600	9,000
Metric Tons Produced ⁽¹⁾					
Pork and Pork Products	402,261	240,963	170,162	116,478	62,155
Vegetables and Fruits	17,896	13,409	12,263	9,342	2,713
Metric Tons Sold ⁽¹⁾					
Pork and Pork Products	388,647	239,669	167,900	112,907	62,304
Vegetables and Fruits	16,825	13,472	11,743	9,504	2,681
Number of Products	392	314	270	229	168
Number of Retail Stores	3,205	3,061	2,939	2,721	2,100
Market Coverage					
No. of provinces	24	24	24	24	24
No. of First-Tier Cities	29	29	29	29	24
No. of Second-Tier Cities	120	106	93	75	49
No. of Third-Tier Cities	383	324	287	226	142

(1) For the year ended December 31.

The following selected consolidated income statement data for each full quarter within the years ended December 31, 2009 and 2008 have been derived from our unaudited quarterly consolidated financial statements which are not included in this Report. These consolidated financial data should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the financial statements and related notes included elsewhere in this Report. The historical results presented below are not necessarily indicative of the results that may be expected in any future period.

	Year 2009				
	Q4	Q3	Q2	Q1	Total
	(In thousands, except per share amounts)				
Selected Income Statement Data:					
Net Sales	\$ 215,490	\$ 194,851	\$ 161,847	\$ 153,849	\$ 726,037
Gross Profit	24,659	23,707	18,968	19,144	86,478
Income From Operations	13,166	15,464	12,583	11,695	52,908
Net Income	11,891	13,235	10,723	9,741	45,590
Net Income per Common Share:					
Basic	0.35	0.44	0.36	0.33	1.48
Diluted	0.34	0.44	0.36	0.33	1.46

	Year 2008				
	Q4	Q3	Q2	Q1	Total
	(In thousands, except per share amounts)				
Selected Income Statement Data:					
Net Sales	\$ 139,817	\$ 153,753	\$ 137,527	\$ 108,728	\$ 539,825
Gross Profit	17,678	19,587	17,104	14,192	68,561
Income From Operations	8,292	11,354	9,332	7,803	36,781
Net Income	5,517	10,050	8,522	7,288	31,377
Net Income per Common Share:					
Basic	0.18	0.34	0.29	0.25	1.06
Diluted	0.18	0.34	0.29	0.24	1.05

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

During the period from our formation on February 4, 2003 to March 30, 2005, we were in an unrelated business that was discontinued on March 30, 2005. From March 30, 2005 to January 30, 2006, we did not generate any significant revenue, and accumulated no significant assets, as we explored various business opportunities. On January 30, 2006, in exchange for a controlling interest in our publicly-held “shell” corporation, we acquired all of the issued and outstanding capital stock of Falcon Link. This transaction is commonly referred to as a “reverse acquisition.” For financial reporting purposes, Falcon Link was considered the acquirer in such transaction. As a result, our historical financial statements for all periods prior to January 30, 2006 included in this Report are those of Falcon Link.

Executive Summary

The following executive summary is intended to provide significant highlights of the Discussion and Analysis that follows.

- In 2009, compared to 2008, net revenues increased 34% to \$726.0 million and net income increased 45% to \$45.6 million. In 2008, compared to 2007, net revenues increased 85% to \$539.8 million and net income increased 70% to \$31.4 million.
- In 2009, compared to 2008, basic earnings per share increased 40% to \$1.48 and diluted earnings per share increased 39% to \$1.46. In 2008, compared to 2007, basic earnings per share increased 26% to \$1.06 and diluted earnings per share increased 31% to \$1.05.
- We made solid progress executing our long-term growth strategy, which focuses on expanding our production capacity, building a well-known brand, exploiting our sales capabilities by accessing more retail outlets and sales channels.

Overview

We are principally engaged in the meat and food processing and distribution business in the PRC. Currently, we have 12 processing plants located in Henan, Jilin and Sichuan provinces and in Tianjin in the PRC. Our current total production capacity for chilled pork and frozen pork is approximately 1,504.9 metric tons per day, based on an eight-hour working day, or approximately 541,760 metric tons on an annual basis. We also have production capacity for prepared meats of approximately 250 metric tons per eight-hour day, or approximately 90,000 metric tons on an annual basis, and for fruits and vegetables of approximately 83.3 metric tons per eight-hour day, or approximately 30,000 metric tons on an annual basis. We utilize state-of-the-art equipment in all of our slaughterhouses and processing facilities.

The following table shows, as of March 1, 2010, the annual production capacity of our processing plants based on an eight-hour working day.

Product	Location	Annual Capacity in Metric Tons
Chilled and frozen pork	Changege, Henan province	81,760
	Gongzhulin, Jilin province	30,000
	Deyang, Sichuan province	45,000
	Zhumadian, Henan province	72,000
	Anyang, Henan province	63,000
	Luoyang, Henan province	70,000
	Tianjin	100,000
	Yongcheng, Henan province	80,000
		<u>541,760</u>
Prepared meat	Changege, Henan province	90,000
Fruits and Vegetables	Changege, Henan province	30,000

We believe we must continue to expand our production capacity to seize additional market share. As a result, we are currently constructing, or plan to construct, additional production facilities in different parts of China.

In January 2010, we placed into operation a chilled and frozen pork facility in Tianjin with annual production capacity of approximately 100,000 metric tons. We are investing approximately \$5.6 million to build a production facility in Changge City, Henan province. This facility is being designed with a production capacity of 20,000 metric tons for food oil (pork oil). We expect to put the new facility into operation by April 2010. We also plan to invest approximately \$21.0 million to build a production facility for prepared foods in Tianjin. This facility is being designed with a production capacity of 36,000 metric tons for prepared foods. We expect to put this facility into operation in October 2010.

We believe these plants will enable us to achieve synergies in certain areas, including the purchase of raw materials, logistics and marketing. To further expand our business and to upgrade the “Zhongpin” brand from a regional brand to a national brand, we intend to expand our production into other provinces in which pork is traditionally consumed in significant quantities and in which there is a sufficient hog supply. In an effort to minimize our risk and the potential of losses when expanding into new markets, we have entered certain markets by leasing, rather than purchasing or constructing, our production facilities because we believe that, even after conducting comprehensive market research and professional due diligence, there is significant risk that a market will not generate the level of sales we expect. In the future, we would like to replicate our success in Henan province in other provinces in northern and eastern China where we would like to build capacity clusters similar to the cluster we constructed in Henan province. We intend to lease, acquire or build new facilities to support the development of our target markets.

Our capacity utilization rate was approximately 74%, 57% and 65% for 2009, 2008 and 2007, respectively. The capacity utilization rate is calculated by using our production quantity divided by our weighted average capacity in each year. Our capacity utilization rate fluctuated during those periods due to the supply of live hogs and raw materials in certain periods, the price fluctuation for live hogs in different areas near our production facilities, our maintenance of machineries and facilities, and our sales capability. Our ability to maintain higher utilization rates is also impacted by how quickly we are able to ramp up production at newly constructed facilities and how quickly the market for our products develops in new target geographies. Our target capacity utilization rate at our production facilities is approximately 75% for chilled and frozen pork products facilities and approximately 80% for prepared pork products facilities. The increase in our utilization rate in 2009 was primarily due to the strong market demand for our high quality products. We anticipate that it will typically require three to six months for utilization rates at our new production facilities to reach our target utilization rate.

Our products are sold under the “Zhongpin” brand name. At December 31, 2009, our customers included 27 international or domestic fast food companies in the PRC, 49 processing factories and 1,686 school cafeterias, factory canteens, army posts and national departments. At such date, we also sold directly to 3,205 retail outlets, including supermarkets, within the PRC.

We have established distribution networks in 24 provinces, including four cities with special legal status, in the North, East, South and South Midland of the PRC, and also have formed strategic business alliances with leading supermarket chains and the catering industry in the PRC. In addition, we export products to Europe, Russia, Hong Kong and other selected countries in Asia and South Africa.

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. We evaluate, on an on-going basis, our estimates for reasonableness as changes occur in our business environment. We base our estimates on experience, the use of independent third-party specialists, and various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Critical accounting policies are defined as those that are reflective of significant judgments, estimates and uncertainties, and potentially result in materially different results under different assumptions and conditions. We believe the following are our critical accounting policies:

Revenue Recognition. Revenues generated from the sale of various meat products and vegetables and fruits are recognized when these products are delivered to customers in accordance with previously-agreed-upon pricing and delivery arrangements, and the collectability of these sales is reasonably assured. Since the products sold by us are primarily perishable and frozen food products, the right of return is only for a few days and has been determined to be insignificant by our management. Accordingly, no provision has been made for returnable goods. Revenues presented on our consolidated income statements are net of sales taxes.

Accounts Receivable. During the normal course of business, our policy is to ask larger customers to make deposits in reasonable and meaningful amounts on a case-by-case basis. For certain newly-developed customers, we may extend unsecured credit.

We regularly evaluate and monitor the creditworthiness of each of our customers in accordance with the prevailing practice in the meat industry and based on general economic conditions in the PRC. We maintain a general policy of providing 100% allowance for doubtful accounts in an amount equal to the aggregate amount of those accounts that are not collected within one year plus an amount equal to 5% of the aggregate amount of accounts receivable less than one year old. After all attempts to collect a receivable have failed, the receivable is written off against the allowance. The Company also examines the credit terms of significant customers regularly and asks for more cash deposits if these customers appear to have any indicators of delaying their payments to the Company. Such deposits are usually applied for the collection of the outstanding accounts receivable during the year. With such a practice in place, the Company did not have any specific bad debt allowance provided against specific customers at December 31, 2009.

Inventories. Inventories are stated at the lower of cost, determined on a weighted average basis, and net realizable value. Work-in-progress and finished goods are composed of direct material, direct labor and an attributable portion of manufacturing overhead. Net realizable value is the estimated selling price, in the ordinary course of business, less estimated costs to complete and dispose.

Plant, Property and Equipment. Plant, properties and equipment are recorded at cost and are stated net of accumulated depreciation. Depreciation expense is determined using the straight-line method over the estimated useful lives of the assets as follows:

	<u>Estimated Life</u>
Plants and buildings	5-30 years
Machinery and equipment	5-20 years
Office furniture and equipment	3-5 years
Vehicles	5 years

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

Impairment of Long-Lived Assets. We review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable through the estimated undiscounted cash flows expected to result from the use and eventual disposition of that asset. Whenever any such impairment exists, an impairment loss will be recognized for the amount by which the carrying value exceeds the fair value.

Income Taxes. We recognize deferred tax liabilities and assets. Deferred tax assets and liabilities are recognized for the future tax consequence attributable to the difference between the tax bases of assets and liabilities and their reported amounts in the financial statements. Deferred tax assets and liabilities are measured using the enacted tax rate 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 income in the period that included the enactment date.

We were established under the laws of the State of Delaware and are subject to U.S. federal income tax and Delaware state income tax. Falcon Link was established under the laws of the British Virgin Islands and is not subject to income tax in accordance with the laws and regulations of the British Virgin Islands. Our other operating subsidiaries, which are located in the PRC, are subject to the PRC's Enterprise Income Tax ("EIT") Law, which was effective January 1, 2008 and has a uniform statutory tax rate of 25 percent. Under the EIT law, income derived by an enterprise primarily from the processing of agricultural products (including slaughtering live hogs) is exempt from EIT. Consequently, the 10 of our 15 subsidiaries in the PRC that engage in the slaughtering of live hogs are exempted from EIT. During the years ended December 31, 2009, 2008, 2007, the exempted income before income tax were \$40.9 million, \$34.9 million and \$23.2 million, respectively. These exempted income before income tax was deemed as part of permanent difference for the purpose to determine the proper income tax provision. For the years ended December 31, 2009, 2008, and 2007, the impact of income tax resulting from the exemption of net income from preliminary processing of agricultural products was \$10.2 million, \$8.7 million and \$7.7 million, respectively. Our remaining five subsidiaries in the PRC are subject to the uniform 25% tax rate on non-primary processing of agricultural products.

There is no consolidated enterprise income tax return concept in the PRC. As a result, if one subsidiary has net income, that net income cannot be offset by the loss incurred by another subsidiary within the consolidated company. Similarly, if one subsidiary has a net operating loss, that net operating loss cannot be offset by the net income in another subsidiary within the consolidated company.

For the years ended December 31, 2009, 2008 and 2007, there were no unrecognized tax benefits or interest and penalties recorded on income tax matters. The Company recognized no decrease in deferred tax assets or changes in the valuation allowance. There is no unrecognized tax benefit included in the consolidated balance sheet that would, if recognized, affect the effective tax rate.

Results of Operations

In January 2009, we placed into operation a chilled and frozen pork production facility in Yongcheng City, Henan province with an annual production capacity of approximately 80,000 metric tons. In April 2009, we placed into operation a fruits and vegetables facility in Changge City, Henan province with an annual production capacity of approximately 30,000 metric tons. In August 2009, we upgraded a chilled and frozen pork facility in Changge City and increased annual production capacity from approximately 59,760 metric tons to 81,760 metric tons. In December 2009, we placed into operation a prepared pork products facility in Changge City, Henan province with an annual production capacity of approximately 36,000 metric tons.

We are investing approximately \$61.0 million, not including the cost of land use rights, to build a production facility, warehouse and distribution center, and research and development center in Tianjin. This facility will have a production capacity of approximately 100,000 metric tons for chilled and frozen pork, of which 70% will be for chilled pork and 30% for frozen pork, and 36,000 metric tons for prepared foods. We put the new facility for chilled and frozen pork into use ahead of schedule in January 2010. After chilled and frozen pork production at this new facility commenced, we terminated the lease for our existing production facilities in Tianjin without material lease termination costs. Following such closure and with the addition of the production capacity from the new facility, our annual chilled and frozen pork production will increase by approximately 9% to 541,760 metric tons from the current production of 494,760 metric tons. The facility for prepared foods will be put into operation in October 2010.

We are also investing approximately \$5.6 million to build an additional production facility in Changge City, Henan province. This facility is being designed with a production capacity of 20,000 metric tons for food oil (pork oil). We expect to put this facility into operation by April 2010.

In 2010, we expect the demand for pork in the PRC and the results of the pork and pork products segment of our business to remain strong. While supply is expected to be ample, live hog prices are expected to increase in the first half of 2010. We anticipate that our gross profit margin in 2010 will remain stable. While we expect to increase our market share in the meat and meat products segment in our target markets in 2010, we anticipate that the global economic slowdown and the intense competition in the meat industry will adversely impact the operating results of the meat processing industry in the PRC as a whole.

Comparison of Years Ended December 31, 2009 and December 31, 2008

Revenue. Total revenue increased from \$539.8 million in 2008 to \$726.0 million in 2009, which represented an increase of \$186.2 million, or approximately 34%. The increase in revenues was primarily due to increased sales volume in our meat and meat products segment resulting from the effects of the continuing increases in the number of our branded stores, geographic expansion and increased sales to food service distributors in the PRC during the year.

The following table presents certain information regarding our sales by product division for 2009 and 2008.

Sales by Division

	Year Ended December 31, 2009			Year Ended December 31, 2008		
	Metric Tons	Sales Revenues (in millions)	Average Price/ Metric Ton	Metric Tons	Sales Revenues (in millions)	Average Price/ Metric Ton
Pork and Pork Products						
Chilled pork	214,253	\$ 396.1	\$ 1,849	128,963	\$ 289.3	\$ 2,243
Frozen pork	133,034	224.8	1,690	86,085	187.9	2,183
Prepared pork products	41,360	93.0	2,249	24,621	53.7	2,181
Vegetables and Fruits	16,825	12.1	719	13,472	8.9	661
Total	405,472	\$ 726.0	\$ 1,791	253,141	\$ 539.8	\$ 2,132

The pork market in the PRC is highly fragmented and in the markets where we sell our products, no single supplier has a significant effect on the market price of pork or related pork products. We have been pricing our products based on the value of our brand, the quality of our products, hog prices in the applicable period and pricing trends for similar products in the regions in which we operate. In 2009, we increased our sales of chilled pork products by approximately \$106.8 million over the amount of our sales of such products in 2008. As shown in the table above, our average price during 2009 was approximately \$1,849 per metric ton for chilled pork, compared to \$2,243 during 2008, a decrease of 18%. The number of metric tons of chilled pork sold during 2009 increased by 85,290, or 66% from 2008. Despite the decrease in average price in 2009 as a result of market fluctuations, our total revenue still increased due to successful capacity expansion and significantly increased volume of sales of our products as we entered new geographic markets, expanded our points of sales and acquired new customers.

In 2009, we increased our sales of frozen pork products by approximately \$36.9 million over the amount of our sales of such products in 2008. Our average price during 2009 was approximately \$1,690 per metric ton for frozen pork compared to \$2,183 during 2008, a decrease of 23%. The number of metric tons of frozen pork sold during 2009 increased by 46,949, or 55% from 2008. Despite the decrease in average price in 2009 as a result of market fluctuations, our total revenue still increased due to successful capacity expansion and significantly increased volume of sales of our products as we entered new geographic markets, expanded our points of sales and acquired new customers.

In 2009, we increased our sales of prepared pork products by approximately \$39.3 million over the amount of our sales of such products in 2008. Our average price during 2009 was approximately \$2,249 per metric ton for prepared pork products compared to \$2,181 during 2008, an increase of 3%. The number of metric tons of prepared pork products sold during 2009 increased by 16,739, or 68% from 2008.

The sales of meat and vegetable products are closely related to the particular regional markets in which our distribution channels are located. Therefore, the increase in metric tons sold in 2009 was partly attributable to our effort to expand our distribution channels. The following table sets forth the changes in our distribution channels:

Numbers of Store and Cities Generating Sales Volume

	<u>December 31,</u>		<u>Net Change</u>	<u>Percentage of Change</u>
	<u>2009</u>	<u>2008</u>		
Showcase store	145	132	13	10%
Branded stores	1,012	961	51	5%
Super market counters	2,048	1,968	80	4%
Total	3,205	3,061	144	5%
First-tier cities	29	29	—	—
Second-tier cities	120	106	14	13%
Third-tier cities	383	324	59	18%
Total	532	459	73	16%

The expansion in our distribution channels and geographical coverage has been a significant factor in the increase in our sales volume. The following table shows our revenues by distribution channel in 2009 and 2008, respectively.

**Sales by Distribution Channel
(\$ in millions)**

	<u>Years Ended December 31</u>		<u>Net Change</u>	<u>Percentage of Change</u>
	<u>2009</u>	<u>2008</u>		
Retail channels	\$ 301.1	\$ 226.8	\$ 74.3	33%
Wholesalers and distributors	217.4	155.7	61.7	40%
Restaurants and food service	200.4	152.0	48.4	32%
Export	7.1	5.3	1.8	34%
Total	\$ 726.0	\$ 539.8	\$ 186.2	34%

The increase in sales to different distribution channels was primarily due to the following factors:

- our production capacity has increased since we put new facilities into operation in 2009 and increased our utilization rate for all facilities;
- we have built up our brand image and brand recognition through general advertising display promotions and sales campaigns;
- we have increased the number of stores and other channels through which we sell our products; and
- we believe consumers are placing increased importance on food safety and are willing to pay higher prices for safe food products.

Cost of Sales. As discussed above, all of our meat products are derived from the same raw materials, which are live hogs. Our vegetable and fruit products are purchased from farmers located close to our processing facility in Changge City, Henan province. As a result, the purchasing costs of live hogs and vegetables and fruits represent substantially all of our costs of raw materials. Our costs of sales primarily include our costs of raw materials, labor costs and overhead. Of our total cost of sales, our cost of raw materials typically accounts for approximately 96% to 97%, our overhead typically accounts for 2% to 2.5% and our labor costs typically accounts for 1% to 1.3%, with slight variations from period to period.

Costs of Sales by Division

	Year Ended December 31, 2009			Year Ended December 31, 2008		
	Metric Tons	Amount (in millions)	Average Cost/Metric Ton	Metric Tons	Amount (in millions)	Average Cost/Metric Ton
Pork and Pork Products						
Chilled pork	214,253	\$ 352.7	\$ 1,646	128,963	\$ 253.2	\$ 1,963
Frozen pork	133,034	205.6	1,545	86,085	168.6	1,959
Prepared pork products	41,360	71.2	1,722	24,621	42.0	1,706
Vegetables and Fruits	16,825	10.1	599	13,472	7.5	557
Total	405,472	\$ 639.6	\$ 1,577	253,141	\$ 471.3	\$ 1,862

Our gross profit margin (gross profit divided by sales revenue) decreased from 12.7% in 2008 to 11.9% in 2009. The decrease in our gross profit margin during 2009 was primarily due to (i) our strategic decision to take steps to increase our market share and the utilization rate of our production capacity at a time when our production capacity increased due to the opening of new production facilities during the year; and (ii) the increase in our depreciation expense resulting from the newly-built production facilities that were put into service over the past year. As a result, our gross profit margin was lower than the level we would expect to achieve once we fully integrate our new production facilities and expand into new regional markets for our products. We intend to adjust our production levels and product mix and the percentages of our sales through our different sales channels in the coming quarters to increase our gross profit margin.

General and Administrative Expenses. General and administrative expenses increased from \$18.0 million in 2008 to \$18.8 million in 2009, which represented an increase of \$0.8 million, or approximately 4%. As a percentage of revenues, general and administrative expenses decreased from 3.3% in 2008 to 2.6% in 2009.

The increase in general and administrative expenses during the year ended December 31, 2009 was primarily the result of a \$1.0 million increase in salary expense due to the expansion of our business, which required the hiring of more employees and management staff.

Selling Expenses. Selling expenses increased from \$9.9 million in 2008 to \$14.7 million in 2009, which represented an increase of \$4.8 million, or approximately 48%. As a percentage of revenue, selling expenses increased from 1.8% in 2008 to 2.0% in 2009. The increase in selling expenses was primarily the result of a \$1.2 million increase in salary expense and a combination of other smaller increases.

Research and Development Expenses. Research and development expenses decreased from \$0.7 million in 2008 to \$0.1 million in 2009, which represented a decrease of \$0.6 million, or approximately 86%. The decrease was because we received more government subsidies during this year, see Note 15 to our audited financial statements.

Interest Expense. Interest expense increased from \$3.4 million in 2008 to \$6.1 million in 2009, which represented an increase of \$2.7 million, or approximately 79%. The increase in interest expense was primarily a result of an increase of \$16.8 million in short-term bank loans, an increase of \$21.4 million in long-term bank loans and an increase of \$14.3 million in capital lease obligations, which increases were partly offset by an increase in interest income.

Other Income and Government Subsidies. Other income and government subsidies increased from \$0.4 million in 2008 to \$2.6 million in 2009, which represented an increase of \$2.2 million or approximately 550%. The increase was because we received more government subsidies during the year that are both earmarked and non-earmarked.

Income Taxes. The effective tax rate in the PRC on income generated from the sale of prepared products is 25% and there is no income tax on income generated from the sale of raw products, including raw meat products and raw fruits and vegetable products. The increase of \$1.4 million in the provision for income taxes in 2009 over 2008 resulted from the increased sales of prepared meat products.

Comparison of Years Ended December 31, 2008 and 2007

Revenue. Total revenue increased from \$291.4 million in 2007 to \$539.8 million in 2008, which represented an increase of \$248.4 million, or approximately 85%. The increase in revenues was primarily due to increases in the sales volume of our pork and pork products and, to a lesser extent, to increases in prices of our pork and pork products. The following table presents certain information regarding our sales by product division in 2008 and 2007.

	Sales by Division					
	Year Ended December 31, 2008			Year Ended December 31, 2007		
	Metric Tons	Sales Revenues (in millions)	Average Price/Metric Ton	Metric Tons	Sales Revenues (in millions)	Average Price/ Metric Ton
Pork and Pork Products						
Chilled pork	128,963	\$ 289.3	\$ 2,243	88,665	\$ 151.0	\$ 1,703
Frozen pork	86,085	187.9	2,183	62,819	102.6	1,633
Prepared pork products	24,621	53.7	2,181	16,416	29.2	1,779
Vegetables and Fruits	13,472	8.9	661	11,743	8.6	732
Total	253,141	\$ 539.8	\$ 2,132	179,643	\$ 291.4	\$ 1,622

As discussed above, the pork market in China is highly fragmented and in the markets in which we sell our products, no single supplier has a significant impact on the market price of pork or related pork products. We have been pricing our products based on the value of our brand, the quality of our products, then-applicable hog prices and pricing trends for similar products in the regions in which we operate. In 2008, we increased our sales of chilled pork products by approximately \$138.3 million over the amount of our sales of such products in 2007. As shown in the table above, our average price during the 2008 was approximately \$2,243 per metric ton for chilled pork whereas our average price during the 2007 was only \$1,703 per metric ton for chilled pork.

In 2008, we increased our sales of frozen pork products by approximately \$85.3 million over the amount of our sales of such products in 2007. Our average price during 2008 was approximately \$2,183 per metric ton for frozen pork whereas our average price during 2007 was only \$1,633 per metric ton for frozen pork.

In 2008, we increased our sales of prepared pork products by approximately \$24.5 million over the amount of our sales of such products in 2007. Our average price during 2008 was approximately \$2,181 per metric ton for prepared pork products whereas our average price during 2007 was only \$1,779 per metric ton for prepared pork products.

The sales of meat and vegetable products are closely related to the particular regional markets in which our distribution channels are located. Therefore, the increase in metric tons sold in 2008 was partly attributable to our effort to expand our distribution channels. The following table sets forth the changes in our distribution channels:

Numbers of Stores and Cities Generating Sales Volume

	December 31,		Net Change	Percentage of Change
	2008	2007		
Showcase stores	132	113	19	17%
Branded stores	961	927	34	4%
Supermarket counters	1,968	1,899	69	4%
Second-tier cities	106	93	13	14%
Third-tier cities	324	287	37	13%

The expansion in our distribution channels and geographical coverage has been a significant factor in the increase in our sales volume. The following table sets forth our revenues by distribution channel for 2008 and 2007, respectively.

Sales by Distribution Channel (\$ in millions)

	Years Ended December 31		Net Change	Percentage of Change
	2008	2007		
Branded stores	\$ 226.8	\$ 129.3	\$ 97.5	75%
Food services distributors	155.7	60.2	95.5	159%
Restaurants and noncommercial	152.0	85.8	66.2	77%
Export	5.3	16.1	(10.8)	(67)%
Total	<u>\$ 539.8</u>	<u>\$ 291.4</u>	<u>\$ 248.4</u>	85%

The increase in sales to different distribution channels was mainly due to the following factors:

- our production capacity has increased since our Luoyang production facilities commenced production in the second quarter of 2008;
- we have built up our brand image and brand recognition through advertisements on China Central TV and local television and promotion;

- we have increased the number of stores and other channels through which we sell our products; and
- we believe consumers are placing increased importance on food safety and are willing to pay higher prices for safe food products.

During 2008, revenues from export sales decreased to \$5.3 million, which represented a decline of \$10.8 million, or approximately 67%, as compared to 2007. The decrease in export sales was primarily due to the reduction of our export sales efforts during the 2008 period due to the higher gross profit margins we could achieve during that period by selling our pork products domestically in the PRC.

Costs of Sales. All of our meat products are derived from the same raw materials, which are live hogs. Our vegetable and fruit products are purchased from farmers located close to our processing facility in Changge City, Henan province. As a result, the purchasing costs of live hogs and vegetables and fruits represent substantially all of our costs of raw materials. Our costs of sales primarily include our costs of raw materials, labor costs and overhead. Of our total cost of sales, our cost of raw materials typically accounts for approximately 96% to 97%, our overhead typically accounts for 2% to 2.5% and our labor costs typically accounts for 1% to 1.3%, with slight variations from period to period. Our cost of sales increased from \$253.9 million in 2007 to \$471.3 million in 2008, which represented an increase of \$217.4 million, or approximately 86%. The increase in our cost of sales was consistent with our increase in sales revenue.

	Year Ended December 31, 2008			Year Ended December 31, 2007		
	Metric Tons	Amount (in millions)	Average Cost/ Metric Ton	Metric Tons	Amount (in millions)	Average Cost/Metric Ton
Pork and Pork Products						
Chilled pork	128,963	\$ 253.2	\$ 1,963	88,665	\$ 131.8	\$ 1,486
Frozen pork	86,085	168.6	1,959	62,819	91.3	1,453
Prepared pork products	24,621	42.0	1,706	16,416	23.6	1,438
Vegetables and Fruits	13,472	7.5	557	11,743	7.2	613
Total	253,141	\$ 471.3	\$ 1,862	179,643	\$ 253.9	\$ 1,413

Our gross profit margin (gross profit divided by sales revenue) decreased from 12.9% in 2007 to 12.7% in 2008. The slight decrease in our gross profit margin during 2008 was primarily attributable to the increase in revenue from products that were sold through low-margin distribution channels (wholesalers), which resulted from our decision to enhance our capacity utilization of our newly-built facilities that were put into service during 2008. Consequently, our gross profit margin was lower than the level we would expect to achieve when we successfully penetrate new regional markets and increase our sales through higher-margin channels, such as our retail channels. In addition, the decrease in our gross profit margin during 2008 was attributable to the increase in labor costs we experienced as a result of the implementation of new labor laws in the PRC and the increase we experienced in our depreciation expense resulting from the newly-built production facilities that were put into service during 2008. We intend to adjust our production levels and product mix and the percentages of our sales through our different sales channels in 2009 to stabilize our gross profit margin.

General and Administrative Expenses. General and administrative expenses increased from \$10.3 million in 2007 to \$17.9 million in 2008, which represented an increase of \$7.6 million, or approximately 74%. As a percentage of revenues, general and administrative expenses decreased from 3.5% in 2007 to 3.3% in 2008.

The increase in general and administrative expenses during the year ended December 31, 2008 was primarily the result of

- a \$2.0 million increase in salary expense due to the expansion of our business, which required us to hire more employees, and certain salary increases that were implemented in 2008 to bring our compensation levels more in line with industry and regional standards;
- a \$1.7 million increase in advertising expenses in 2008 to build up our brand image and brand recognition;
- a \$1.1 million increase in option amortization expense resulting from the options we granted at the end of 2007;
- a \$1.0 million increase in consulting fees incurred in connection with the listing of our common stock on the NASDAQ Global Select Market; and
- a \$0.7 million increase in training expenses as we provided more training to our management and staff to support our expansion.

These increases were partly offset by a \$2.3 million decrease in non-cash compensation expenses related to the escrow arrangement we implemented in connection with our 2006 private placement.

Selling Expenses. Selling expenses increased from \$5.0 million in 2007 to \$9.9 million in 2008, which represented an increase of \$4.9 million, or approximately 98%. The increase in selling expenses was primarily the result of our increased sales of pork and pork products. As a percentage of revenue, selling expenses increased to 1.8% in 2008 from 1.7% in 2007. The increase in selling expenses was primarily due to a \$2.3 million increase in transportation costs due to our increased sales of products and a \$1.2 million increase in salary expense due to the expansion of our business, which required us to hire additional employees, and certain increased compensation levels as discussed above.

Research and Development Expenses. Research and development expenses increased from \$0.2 million in 2007 to \$0.7 million in 2008, which represented an increase of \$0.5 million, or approximately 250%. The increase was due to our increased investment in new product development, our cooperation with different agriculture universities and institutes and increase in salary and welfare because we employed more scientists in our research and development team.

Interest Expense. Interest expense increased from \$2.5 million in 2007 to \$3.4 million in 2008, which represented an increase of \$0.9 million, or approximately 36%. The increase in interest expense was primarily the result of an increase of \$20.2 million in short-term bank loans, an increase of \$21.8 million in long-term bank loans and an increase of \$4.3 million in capital lease obligations, which increases were partly offset by an increase in interest income. Interest rate fluctuation was not significant during fiscal year 2009 in the PRC.

Other Income, Exchange Gain and Government Subsidies. Other income, exchange gain and government subsidies decreased from \$0.5 million in 2007 to \$0.4 million in 2008.

Income Taxes. The effective tax rate in the PRC on income generated from the sale of prepared products is 25% and there is no income tax on income generated from the sale of raw products, including raw meat products and raw fruits and vegetable products. The increase of \$1.0 million in the provision for income taxes in 2008 over 2007 resulted from the increased sales of prepared meat products, which was partly offset by the decrease in the income tax rate from 33% in 2007 to 25% in 2008 and from the \$0.6 million increase in the provision for income tax due to the donation to our company by certain of our shareholders of a company payable to such shareholders, which we discuss in more detail in Note 10 to our audited financial statements.

Segment Information

Under generally accepted accounting principles in the United States, we operate in only one segment: meat production. Our fruit and vegetable operations, both financially and operationally, do not represent a significant enough portion of our business to constitute a separate segment. However, our product lines have been divided into two divisions: pork and pork products, and vegetables and fruits.

Our pork and pork products division is involved primarily in the processing of live hogs into fresh, frozen and processed pork products. Our pork and pork products division markets its products domestically to our branded stores, food retailers, foodservice distributors, restaurant operators and noncommercial foodservice establishments, such as schools, hotel chains, healthcare facilities, the military and other food processors, as well as to international markets.

Our vegetables and fruits division is involved primarily in the processing of fresh vegetables and fruits. We contract with more than 100 farms in Henan province and nearby areas to produce high-quality vegetable varieties and fruits suitable for export. The proximity of the contracted farms to our operations ensures freshness from harvest to processing. We contract to grow more than 34 categories of vegetables and fruits, including asparagus, sweet corn, broccoli, mushrooms, lima beans, strawberries and capsicum.

The following tables show our sales in metric tons and production processed in metric tons by division in 2009, 2008 and 2007 and the percentage increases for each division between periods.

	Sales by Division (in metric tons)			Percentage Increase 2009/2008
	Years Ended December 31		Net Increase	
	2009	2008		
Pork and Pork Products				
Chilled Pork	214,253	128,963	85,290	66%
Frozen Pork	133,034	86,085	46,949	55%
Prepared Pork Products	41,360	24,621	16,739	68%
Vegetables and Fruits	16,825	13,472	3,353	25%
Total	405,472	253,141	152,331	60%

**Production by Division
(in metric tons)**

	<u>Years Ended December 31,</u>		<u>Net Increase</u>	<u>Percentage Increase</u>
	<u>2009</u>	<u>2008</u>	<u>2009/2008</u>	<u>2009/2008</u>
Pork and Pork Products				
Chilled Pork	214,119	129,369	84,750	66%
Frozen Pork	145,385	86,903	58,482	67%
Prepared Pork Products	42,757	24,691	18,066	73%
Vegetables and Fruits	17,896	13,409	4,487	33%
Total	<u>420,157</u>	<u>254,372</u>	<u>165,785</u>	65%

**Sales by Division
(in metric tons)**

	<u>Years Ended December 31,</u>		<u>Net Increase</u>	<u>Percentage Increase</u>
	<u>2008</u>	<u>2007</u>	<u>2008/2007</u>	<u>2008/2007</u>
Pork and Pork Products				
Chilled pork	128,963	88,665	40,298	45%
Frozen pork	86,085	62,819	23,266	37%
Prepared pork products	24,621	16,416	8,205	50%
Vegetables and Fruits	13,472	11,743	1,729	15%
Total	<u>253,141</u>	<u>179,643</u>	<u>73,498</u>	41%

**Production by Division
(in metric tons)**

	<u>Years Ended December 31,</u>		<u>Net Increase</u>	<u>Percentage Increase</u>
	<u>2008</u>	<u>2007</u>	<u>2008/2007</u>	<u>2008/2007</u>
Pork and Pork Products				
Chilled pork	129,369	88,673	40,696	46%
Frozen pork	86,903	65,109	21,794	33%
Prepared pork products	24,691	16,380	8,311	51%
Vegetables and Fruits	13,409	12,263	1,146	9%
Total	<u>254,372</u>	<u>182,425</u>	<u>71,947</u>	39%

Liquidity and Capital Resources

We have financed our operations over the three years ended December 31, 2009 primarily through cash from operating activities, borrowings under our lines of credit with various commercial banks in the PRC, net proceeds from the sale of our equity securities and the proceeds from the exercise of certain of our outstanding stock purchase warrants. In January 2006, we completed a private placement of our Series A convertible preferred stock and common stock purchase warrants and received net proceeds of approximately \$23.1 million. In October 2007, we completed a private placement of our common stock and received net proceeds of approximately \$46.4 million. In 2008, we completed a capital lease transaction and obtained net proceeds of \$6.6 million. In October 2009, we completed a registered direct common stock offering and received net proceeds of approximately \$57.1 million. In November 2009, we entered into capital lease agreements and obtained net proceeds of \$14.3 million. At December 31, 2009, 2008 and 2007, we had cash and cash equivalents of \$69.0 million, \$41.9 million, and \$45.1 million, respectively.

Net cash provided by operating activities was \$40.8 million, \$65.8 million and \$0.5 million, respectively, in 2009, 2008 and 2007.

Year 2009

We have established and implemented corporate policies to manage our cash flows generated by our operating activities. We have established strict credit policies to manage the credit we give to our customers, and we give different credit terms to different types of customers in different sales channels. For supermarket customers, the credit terms are generally two to four weeks. For showcase stores and branded stores, the credit terms are generally cash sales within one week. For food distributors, the credit terms are generally two weeks. For restaurants and non-commercial customers, the credit terms are from one week to one month. These credit terms are subject to negotiation if requested by our customers, but any adjustment must be approved by designated management. In general, we ask for credit terms from our suppliers. We generally pay for the hogs we purchase within one week after the hogs pass our health and quality examinations.

In 2009, net cash provided by operating activities was \$40.8 million, which represented a decrease of \$25.0 million as compared to the net cash provided by operating activities of \$65.8 million in 2008. Of the \$25.0 million decrease, net income accounted for \$14.2 million increase, non-cash items accounted for \$0.6 million increase and changes in operating assets and liabilities accounted for \$39.8 million decrease. Of the non-cash items, depreciation and amortization accounted for \$3.7 million of the increase in cash provided by operating activities due to the fact that more plants, equipment and machinery were put into use during 2009; the increase in depreciation expense is offset by the decrease of \$3.1 million in impairment loss.

Cash flow from changes in operating assets and liabilities accounted for approximately \$39.8 million of the decrease, as compared to the cash flow of \$24.1 million from changes in operating assets and liabilities in 2008. Of the \$39.8 million decrease, \$28.0 million was attributable to the change of cash flow from inventories due to the fact that we increased our inventories to assist the Chinese government in building up its pork reserves and we are prohibited from selling these reserves until pork prices increase to a level at which the government wants to sell its reserves to stabilize pork prices; the increase in raw material purchase to boost the inventory level also increased the VAT tax recoverable by \$3.2 million; \$5.2 million was attributable to the change of cash flow from accounts payable due to the fact that we purchased more hogs to build up the inventory; and we consumed \$3.7 million more on purchase deposit due to the changes in market situation in hogs supply.

Net cash used in investing activities was \$119.0 million in 2009, which represented a decrease of \$1.7 million as compared to the net cash of \$120.7 million used by investing activities in 2008. We spent \$7.3 million more on the costs of construction for new production facilities, \$9.8 million more on acquiring land use rights and \$15.5 million more on restricted cash so that we could issue bank payable notes to pay for purchases in 2009 compared to the prior year. The cash spent on building new production facilities was a result of implementing our development strategy of deploying new production facilities to increase our geographical market coverage.

Net cash provided by financing activities was \$105.4 million in 2009, an increase of \$56.4 million compared to the net cash provided by financing activities of \$49.0 million in 2008. We received \$4.4 million in net proceeds from long-term bank loans (net of repayment of long-term loans), \$57.1 million of net proceeds from issuing common stock and \$10.2 million more of net proceeds from capital lease obligations during 2009. In addition, we repaid \$15.7 million more of bank notes during 2009.

At December 31, 2009, Henan Zhongpin had short-term bank and governmental loans in the aggregate amount of \$84.7 million with a weighted average interest rate per annum of 5.31%, and lines of credit with aggregate credit availability of \$359.5 million, as follows:

<u>Bank</u>	<u>Maximum Credit Availability</u>	<u>Amount Borrowed</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
Short-term Loan				
Agriculture Bank of China	\$ 73,225,740	\$ 5,711,608	5.31%	01/04/2010
		1,025,160	5.31%	01/21/2010
		5,418,705	5.31%	03/12/2010
		7,761,928	5.31%	03/30/2010
Industrial and Commercial Bank of China	21,967,722	—		
China Everbright Bank	7,322,574	—		
Bank of Luoyang	4,393,544	—		
Bank of Communications	5,858,059	—		
China Construction Bank	14,645,148	4,393,544	5.31%	06/10/2010
China CITIC Bank	36,612,870	3,661,287	5.31%	03/25/2010
Agriculture Development Bank of China	102,516,036	15,360,857	5.31%	06/29/2010
		9,079,992	5.31%	12/30/2010

Bank	Maximum Credit Availability	Amount Borrowed	Interest Rate	Maturity Date
Shanghai Pudong development Bank of China	14,645,148	2,196,772	5.31%	03/15/2010
		2,196,772	5.31%	03/16/2010
		1,464,515	5.31%	03/18/2010
		3,221,933	5.31%	03/22/2010
		5,565,156	5.31%	03/25/2010
Bank of China	14,645,148	—		
China Merchants Bank	27,093,523	5,858,059	5.31%	06/04/2010
		2,929,030	5.31%	06/22/2010
Guangdong Development Bank	10,251,604	5,858,059	5.31%	09/28/2010
Xuchang Commercial Bank	4,393,544	—		
China Minsheng Bank	7,322,574	—		
Rabobank Nederland	14,645,148	2,929,030	5.31%	05/28/2010
City Finance –short-term		29,290	0.00%	Extendable
Total		<u>\$ 84,661,697</u>		
Long-term Loan-Current portion				
Canadian Government Transfer Loan		145,671	6.02%	05/15/2010
China CITIC Bank	36,612,870	4,393,544	5.40%	01/23/2010
Total		<u>\$ 4,539,215</u>		
Long-term Loan				
China Construction Bank	14,645,148	7,322,574	5.40%	06/10/2011
Agriculture Bank of China	73,225,740	10,251,605	5.76%	12/27/2014
China Minsheng Bank	7,322,574	7,322,574	5.40%	05/06/2011
China Merchants Bank	27,093,523	6,956,445	5.76%	11/26/2014
Rabobank Nederland	14,645,148	5,858,059	5.40%	06/15/2011
		5,858,059	5.40%	07/09/2011
Canadian Government Transfer Loan		<u>\$ 1,343,428</u>	*	05/15/2042
Total		<u>\$ 44,912,744</u>		

* 58% of the principal amount of this loan bears interest at the rate of 6.02% per annum and the remaining principal amount of this loan is interest free. All repayments are applied first to the interest-bearing portion of this loan.

Of our outstanding short-term indebtedness at December 31, 2009, \$51.7 million aggregate principal amount of loans was secured by our land and plants located in the PRC and \$14.6 million aggregate principal amount of loans was guaranteed by Huanghe Enterprises Group Co., Ltd., a group corporation based in Henan province that is not affiliated with our company or with any of our subsidiaries (“Huanghe Group”).

In December 2009, Henan Zhongpin entered into a loan agreement with Agriculture Bank of China pursuant to which Henan Zhongpin borrowed RMB 70 million (\$10.3 million). All amounts borrowed under the loan agreement bear interest at a floating rate that is based on the prime rate published by the People’s Bank of China for loans with the same or similar terms on the drawdown date (5.76% per annum on December 31, 2009) and are payable on December 27, 2014. Borrowings under the loan agreement are guaranteed by the land usage right, property and plant of Luoyang Zhongpin.

In November 2009, Henan Zhongpin entered into a loan agreement with China Merchants Bank pursuant to which Henan Zhongpin borrowed RMB 47.5 million (\$7.0 million). All amounts borrowed under the loan agreement bear interest at a floating rate that is based on the prime rate published by the People’s Bank of China for loans with the same or similar terms on the drawdown date (5.76% per annum on December 31, 2009) and are payable on November 26, 2014. Borrowings under the loan agreement are guaranteed by Luoyang Zhongpin.

In November 2009, Henan Zhongpin entered into a sale-leaseback agreement with CMB Financial Leasing Co., Ltd. (“CMB Leasing”) pursuant to which we sold to CMB Leasing equipment with a book net value of \$8.3 million for \$5.9 million and leased such equipment back. The lease payments for this equipment are paid on a monthly basis over a three-year period and consist of a fixed payment based upon a 36-month amortization of the purchase price plus an interest component that is based upon the rate announced from time to time by the People’s Bank of China for three-year loans. At December 31, 2009, the monthly rental fee under the agreement was \$175,936, which included an interest component calculated at the rate of 4.91% per annum. Henan Zhongpin has the right at the end of the lease term to repurchase all of the equipment for a nominal purchase price.

In November 2009, our subsidiary Luoyang Zhongpin Food Co., Ltd. entered into a sale-leaseback agreement with CMB Leasing pursuant to which we sold to CMB Leasing equipment with a book net value of \$6.8 million for \$4.4 million and leased such equipment back. The lease payments for this equipment are paid on a monthly basis over a three-year period and consist of a fixed payment based upon a 36-month amortization of the purchase price plus an interest component that is based upon the rate announced from time to time by the People’s Bank of China for three-year loans. At December 31, 2009, the monthly rental fee under the agreement was \$131,952, which included an interest component calculated at the rate of 4.91% per annum. Henan Zhongpin has the right at the end of the lease term to repurchase all of the equipment for a nominal purchase price.

In November 2009, our subsidiary Zhumadian Zhongpin Food Co., Ltd. entered into a sale-leaseback agreement with De Lage Landen (China) Co., Ltd. (“De Lage Landen”) pursuant to which we sold to De Lage Landen equipment with a book net value of \$5.9 million for \$6.0 million and leased such equipment back. The lease payments for this equipment are paid on a monthly basis over a three-year period and consist of a fixed payment based upon a 36-month amortization of the purchase price plus an interest component that is based upon the rate announced from time to time by the People’s Bank of China for three-year loans. At December 31, 2009, the monthly rental fee under the agreement was \$176,402, which included an interest component calculated at the rate of 5.31% per annum. Henan Zhongpin has the right at the end of the lease term to repurchase all of the equipment for a nominal purchase price.

In June 2009, Henan Zhongpin entered into a mutual guarantee agreement with Huanghe Group. Under the agreement, Henan Zhongpin agreed to guarantee bank loans of Huanghe Group in an amount up to \$8.8 million and Huanghe Group agreed to guarantee Henan Zhongpin’s bank loans in an amount up to \$8.8 million. The agreement expires in June 2010. In September 2009, Henan Zhongpin entered into a mutual guarantee agreement with Huanghe Group. Under the agreement, Henan Zhongpin agreed to guarantee bank loans of Huanghe Group in an amount up to \$5.9 million and Huanghe Group agreed to guarantee Henan Zhongpin’s bank loans in an amount up to \$5.9 million. The agreement expires in September 2010. At the expiration of the agreements, each party will remain obligated under its guarantee for any loans of the other party that are outstanding on the date of expiration of the agreements. At December 31, 2009, Henan Zhongpin had outstanding guarantees for \$14.6 million of Huanghe Group’s bank loans under the agreements. All of the bank loans of Huanghe Group guaranteed by Henan Zhongpin will mature within the next 12 months.

In June 2009, Henan Zhongpin entered into a loan agreement with China Construction Bank pursuant to which Henan Zhongpin borrowed RMB 50 million (\$7.3 million). All amounts borrowed under the loan agreement bear interest at a floating rate that is based on the prime rate published by the People’s Bank of China for loans with the same or similar terms on the drawdown date (5.4% per annum on December 31, 2009) and are payable on June 10, 2011. Borrowings under the loan agreement are guaranteed by the land usage right, property and plant of Henan Zhongpin.

In May 2009, Henan Zhongpin entered into a loan agreement with China Minsheng Bank pursuant to which Henan Zhongpin borrowed RMB 50 million (\$7.3 million). All amounts borrowed under the loan agreement bear interest at a floating rate that is based on the prime rate published by the People’s Bank of China for loans with the same or similar terms on the drawdown date (5.4% per annum on December 31, 2009) and are payable on May 6, 2011. Borrowings under the loan agreement are guaranteed by our wholly-owned subsidiary, Yongcheng Zhongpin Food Co., Ltd.

On November 5, 2008, Henan Zhongpin entered into a sale-leaseback agreement with CMB Leasing pursuant to which we sold to CMB Leasing equipment with a book net value of \$6.6 million for \$4.6 million and leased such equipment back. The lease payments for this equipment are paid on a monthly basis over a three-year period and consist of a fixed payment based upon a 36-month amortization of the purchase price plus an interest component that is based upon the rate announced from time to time by the People’s Bank of China for three-year loans. At December 31, 2009, the monthly rental fee under the agreement was \$138,796, which included an interest component calculated at the rate of 5.4% per annum. Henan Zhongpin has the right at the end of the lease term to repurchase all of the equipment for a nominal purchase price.

In May 2008, Henan Zhongpin entered into a credit agreement with Rabobank Nederland Shanghai Branch that provided for a three-year term loan of up to RMB 80 million (\$11.7 million). On June 10, 2008, the first 50% of the long-term loan was funded by the bank. The remaining 50% of the long-term loan was drawn down by Henan Zhongpin on July 10, 2008. Amounts currently outstanding under the long-term loan bear interest rate published by the People's Bank of China for loans with the same or similar terms. The accrued interest on this loan is payable on a quarterly basis. Of the outstanding principal under the long-term loan, 25% is payable 24 months after the first drawdown date (June 10, 2008), 37.5% is payable 30 months after the first drawdown date and the balance is payable 36 months after the first drawn down date.

Borrowings under the term loan agreement are guaranteed by our subsidiaries, Anyang Zhongpin Food Co., Ltd. and Zhumadian Zhongpin Food Co., Ltd., are secured by mortgages on our prepared pork production facilities located in Changge City, Henan province and are subject to various financial and non-financial covenants, including a debt to net worth ratio, a debt to EBITDA ratio, an interest coverage ratio, a required minimum tangible net worth, restrictions on investments in fixed assets and financial assets, on inter-company indebtedness and on consolidated contingent liabilities and a requirement that a minimum percentage of Henan Zhongpin's consolidated EBITDA be generated by Henan Zhongpin and the guarantors. Henan Zhongpin also is prohibited from paying dividends in an amount in excess of 50% of its retained earnings during the term of the credit facility.

In April 2008, Henan Zhongpin entered into a loan agreement with China CITIC Bank pursuant to which Henan Zhongpin borrowed RMB 30 million (\$4.4 million). All amounts borrowed under the loan agreement bear interest at a floating rate that is based on the prime rate published by the People's Bank of China (5.40% on December 31, 2009) and are payable on January 23, 2010. Borrowings under the loan agreement are guaranteed by Xuji Group Co., Ltd., a corporation that is not affiliated with our company or with any of our subsidiaries. Henan Zhongpin repaid the loan when it became due.

In May 2002, Henan Zhongpin entered into a loan agreement with Bank of Communications, Zhengzhou Branch, which is the intermediary bank for a 40-year term loan in the amount of \$2,504,969 from the Canadian government. Under the terms of the loan agreement, 58% of the principal amount (\$1,452,882) of this loan bears interest at the fixed rate of 6.02% per annum and remaining principal amount of this loan is interest free. The loan is repayable in a fixed amount of \$145,671, which includes both principal and interest, that is payable on a semi-annual basis through May 15, 2042. Borrowings under the loan agreement are guaranteed by the Financing Department, Henan province.

We believe our existing cash and cash equivalents, together with our available lines of credit (\$225.4 million at December 31, 2009), will be sufficient to finance our investment in new facilities with budgeted capital expenditures of \$73.3 million over the next 12 months and to satisfy our working capital needs. We intend to satisfy our short-term debt obligations that mature over the next 12 months through additional short-term bank loans, in most cases by rolling the maturing loans into new short-term loans with the same lenders as we have done in the past. We also intend to optimize our loan structure by replacing certain of our short-term indebtedness with additional long-term debt.

Year 2008

In 2008, net cash provided by operating activities was \$65.8 million, which represented an increase of \$65.3 million as compared to the net cash provided by operating activities of \$0.5 million in 2007. Of the \$65.3 million increase, net income accounted for \$12.9 million, non-cash items accounted for \$4.3 million and changes in operating assets and liabilities accounted for \$48.1 million. Of the non-cash items, depreciation and amortization accounted for \$2.9 million of the change due to the fact that more plants, equipment and machinery were put into use during 2008.

Cash flow from changes in operating assets and liabilities accounted for approximately \$48.1 million of the increase, as compared to the negative cash flow of \$23.9 million from changes in operating assets and liabilities in 2007. Of the \$48.1 million increase, \$25.4 million was attributable to the change of cash flow from inventories due to the fact that our inventory balance at December 31, 2008 was reduced as our sales increased during the year and we built up our inventory at the end of 2007 as we expected pork prices to increase in early 2008; \$4.6 million was attributable to the change of cash flow from accounts receivable due to the fact that the collection of accounts receivable in 2008 was significantly improved; \$5.5 million was attributable to the change of cash flow from other receivables due to the fact that the collection of other receivables in 2008 improved; and we consumed \$8.0 million more on purchase deposit due to the changes in market situation in hogs supply.

Net cash used in investing activities was \$120.7 million in 2008, which represented an increase of \$67.5 million as compared to the net cash of \$53.2 million used by investing activities in 2007. We spent \$47.1 million more on the costs of construction for new production facilities, \$8.2 million more on equipment and machinery and \$4.8 million more on deposits for purchase of land usage rights in 2008 compared to the prior year. The cash spent on building new production facilities was a result of implementing our development strategy of deploying new production facilities to increase our geographical market coverage.

Net cash provided by financing activities was \$49.0 million in 2008, a decrease of \$25.4 million compared to the net cash provided by financing activities of \$74.4 million in 2007. We received \$21.6 million in net proceeds from long-term bank loans in 2008 and no such proceeds in the prior year. We received \$62.8 million of net proceeds from issuing common stock in 2007 whereas we did not have such activities in 2008. We received \$1.5 million of net proceeds from exercising stock options and warrants during 2008 whereas we did not have such activities during 2007. In addition, we issued \$14.6 million more of bank notes during 2008 and we paid off short-term loans by \$4.7 million during 2008 compared to the prior year.

Year 2007

Cash provided by operating activities in 2007 consisted primarily of our net profit of \$18.5 million, an increase of \$3.6 million in other receivables, an increase of \$2.8 million in accounts payable and other payables due to improved payment terms from suppliers, an increase of \$2.5 million in non-cash compensation expense adjustment, an increase of \$2.1 million in depreciation expense, an increase of \$1.3 million in accrued liability and an increase of \$1.1 million in deposits from clients. Cash used in operating activities in 2007 was primarily attributable to an increase of \$14.5 million in inventory, an increase of \$5.8 million in purchase deposits in order to secure our supply of live hogs, an increase of \$4.9 million in accounts receivables, an increase of \$0.4 million in taxes payable, an increase of \$2.9 million in other receivables and an increase of \$1.5 million in prepaid expense and deferred charges. The increase in both accounts receivable and inventory levels during the period was primarily due to our increased sales, increased selling prices and increased costs of live hogs. During 2007, management focused on reducing the average age of our accounts receivable. Our average accounts receivable turnover days decreased from approximately 30 days in 2006 to approximately 20 days in 2007. At the same time, our average inventory turnover days increased from approximately 18 days in 2006 to approximately 26 days in 2007.

Net cash used in investing activities was \$53.2 million in 2007. At December 31, 2007, our investment in facilities construction in progress increased by approximately \$29.4 million as compared to the amount of such investment at December 31, 2006. During the year ended December 31, 2007, a total of \$6.9 million was invested in the purchase of fixed assets. In addition, we expended an additional \$13.5 million for an investment in land use rights during the year ended December 31, 2007.

Net cash provided by financing activities was \$74.4 million in 2007 and \$27.0 million in 2006. In 2007, cash provided by financing activities included the net proceeds from the issuance of common stock of \$46.4 million, net proceeds from short-term loans of \$49.7 million and the net proceeds of \$16.4 from the exercise of certain of our outstanding stock purchase warrants. The net cash used in financing activities included the repayment of indebtedness in the aggregate amount of \$28.4 million.

Contractual Commitments

The following table summarizes our contractual obligations at December 31, 2009 and the effect those obligations are expected to have on our liquidity and cash flow in future periods.

Contractual Obligations	Payments Due by Period (in thousands)				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Long-term debt obligations	\$ 49,452	\$ 4,539	\$ 26,653	\$ 17,208	\$ 1,052
Interest Payable	7,008	2,457	2,602	1,949	—
Capital lease obligations	20,004	7,480	12,524	-	-
Operating lease obligations	887	511	376	-	-
Total	\$ 77,351	\$ 14,987	\$ 42,155	\$ 19,157	\$ 1,052

Off-Balance Sheet Arrangements

We do not have off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Inflation and Seasonality

While demand for our products in general is relatively high before the Chinese New Year in January or February each year and lower thereafter, we do not believe our operations have been materially affected by inflation or seasonality.

Recently Issued Accounting Pronouncements

Adoption of FASB Accounting Standards Codification

In June 2009, the FASB issued SFAS No. 168, "*The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162*". This standard is now included in ASC Topic 105 and established only two levels of GAAP, authoritative and non-authoritative. The FASB Accounting Standards Codification (the "Codification") became the source of authoritative, non-governmental GAAP, except for rules and interpretive releases of the SEC, which are sources of authoritative GAAP for SEC registrants. All other non-grandfathered, non-SEC accounting literature not included in the Codification became non-authoritative. This standard is effective for financial statements for interim or annual reporting periods ending after September 15, 2009. Effective August 1, 2009, we adopted the new guidelines and numbering system prescribed by the Codification when referring to GAAP. The adoption had no impact on our consolidated financial condition, results of operations or cash flows.

Adoption of FASB ASC 805

Effective January 1, 2009, the Company adopted FASB ASC 805, "*Business Combinations*." FASB ASC 805 changed accounting for acquisitions that close beginning in 2009. FASB ASC 805 extends its applicability to all transactions and other events in which one entity obtains control over one or more other businesses. It broadens the fair value measurement and recognition of assets acquired, liabilities assumed, and interests transferred as a result of business combinations. FASB ASC 805 expands on required disclosures to improve the statement users' abilities to evaluate the nature and financial effects of business combinations. The adoption of FASB ASC 805 did not have a material impact on the Company's financial statements.

Adoption of FASB ASC 805-20

Effective January 1, 2009, the Company adopted FASB ASC 805-20, "*Noncontrolling Interests in Consolidated Financial Statements*." FASB ASC 805-20 requires that a noncontrolling interest in a subsidiary be reported as equity and the amount of consolidated net income specifically attributable to the noncontrolling interest be identified in the consolidated financial statements. It also calls for consistency in the manner of reporting changes in the parent's ownership interest and requires fair value measurement of any noncontrolling equity investment retained in a deconsolidation. FASB ASC 805-20 requires retroactive adoption of the presentation and disclosure requirements for existing minority interests. The adoption FASB ASC 805-20 did not have material impact on the Company's financial statements.

Adoption of FASB ASC 815

Effective January 1, 2009, the Company adopted FASB ASC 815, "*Disclosures about Derivative Instruments and Hedging Activities*." FASB ASC 815 requires enhanced disclosures about (i) how and why the Company uses derivative instruments, (ii) how the Company accounts for derivative instruments and related hedged items, and (iii) how derivative instruments and related hedged items affect the Company's financial results. The adoption FASB ASC 815 did not have any impact on the Company's financial statements.

Adoption of FASB ASC 350-30

Effective January 1, 2009, the Company adopted FASB ASC 350-30, "*Determination of the Useful Life of Intangible Assets*." FASB ASC 350-30 amended the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. The adoption of FASB ASC 350-30 did not have material impact on the Company's financial statements.

Adoption of FASB ASC 860

In June 2009, the FASB issued ASC 860, which eliminates the concept of a qualifying special-purpose entity, creates more stringent conditions for reporting a transfer of a portion of a financial asset as a sale, clarifies other sale-accounting criteria, and changes the initial measurement of a transferor's interest in transferred financial assets. FASB ASC 860 will be effective for transfers of financial assets in years beginning after November 15, 2009 and in interim periods within those years with earlier adoption prohibited. The adoption of ASC 860 is not expected to have a material impact on our consolidated financial position or results of operations.

Adoption of FASB ASU 2009-05

In August 2009, the FASB issued Accounting Standards Update ("ASU") No. 2009-05, "Measuring Liabilities at Fair Value," which amends the guidance in ASC 820, Fair Value Measurements and Disclosures, to provide guidance on fair value measurement of liabilities. If a quoted price in an active market is not available for an identical liability, ASU 2009-05 requires companies to compute fair value by using quoted prices for an identical liability when traded as an asset, quoted prices for similar liabilities when traded as an asset or another valuation technique that is consistent with the guidance in ASC 820. ASU 2009-05 will be effective for interim and annual periods beginning after its issuance and did not have a material impact on our consolidated financial position or results of operations.

Adoption of FASB ASU 2009-13

In October 2009, the FASB issued ASU No. 2009-13, "Multiple-Deliverable Revenue Arrangements" (ASU 2009-13). This update removes the criterion that entities must use objective and reliable evidence of fair value in separately accounting for deliverables and provides entities with a hierarchy of evidence that must be considered when allocating arrangement consideration. The new guidance also requires entities to allocate arrangement consideration to the separate units of accounting based on the deliverables' relative selling price. The provisions will be effective for revenue arrangements entered into or materially modified in our year 2011 and must be applied prospectively. We are currently evaluating the impact of the provisions of ASU 2009-13.

Item 7A. – Quantitative and Qualitative Disclosure About Market Risk

Disclosures About Market Risk

We may be exposed to changes in financial market conditions in the normal course of business. Market risk generally represents the risk that losses may occur as a result of movements in interest rates and equity prices. We currently do not use financial instruments in the normal course of business that are subject to changes in financial market conditions.

Currency Fluctuations and Foreign Currency Risk

Substantially all of our operations are conducted in the PRC, with the exception of our export business and limited overseas purchases of raw materials. Most of our sales and purchases are conducted within the PRC in RMB, which is the official currency of the PRC. As a result, the effect of the fluctuations of exchange rates is considered minimal to our business operations.

Substantially all of our revenues and expenses are denominated in RMB. However, we use the United States dollar for financial reporting purposes. Conversion of RMB into foreign currencies is regulated by the People's Bank of China through a unified floating exchange rate system. Although the PRC government has stated its intention to support the value of RMB, there can be no assurance that such exchange rate will not again become volatile or that RMB will not devalue significantly against the U.S. dollar. Exchange rate fluctuations may adversely affect the value, in U.S. dollar terms, of our net assets and income derived from our operations in the PRC.

Interest Rate Risk

We do not have significant interest rate risk, as the interest we pay on substantially all of our debt obligations is calculated at a fixed rate in accordance with the terms of such indebtedness.

Credit Risk

We have not experienced significant credit risk, as most of our customers are long-term customers with superior payment records. Our receivables are monitored regularly by our credit managers.

Item 8. – Financial Statements and Supplementary Data

The following consolidated financial statements, notes thereto, and the related independent auditors' reports contained on pages F-1 and F-2 to our consolidated financial statements are herein incorporated:

Consolidated balance sheets – December 31, 2009 and 2008

Consolidated statements of operations and comprehensive income – Years ended December 31, 2009, 2008 and 2007

Consolidated statement of changes in stockholders' equity - Years ended December 31, 2009, 2008 and 2007

Consolidated statements of cash flows - Years ended December 31, 2009, 2008 and 2007

Notes to consolidated financial statements - Years ended December 31, 2009, 2008 and 2007

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

None.

Item 9A. – Controls and Procedures.

Evaluation of Disclosure Controls and Procedures.

An evaluation was performed under the supervision and with the participation of management, including the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO), regarding the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended) as of December 31, 2009. Based on that evaluation, management, including the CEO and CFO, has concluded that our disclosure controls and procedures were effective as of December 31, 2009.

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) of the Securities Exchange Act of 1934. Our internal control system was designed to provide reasonable assurance to management and the board of directors regarding the preparation and fair presentation of published 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 the degree of compliance with the policies or procedures may deteriorate.

Management conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2009. In making this assessment, we used criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on this evaluation under the framework in Internal Control—Integrated Framework issued by COSO, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2009.

Our independent registered public accounting firm, BDO China Li Xin Da Hua CPAs Co., Ltd., has audited the financial statements included in this Form 10-K and has issued an attestation report on our internal control over financial reporting. Their attestation report on our internal control over financial reporting is included in this Item 9A and their attestation report on the audit of the consolidated financial statements are included in "Item 8. Financial Statements and Supplementary Data" of this Annual Report on Form 10-K.

During the quarter ended December 31, 2009, there has been no change in our internal controls over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Zhongpin, Inc.

We have audited Zhongpin, Inc.'s internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Zhongpin, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the 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.

In our opinion, Zhongpin, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Zhongpin, Inc. as of December 31, 2009, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for the year then ended and our report dated March 15, 2010 expressed an unqualified opinion thereon.

/s/ BDO CHINA LI XIN DA HUA CPA, CO. LTD.

Shenzhen, P.R. China
March 15, 2010

Item 9B. – Other Information.

None.

PART III

Item 10. – Directors, Executive Officers and Corporate Governance

The information required by this Item is incorporated by reference to the information contained in our Proxy Statement for our 2010 Annual Meeting of Stockholders, which we will file with the Commission within 120 days after the end of 2009.

Item 11. – Executive Compensation

The information required by this Item is incorporated by reference to the information contained in our Proxy Statement for our 2010 Annual Meeting of Stockholders, which we will file with the Commission within 120 days after the end of 2009.

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

The information required by this Item is incorporated by reference to the information contained in our Proxy Statement for our 2010 Annual Meeting of Stockholders, which we will file with the Commission within 120 days after the end of 2009.

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

The information required by this Item is incorporated by reference to the information contained in our Proxy Statement for our 2010 Annual Meeting of Stockholders, which we will file with the Commission within 120 days after the end of 2009.

Item 14. – Principal Accounting Fees and Services

The information required by this Item is incorporated by reference to the information contained in our Proxy Statement for our 2010 Annual Meeting of Stockholders, which we will file with the Commission within 120 days after the end of 2009.

PART IV

Item 15. – Exhibits and Financial Statement Schedules.

(a) Documents filed as part of this Report:

(1) Reports of Independent Registered Public Accounting Firms

Financial Statements covered by the Reports of Independent Registered Public Accounting Firms

Consolidated Balance Sheets as of December 31, 2009 and 2008

Consolidated Statements of Operations and Comprehensive Income for the Years ended December 31, 2009, 2008 and 2007

Consolidated Statement of Changes in Stockholders' Equity for the years ended December 31, 2009, 2008 and 2007

Consolidated Statements of Cash Flows for the years ended December 31, 2009, 2008 and 2007

Notes to Consolidated Financial Statements for the years ended December 31, 2009, 2008 and 2007

(2) Schedules for the years ended December 31, 2009, 2008 and 2007

All financial statement schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions, are inapplicable, or the required information has been provided in the consolidated financial statements or notes thereto.

(b) Exhibits:

- 3.1 Certificate of Incorporation of the Registrant filed February 4, 2003 with the Delaware Secretary of State, incorporated by reference to Exhibit 3.1 to our Registration Statement on Form SB-2 filed with the Securities and Exchange Commission on January 22, 2004.
- 3.2 Amendment to Certificate of Incorporation of the Registrant filed on January 27, 2006 with the Delaware Secretary of State, incorporated by reference to Exhibit 3.2 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on February 2, 2006.
- 3.3 Certificate of Designation of Series A Convertible Preferred Stock of the Registrant filed January 30, 2006 with the Delaware Secretary of State, incorporated by reference to Exhibit 3.3 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on February 2, 2006.
- 3.4 Amendment to Certificate of Incorporation of the Registrant filed February 16, 2006 with the Delaware Secretary of State, incorporated by reference to Exhibit 3.1 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on February 23, 2006.
- 3.5 Amendment to the Certificate of Incorporation of the Registrant filed March 20, 2007 with the Delaware Secretary of State, incorporated by reference to Exhibit 3.5 to our Annual Report on Form 10-K for the year ended December 31, 2006, filed with the Securities and Exchange Commission on March 23, 2007.

- 3.6 Amended and Restated By-laws of the Registrant, incorporated by reference to Exhibit 3.2 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on September 14, 2007.
- 4.1 Amended and Restated 2006 Equity Incentive Plan, incorporated by reference to Exhibit 10.1 to our Registration Statement on Form S-8 (Registration No. 333-156007) filed with the Securities and Exchange Commission on December 8, 2008.**
- 10.1 Mutual Guarantee Agreement dated June 17, 2009 between Henan Zhongpin Food Share Co., Ltd. and Henan Huanghe Enterprises Group Co., Ltd., incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on June 18, 2009. (*Translated from Mandarin*).
- 10.2 Leasing Agreement dated November 4, 2009 between Zhumadian Zhongpin Food Co., Ltd and De Lage Landen (China) Co., Ltd. (*Translated from Mandarin*).
- 10.3 Transfer Contract dated November 4, 2009 between Zhumadian Zhongpin Food Co., Ltd and De Lage Landen (China) Co., Ltd. (*Translated from Mandarin*).
- 10.4 Financial Leasing Contract dated November 20, 2009 between Henan Zhongpin Food Share Co., Ltd. and CMB Financial Leasing Co., Ltd. (*Translated from Mandarin*).
- 10.5 Financial Leasing Contract dated November 20, 2009 between Luoyang Zhongpin Food Co., Ltd. and CMB Financial Leasing Co., Ltd. (*Translated from Mandarin*).
- 10.6 Transfer Loan Agreement dated May 31, 2005 between Bank of Communications, Zhengzhou Branch and Henan Zhongpin Food Share Co., Ltd., incorporated by reference to Exhibit 10.5 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on February 2, 2006.*
- 10.7 Term Loan Facility, dated as of May 6, 2008, between Henan Zhongpin Food Share Co., Ltd. and Rabobank Nederland Shanghai Branch, incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2008, filed with the Securities and Exchange Commission on August 11, 2008. (*Translated from Mandarin*).
- 10.8 Agreement on Trust of Share Equity of Henan Zhongpin Food Share Co., Ltd. dated May 23, 2005 between Zhu Xianfu, Ben Baoke, Si Shuichi, Wang Qinghe, Liu Chaoyang and Wang Juanjuan and Henan Zhongpin Food Co., Ltd., incorporated by reference to Exhibit 10.14 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on February 2, 2006.*
- 10.9 Agreement on Transfer of Equity Interest of Henan Zhongpin Food Co., Ltd. dated August 16, 2005 between Zhu Xianfu, Ben Baoke, Si Shuichi, Wang Qinghe, Liu Chaoyang and Wang Juanjuan (Transferors) and Falcon Link Investment Ltd., incorporated by reference to Exhibit 10.15 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on February 2, 2006.*

- 10.10 Shareholder Trust Agreement, dated October 10, 2006, between Henan Zhongpin Food Share Co., Ltd. and Liu Chaoyang, incorporated by reference to Exhibit 10.15 to our Annual Report on Form 10-K for the year ended December 31, 2008, filed with the Securities and Exchange Commission on March 17, 2009. (*Translated from Mandarin*)
- 10.11 Registration Rights Agreement, dated as of January 30, 2006, by and among the Registrant and the purchaser named therein, incorporated by reference to Exhibit 10.17 to our Registration Statement on Form S-1 (Registration No. 333-133226) filed with the Securities and Exchange Commission on July 6, 2006 (or our Current Report on Form 8-K filed with the Securities and Exchange Commission on February 2, 2006).
- 10.12 Amendment dated as of December 21, 2006 [to Registration Rights Agreement dated as of January 30, 2006,] among the Registrant and the Investors named therein, incorporated by reference to Exhibit 10.28 to our Registration Statement on Form S-1 (Registration No. 333-133226) filed with the Securities and Exchange Commission on December 22, 2006.
- 10.13 Form of Warrant to purchase common stock, incorporated by reference to Exhibit 10.18 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on February 2, 2006.
- 10.14 Placement Agent Warrant Agreement, dated as of January 30, 2006, between the Registrant and TN Capital Equities, Ltd., incorporated by reference to Exhibit 10.19 to our Registration Statement on Form S-1 (Registration No. 333-133226) filed with the Securities and Exchange Commission on July 6, 2006.
- 10.15 Common Stock Purchase Warrant dated June 15, 2006, between the Registrant and CCG Partners LLC, incorporated by reference to Exhibit 10.26 to our Registration Statement on Form S-1 (Registration No. 333-133226) filed with the Securities and Exchange Commission on September 12, 2006.
- 10.16 Form of Common Stock Purchase Warrant issued in December 2006, incorporated by reference to Exhibit 10.29 to our Registration Statement on Form S-1 (Registration No. 333-133226) filed with the Securities and Exchange Commission on December 22, 2006.
- 10.17 Asset Acquisition Agreement, dated as of June 29, 2007, between Henan Zhongpin Food Share Co., Ltd. and Deyang East China Food Company Limited, incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed July 3, 2007. (*Translated from Mandarin*).
- 10.18 Assets Leasing Agreement, dated as of September 6, 2007 between Tianjin Shuli Enterprise Co., Ltd. and Henan Zhongpin Food Share Co., Ltd., incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on September 7, 2007. (*Translated from Mandarin*).

- 10.19 Registration Rights Agreement, dated as of September 28, 2007, between the Registrant and the investors listed therein, incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on October 2, 2007.
- 10.20 Form of Placement Agent Warrant incorporated by reference to Exhibit 10.3 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on October 2, 2007.
- 10.21 Financial Lease Contract, dated as of October 28, 2008, between Henan Zhongpin Food Share Co., Ltd. and CMB Financial Leasing Co., Ltd., incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2008, filed with the Securities and Exchange Commission on November 10, 2008. (*Translated from Mandarin*).
- 10.22 Cross-Guarantee Agreement, dated as of April 1, 2008, between Henan Zhongpin Food Share Co., Ltd. and Xuji Group Co., Ltd., incorporated by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2008, filed with the Securities and Exchange Commission on November 10, 2008. (*Translated from Mandarin*).
- 10.23 Assets Leasing Agreement, dated as of November 26, 2008, between Hengshui Zhongpin Food Co., Ltd. and Shenzhou Chenguang Meat Products Facility, incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on December 2, 2008. (*Translated from Mandarin*).
- 10.24 Assets Leasing Agreement, dated as of December 30, 2008, between Henan Zhongpin Food Share Co., Ltd. and Jilin Huazheng Agricultural & Animal Husbandry Development Co., Ltd., incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on December 31, 2008. (*Translated from Mandarin*).
- 14.1 Code of Business Conduct and Ethics of the Registrant, incorporated by reference to Exhibit 14.1 to our Annual Report on Form 10-K for the year ended December 31, 2005, filed with the Securities and Exchange Commission on March 31, 2006.
- 21.1 List of Subsidiaries of Registrant.
- 23.1 Consent of BDO China Li Xin Da Hua CPAs Co., Ltd.
- 23.2 Consent of Child, Van Wagoner & Bradshaw, PLLC.

- 31.1 Certification of our Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of our Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of our Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of our Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Original agreement in Mandarin, summary of key terms attached.

** Management contract or compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, we have duly caused this Report to be signed on our behalf by the undersigned, thereunto duly authorized on the 15th day of March 2010.

ZHONGPIN INC.
(Company)

By: /s/ Xianfu Zhu
Xianfu Zhu
Chief Executive Officer

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 Company and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Xianfu Zhu</u> Xianfu Zhu	Chairman of the Board of Directors and Chief Executive Officer (Principal Executive Officer)	March 15, 2010
<u>/s/ Feng Wang</u> Feng Wang	Chief Financial Officer (Principal Financial and Accounting Officer)	March 15, 2010
<u>/s/ Baoke Ben</u> Baoke Ben	Director	March 15, 2010
<u>/s/ Min Chen</u> Min Chen	Director	March 15, 2010
<u>/s/ Raymond Leal</u> Raymond Leal	Director	March 15, 2010
<u>/s/ Yaoguo Pan</u> Yaoguo Pan	Director	March 15, 2010

Zhongpin Inc.
Consolidated Financial Statements

For the Years Ended December 31, 2009, 2008 and 2007

Zhongpin, Inc.
Consolidated Financial Statements

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Zhongpin, Inc.

We have audited the accompanying consolidated balance sheet of Zhongpin, Inc. as of December 31, 2009 and 2008 and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Zhongpin, Inc. at December 31, 2009 and 2008, and the consolidated results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Zhongpin, Inc.'s internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 15, 2010 expressed an unqualified opinion thereon.

/s/ BDO China Li Xin Da Hua CPAs, Co. Ltd.

Shenzhen, P.R. China
March 15, 2010

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Audit Committee
Zhongpin, Inc.
Henan province, The People's Republic of China

We have audited the consolidated statements of operations and comprehensive income, changes in stockholders' equity and cash flows of Zhongpin, Inc. (the Company) for the year ended December 31, 2007. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatements. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit 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 consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated results of operations and cash flows of Zhongpin, Inc. for the year ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

/s/ Child Van Wagoner & Bradshaw, PLLC
Child, Van Wagoner & Bradshaw, PLLC
Salt Lake City, Utah
March 24, 2008

ZHONGPIN INC.
CONSOLIDATED BALANCE SHEETS
(Amounts in U.S. dollars)

ASSETS	December 31, 2009	December 31, 2008
Current assets		
Cash and cash equivalents	\$ 68,982,259	\$ 41,857,166
Restricted cash	14,490,575	17,040,201
Bank notes receivable	7,997,172	1,268,890
Accounts receivable, net of allowance for doubtful accounts of \$ 1,132,038 and \$1,215,901	20,419,797	20,432,752
Other receivables, net of allowance for doubtful accounts of \$290,436 and \$500,447	652,523	1,907,243
Purchase deposits	5,653,192	4,308,852
Inventories	33,859,420	16,724,217
Prepaid expenses	186,030	360,265
VAT recoverable	14,064,185	7,432,365
Assets held for sale	—	623,871
Deferred tax assets	256,151	213,566
Other current assets	120,709	96,402
Total current assets	166,682,013	112,265,790
Property, plant and equipment (net)	189,588,904	133,867,635
Deposits for purchase of land usage rights	8,718,740	6,429,295
Construction in progress	70,192,150	40,773,039
Land use rights	61,128,431	35,983,947
Deferred tax assets – non-current	—	2,677
Deferred charges	39,855	48,185
Other non-current assets	1,761,709	412,503
Total assets	\$ 498,111,802	\$ 329,783,071
LIABILITIES AND EQUITY		
Current liabilities		
Short-term loans	\$ 84,661,697	\$ 67,893,001
Bank notes payables	9,560,353	13,252,180
Long-term loans -current portion	4,539,215	145,671
Capital lease obligation – current portion	7,480,098	1,664,670
Accounts payable	9,260,750	9,528,937
Other payables	12,882,316	7,130,384
Accrued liabilities	7,377,850	5,055,660
Deposits from customers	5,335,907	4,331,774
Tax payable	1,918,057	1,382,589
Total current liabilities	143,016,243	110,384,866
Deferred tax liabilities	247,945	—
Deposits from customers	1,987,579	2,420,967
Capital lease obligation	11,104,435	2,588,073
Long-term loans	44,912,744	23,475,174
Total liabilities	201,268,946	138,869,080
Equity		
Preferred stock: par value \$0.001; 25,000,000 authorized; 0 and 2,129,200 shares issued and outstanding	—	2,129
Common stock: par value \$0.001; 100,000,000 authorized; 34,662,314 and 27,504,918 shares issued and outstanding	34,662	27,505
Additional paid in capital	166,169,902	105,680,772
Retained earnings	111,699,375	66,108,995
Accumulated other comprehensive income	18,938,917	19,094,590
Total equity	296,842,856	190,913,991
Total liabilities and equity	\$ 498,111,802	\$ 329,783,071

The accompanying notes are an integral part of the consolidated financial statements

ZHONGPIN INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(Amount in U.S. dollars)

	Year Ended December 31,		
	2009	2008	2007
Revenues			
Sales revenues	\$ 726,037,187	\$ 539,825,135	\$ 291,373,424
Cost of sales	(639,559,678)	(471,264,359)	(253,869,543)
Gross profit	<u>86,477,509</u>	<u>68,560,776</u>	<u>37,503,881</u>
Operating expenses			
General and administrative expenses	(18,802,329)	(17,960,489)	(10,301,083)
Selling expenses	(14,707,582)	(9,922,993)	(5,037,489)
Research and development	(56,948)	(715,057)	(248,000)
Impairment Loss	(56,103)	(3,180,951)	—
Gain on disposal of a subsidiary	654,249	—	—
Loss from sale-leaseback transaction	(600,759)	—	—
Total operating expenses	<u>(33,569,472)</u>	<u>(31,779,490)</u>	<u>(15,586,572)</u>
Income from operations	52,908,037	36,781,286	21,917,309
Other income (expense)			
Interest expense	(6,099,667)	(3,361,356)	(2,461,601)
Other income (expenses)	(839,491)	(62,102)	301,147
Government subsidies	3,440,569	487,777	200,005
Total other income (expense)	<u>(3,498,589)</u>	<u>(2,935,681)</u>	<u>(1,960,449)</u>
Net income before taxes	49,409,448	33,845,605	19,956,860
Provision for income taxes	<u>(3,819,068)</u>	<u>(2,468,659)</u>	<u>(1,431,579)</u>
Net income	45,590,380	31,376,946	18,525,281
Foreign currency translation adjustment	(155,673)	10,908,633	6,503,190
Comprehensive income	<u>\$ 45,434,707</u>	<u>\$ 42,285,579</u>	<u>\$ 25,028,471</u>
Basic earnings per common share	\$ 1.48	\$ 1.06	\$ 0.84
Diluted earnings per common share	\$ 1.46	\$ 1.05	\$ 0.80
Basic weighted average shares outstanding	30,750,054	29,475,817	18,000,437
Diluted weighted average shares outstanding	31,230,536	29,834,513	23,077,864

The accompanying notes are an integral part of the consolidated financial statements

ZHONGPIN INC.
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
(Amount in U.S. dollars)

	Preferred Stock		Common Stock		Additional Paid In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
	Shares	Par value	Shares	Par value				
Balance January 1, 2007	<u>6,900,000</u>	<u>6,900</u>	<u>12,132,311</u>	<u>12,133</u>	<u>34,788,651</u>	<u>16,206,768</u>	<u>1,682,767</u>	<u>52,697,219</u>
Preferred stock converted to common	(3,775,000)	(3,775)	3,775,000	3,775	—	—	—	—
Common Stock and warrants (net of offering cost) – cash exercise	—	—	9,814,458	9,814	62,818,946	—	—	62,828,760
Common Stock and warrants – cashless exercise	—	—	169,798	170	(170)	—	—	—
Compensation expense-release of escrow shares	—	—	—	—	2,250,116	—	—	2,250,116
Warrant expense	—	—	—	—	15,950	—	—	15,950
Compensation expense - options granted	—	—	—	—	197,078	—	—	197,078
Net income for the year	—	—	—	—	—	18,525,281	—	18,525,281
Foreign currency translation adjustment	—	—	—	—	—	—	6,503,190	6,503,190
Balance December 31, 2007	<u>3,125,000</u>	<u>3,125</u>	<u>25,891,567</u>	<u>25,892</u>	<u>100,070,571</u>	<u>34,732,049</u>	<u>8,185,957</u>	<u>143,017,594</u>
Preferred stock converted to common	(995,800)	(996)	995,800	996	—	—	—	—
Common Stock and warrants (net of offering cost) – cash exercise	—	—	303,671	303	1,543,284	—	—	1,543,587
Common Stock and warrants - cashless exercise	—	—	313,880	314	(314)	—	—	—
Shareholder's donation	—	—	—	—	2,591,463	—	—	2,591,463
Compensation expense - options granted	—	—	—	—	1,475,768	—	—	1,475,768
Net income for the year	—	—	—	—	—	31,376,946	—	31,376,946
Foreign currency translation adjustment	—	—	—	—	—	—	10,908,633	10,908,633
Balance December 31, 2008	<u>2,129,200</u>	<u>\$ 2,129</u>	<u>27,504,918</u>	<u>\$ 27,505</u>	<u>\$ 105,680,772</u>	<u>\$ 66,108,995</u>	<u>\$ 19,094,590</u>	<u>\$ 190,913,991</u>
Preferred stock converted to common	(2,129,200)	(2,129)	2,129,200	2,129	—	—	—	—
Common Stock and warrants – cashless exercise	—	—	248,196	248	(248)	—	—	—
Common Stock and warrants - cash exercise	—	—	180,000	180	1,671,020	—	—	1,671,200
Compensation expense - options granted	—	—	—	—	1,679,958	—	—	1,679,958
Common shares offering (net of offering cost)	—	—	4,600,000	4,600	57,138,400	—	—	57,143,000
Net income for the period	—	—	—	—	—	45,590,380	—	45,590,380
Translation adjustment	—	—	—	—	—	—	(155,673)	(155,673)
Balance December 31, 2009	<u>—</u>	<u>\$ —</u>	<u>34,662,314</u>	<u>\$ 34,662</u>	<u>\$ 166,169,902</u>	<u>\$ 111,699,375</u>	<u>\$ 18,938,917</u>	<u>\$ 296,842,856</u>

The accompanying notes are an integral part of the consolidated financial statements

ZHONGPIN INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOW
(Amount in U.S. dollars)

	Years Ended December 31,		
	2009	2008	2007
Cash flows from operating activities:			
Net income	\$ 45,590,380	\$ 31,376,946	\$ 18,525,281
Adjustments to reconcile net income to net cash provided by (used in) operations:			
Depreciation	8,512,431	4,764,421	2,087,551
Amortization of intangible assets	1,019,363	602,511	397,975
Loss from sale-leaseback	600,759	—	—
Provision for allowance for bad debt	(291,767)	274,615	865,487
Impairment loss	56,103	3,180,951	—
Gain on disposal of a subsidiary	(649,831)	—	—
Warrant expenses	—	145,791	15,950
Stock-based compensation	1,679,959	1,329,977	2,447,194
Changes in operating assets and liabilities:			
Accounts receivable	35,615	(381,737)	(4,938,690)
Other receivable	1,461,708	2,700,131	(2,849,234)
Purchase deposits	(1,546,363)	2,167,512	(5,818,276)
Prepaid expense	173,854	(159,685)	(1,459,077)
Inventories	(17,150,749)	10,830,892	(14,545,432)
Tax refunds receivable	(6,691,406)	(3,495,617)	(2,875,306)
Deferred tax asset/liability	207,771	(212,347)	—
Other current assets	(24,377)	—	—
Long term deferred charges	8,287	(17,018)	46,140
Accounts payable	(241,155)	4,998,410	2,836,895
Other payable	5,804,828	2,942,790	3,555,551
Research and development grants payable	—	(273,807)	215,612
Accrued liabilities	2,320,858	491,730	1,265,329
Taxes payable	536,402	2,220,364	(388,705)
Deposits from customers	708,045	2,280,645	1,100,001
Other noncurrent assets	(1,348,997)	—	—
Net cash provided by (used in) operating activities:	40,771,718	65,767,475	484,246
Cash flows from investing activities:			
Deposits for purchase of land usage rights	(7,130,023)	(4,783,718)	—
Construction in progress	(83,916,886)	(76,572,004)	(29,429,905)
Additions to property and equipment	(10,459,534)	(15,031,502)	(6,861,585)
Additions to land usage rights	(21,347,416)	(11,573,776)	(13,538,428)
Proceeds on sale of fixed assets	113,291	238,450	72,134
Increase in restricted cash	2,534,362	(12,990,885)	(3,417,545)
Proceeds from disposal of a subsidiary	1,226,487	—	—
Net cash used in investing activities	(118,979,719)	(120,713,435)	(53,175,329)
Cash flows from financing activities:			
Proceeds from (repayment of) Bank notes	(10,405,839)	5,290,384	(9,332,527)
Proceeds from (repayment of) short-term loans, net	16,818,596	16,552,240	21,288,129
Proceeds from long-term loans	31,844,612	21,589,878	(397,072)
Repayments of long-term loans	(6,004,498)	(145,275)	—
Proceeds from capital lease obligation	14,329,464	4,176,107	—
Proceeds from common stock	57,143,000	—	62,828,760
Proceeds from exercised warrants	1,671,200	1,543,587	—
Net cash provided by financing activities	105,396,535	49,006,921	74,387,290
Effect of rate changes on cash	(63,441)	2,654,070	1,753,114
Increase (decrease) in cash and cash equivalents	\$ 27,125,093	\$ (3,284,969)	\$ 23,449,321
Cash and cash equivalents, beginning of period	41,857,166	45,142,135	\$ 21,692,814
Cash and cash equivalents, end of period	68,982,259	41,857,166	\$ 45,142,135
Supplemental disclosures of cash flow information:			
Cash paid for interest	7,218,082	5,462,627	\$ 2,644,347
Cash paid for income taxes	3,195,434	1,162,359	\$ 1,606,745

The accompanying notes are an integral part of the consolidated financial statements

ZHONGPIN INC.
NOTES TO FINANCIAL STATEMENTS

1. ORGANIZATION AND NATURE OF OPERATIONS

Zhongpin Inc. is incorporated in the State of Delaware as a holding company and Henan Zhongpin Food Share Company Limited (“Henan Zhongpin”) was incorporated in the People’s Republic of China (the “PRC”). Henan Zhongpin is headquartered in Change City, Henan province. Through its subsidiaries, Henan Zhongpin is principally engaged in the production of pork, prepared meat products and fruits and vegetables, and the retail sales of pork, processed pork products, fruits and vegetables and other grocery items to customers throughout the PRC and other export countries, either directly or through its subsidiaries.

Zhongpin Inc. was incorporated in the State of Delaware under the name “Strong Technical Inc.” for the purpose of operating a personnel outsourcing service that provides skilled workers to industry. On March 30, 2005, an 82.4% controlling interest in the company was acquired by Halter Capital Corporation and all previous operations were discontinued.

On May 20, 2005, Henan Zhongpin Food Co., Ltd. (“HZFC”) was established in the PRC for the sole purpose of holding the capital stock of Henan Zhongpin and its subsidiaries. The owners of Henan Zhongpin formed HZFC with an initial investment of 16,000,000 Renminbi (“RMB”) (\$1,932,367). HZFC acquired Henan Zhongpin by paying 15,040,000 RMB (\$1,816,425) to the stockholders of Henan Zhongpin in exchange for 100% ownership of Henan Zhongpin. The transaction was accounted for as a transfer of entities under common control, wherein Henan Zhongpin was the continuing entity with an increase in registered capital of 960,000 RMB (\$115,942). The historical financial statements of HZFC are essentially those of Henan Zhongpin shown with an increase in capital as if the transfer had taken place at the beginning of the first period presented.

On July 21, 2005, Falcon Link Investment Limited (“Falcon”) was incorporated in the territory of the British Virgin Islands (“BVI”) as a holding company for the purpose of owning all of the equity interests of HZFC. Falcon acquired 100% ownership of HZFC by paying 21,285,300 RMB (\$2,650,000) to the stockholders of HZFC, who also were the stockholders of Falcon. The transaction was accounted for as a transfer of entities under common control, wherein HZFC was the continuing entity. The historical financial statements of Falcon are essentially those of HZFC and are shown as if the transfer had taken place at the beginning of the first period presented.

On January 30, 2006, Zhongpin, Inc., then known as Strong Technical Inc., consummated an agreement with the shareholders of Falcon whereby Zhongpin Inc. issued 11,250,000 shares of common stock in exchange for all of the issued and outstanding stock of Falcon. Immediately prior to the transaction there were 502,568 shares outstanding as compared to 11,752,568 shares outstanding immediately following the transaction. Consequently, Falcon became a wholly-owned subsidiary of Zhongpin Inc. The transaction was accounted for as a reverse acquisition resulting in a recapitalization of Falcon, wherein Falcon’s historical financial statements became those of Zhongpin Inc., retrospectively restated to reflect the adopted capital structure of Zhongpin Inc. as if the transaction had occurred at the beginning of the first period presented. These financial statements have been adjusted to reflect such restatement.

On January 31, 2006, in conjunction with acquisition of Falcon, Zhongpin Inc. (then known as Strong Technical Inc.) sold for \$8.00 per unit 3.45 million units, each consisting of two shares of Series A convertible preferred stock and a five-year warrant to purchase one share of common stock at a purchase price of \$5.00 per share. Each share of preferred stock is convertible into one share of common stock. The shares of Series A convertible preferred stock originally issued in such transaction were

ZHONGPIN INC.
NOTES TO FINANCIAL STATEMENTS

1. ORGANIZATION AND NATURE OF OPERATIONS (continued)

convertible into an aggregate of 6,900,000 shares of common stock and the warrants originally issued in such transaction were exercisable to purchase an aggregate of 3,450,000 shares of common stock.

On February 16, 2006, Zhongpin Inc. (then known as Strong Technical Inc.) amended its articles of incorporation to change its name from Strong Technical Inc. to Zhongpin Inc. In the same amendment, the company changed its authorized common stock to 100,000,000 shares with a par value of \$0.001 per share and its authorized preferred stock to 25,000,000 shares with a par value of \$0.001 per share.

On February 16, 2006, Zhongpin Inc. effected a 1:35.349 reverse split of its outstanding common stock. Immediately prior to the split, 415,442,354 shares of common stock were outstanding as compared to 11,752,568 shares of common stock outstanding immediately following the split. The aggregate number of shares of common stock issuable upon conversion of its outstanding shares of Series A convertible preferred stock was reduced from 243,908,100 shares of common stock to 6,900,000 shares of common stock, and the aggregate number of shares of its common stock issuable upon the exercise of its outstanding warrants was reduced from 121,954,050 shares of common stock to 3,450,000 shares of common stock. These financial statements have been adjusted to show all stock transactions using post-split amounts.

Details of Henan Zhongpin's subsidiaries are as follows:

NAME	DOMICILE/DATE OF INCORPORATION	REGISTERED CAPITAL	PERCENTAGE OF OWNERSHIP
Henan Zhongpin Import and Export Trading Company	PRC/Aug. 11, 2004	5,060,000 RMB (\$611,111)	100.00%
Zhumadian Zhongpin Food Company Limited	PRC/June 7, 2006	60,000,000 RMB (\$8,585,398)	100.00%
Anyang Zhongpin Food Company Limited	PRC/Aug 21, 2006	34,800,000 RMB (\$5,094,422)	100.00%
Henan Zhongpin Fresh Food Logistics Company Limited	PRC/Sep 14, 2006	1,500,000 RMB (\$189,665)	100.00%
Deyang Zhongpin Food Company Limited	PRC/Sep 25, 2006	15,000,000 RMB (\$1,893,652)	100.00%
Henan Zhongpin Business Development Company Limited	PRC/Sep 27, 2006	5,000,000 RMB (\$632,215)	100.00%
Heilongjiang Zhongpin Food Company Limited	PRC/Oct. 17, 2006	1,000,000 RMB (\$126,406)	100.00%(1)
Luoyang Zhongpin Food Company Limited	PRC/Jan. 18, 2007	5,000,000 RMB (\$647,677)	100.00%

ZHONGPIN INC.
NOTES TO FINANCIAL STATEMENTS

NAME	DOMICILE/DATE OF INCORPORATION	REGISTERED CAPITAL	PERCENTAGE OF OWNERSHIP
Yongcheng Zhongpin Food Company Limited	PRC/Mar. 1, 2007	60,000,000 RMB (\$8,783,487)	100.00%
Tianjin Zhongpin Food Company Limited	PRC/Sep. 14, 2007	100,000,000 RMB (\$14,639,145)	100.00%
Hengshui Zhongpin Food Company Limited	PRC/Nov. 17, 2008	1,000,000 RMB (\$146,428)	100.00%
Jilin Zhongpin Food Company Limited	PRC/Dec. 11, 2008	1,000,000 RMB (\$145,688)	100.00%
Henan Zhongpin Agriculture and Animal Husbandry Industry Development Company Limited	PRC/Dec. 26, 2008	10,000,000 RMB (\$1,461,796)	100.00%

(1) Includes a 10% ownership interest of another stockholder with respect to which Henan Zhongpin is entitled to all economic benefits and the right to vote pursuant to the terms of a trust agreement with such stockholder.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation and Basis of Presentation

The consolidated financial statements include the accounts of Zhongpin Inc. and its wholly-owned subsidiaries (collectively referred to herein as the "Company"). All significant intercompany accounts and transactions have been eliminated during the process of consolidation. The consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Foreign Currency Translations and Transactions

RMB, the national currency of the PRC, is the primary currency of the economic environment in which our China-based subsidiaries are operating. The United States dollar ("U.S. dollar") is the functional currency used by Falcon and Zhongpin Inc. to record all of their activities. The Company uses the U.S. dollar for financial reporting purposes.

The Company translates assets and liabilities into U.S. dollars using the middle exchange rate by the People's Bank of China as of the balance sheet date. The consolidated statement of income is translated at average rates during the reporting period. Adjustments resulting from the translation of financial statements from RMB into U.S. dollars are recorded in stockholders' equity as part of accumulated comprehensive loss – translation adjustments. Gains or losses resulting from transactions in currencies other than RMB are reflected in income for the reporting period.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

ZHONGPIN INC.
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition

Revenues generated from the sales of various meat products and vegetables and fruits are recognized when these products are delivered to customers in accordance with previously agreed upon pricing and delivery arrangements, and the collectability of these sales is reasonably assured. Since the products sold by the Company are primarily perishable and frozen food products, the right of return is only for a few days and has been determined to be insignificant by the management of the Company. Accordingly, no provision has been made for returnable goods. Revenues presented on the consolidated statements of operations and comprehensive income are net of sales taxes.

Cash and Cash Equivalents

The Company considers all highly-liquid investments with maturity of three months or less to be cash equivalents. The Company maintains its cash accounts at credit-worthy financial institutions and closely monitors the movements of its cash positions.

Restricted Cash and Bank Notes Payable

Under the terms of the credit agreements with certain of its lenders, Henan Zhongpin has agreed to maintain with such lenders in a deposit account an amount of cash that will serve as collateral for its delivery of bank promissory notes of such lenders as payment instruments for its procurement purposes. The amount of bank promissory notes of such lenders that can be delivered by Henan Zhongpin can be up to twice the amount of such deposits. As such deposits may not be withdrawn by Henan Zhongpin without restriction, such cash deposits are presented as “restricted cash” on the consolidated balance sheets.

Bank Notes Receivable

The Company only accepts notes issued by banks in the normal course of business as payment for products sold by the Company. These bank notes receivable have maturity dates of up to 180 days and bear no interest. The Company can hold the bank notes until the maturity date and collect the amount from the issuing banks, or the Company can use these bank notes as a means for payment for goods or services received. The Company accrues no provision for these bank notes because such bank notes have little risk of default in the PRC.

Accounts Receivable

During the normal course of business, the Company’s policy is to ask larger customers to make deposits in reasonable and meaningful amounts on a case-by-case basis. For certain newly-developed customers, the Company may extend unsecured credit.

ZHONGPIN INC.
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Company regularly evaluates and monitors the creditworthiness of each of its customers in accordance with the prevailing practice in the meat industry and based on general economic conditions in the PRC. The Company maintains a general policy of providing 100% allowance for doubtful accounts in an amount equal to the aggregate amount of those accounts that are not collected within one year plus an amount equal to 5% of the aggregate amount of accounts receivable less than one year old. After all attempts to collect a receivable have failed, the receivable is written off against the allowance. The Company also examines the credit terms of significant customers regularly and asks for more cash deposits if these customers appear to have any indicators of delaying their payments to the Company. Such deposits are usually applied for the collection of the outstanding accounts receivable during the year. With such a practice in place, the Company did not have any specific allowance for doubtful accounts provided against specific customers at December 31, 2009 and 2008, respectively.

The following table presents allowance activities in accounts receivable.

	<u>December 31, 2009</u>	<u>December 31, 2008</u>
Beginning balance	\$ 1,215,901	\$ 1,341,872
Reduction in allowance for bad debt	(83,863)	(125,971)
Ending balance	<u>\$ 1,132,038</u>	<u>\$ 1,215,901</u>

Inventories

Inventories are comprised of raw materials and low-value consumables, work in progress, and finished goods. Inventories are stated at the lower of cost or the market based on the weighted average method. Production cost components include the purchase cost of live hogs, direct labor, depreciation, packaging material, utility expense and other manufacturing overhead. By using a systematic costing system, the production cost is allocated to various products at the stage of work-in-progress and finished goods, respectively. Net realizable value is the estimated selling price, in the ordinary course of business, less estimated costs to complete and dispose. The Company regularly inspects the shelf life of prepared foods and, if necessary, writes down their carrying value based on their salability and expiration dates into cost of goods sold.

Plant, Property and Equipment

Plant, properties and equipment are recorded at cost and are stated net of accumulated depreciation. Depreciation expense is determined using the straight-line method over the estimated useful lives of the assets as follows:

	Estimated Useful Economic Life
Plants and buildings	5-30 years
Machinery and equipment	5-20 years
Office furniture and equipment	3-5 years
Vehicles	5 years

Maintenance and repairs are charged directly to expense as incurred, whereas improvement and renewals are generally capitalized in their respective property accounts. When an item is retired or otherwise disposed of, the cost and applicable accumulated depreciation are removed and the resulting gain or loss is recognized and reflected as a line item before operating income (loss).

ZHONGPIN INC.
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Land Use Rights

The Chinese government owns all of the parcels of land on which the Company's plants are built. In the PRC, land use rights for commercial purposes are granted by the PRC government typically for a term of 40-50 years. The Company is required to pay a lump sum of money to the State Land and Resource Ministry of the applicable locality to acquire such rights. The Company capitalizes the lump sum of money paid and amortizes these land use rights by using the straight line method over the term of the land use license granted by the applicable governmental authority.

Construction in Progress and Interest Capitalization

Construction in progress is stated at cost. The cost accumulation process starts from time the construction project is set-up and ends at the time the project has been put into service and all regulatory permits and approvals have been received. The Company borrows bank loans from time to time for these construction projects. The interest costs incurred for these loans have been capitalized during the construction process.

Impairment of Long-Lived Assets

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable through the estimated undiscounted cash flows expected to result from the use and eventual disposition of that asset. Whenever any such impairment exists, an impairment loss will be recognized for the amount by which the carrying value exceeds the fair value.

Fair Value of Financial Instruments

The carrying amount of cash and cash equivalents, accounts receivable, other receivables, advance to vendor, accounts payable and accrued liabilities, capital lease obligations and short term and long term loans are reasonable estimates of their fair value because of the short maturity of these items. The fair value of amounts due from/to related parties and stockholders are reasonable estimate of their fair value as the amounts will be collected and paid off in a period less than one year. The carrying amounts of capital lease obligations approximate their fair value based on the Company's current incremental borrowing rates for similar types of arrangements. Long term debt approximates fair value since the bank term loans are fixed rate instruments and bear interests at the rate dictated and published by the People's Bank of China.

Shipping and Handling Cost

All shipping and handling fees are included in selling expenses.

Value Added Tax

All China-based enterprises are subject to a value added tax ("VAT") imposed by the PRC government on their domestic product sales. The output VAT is charged to customers who purchase goods from the Company and the input VAT is paid when the Company purchases goods from its vendors. Input VAT rates are 13% for most of purchasing activities conducted by the Company. Output VAT rate is 13% for chilled pork products, frozen pork products and vegetable and fruit products, and 17% for prepared meat products. The input VAT can be offset against the output VAT. The VAT payable or recoverable balance presented on the consolidated balance sheets represents either the input VAT less than or larger than the output VAT. The debit balance represents a credit against future collection of output VAT.

ZHONGPIN INC.
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-Based Payment

The Company receives employee and certain non-employee services in exchange for (a) equity instruments of the enterprise or (b) liabilities that are based on the fair value of the enterprise's equity instruments or that may be settled by the issuance of such equity instruments. The Company accounts for stock options granted using a fair-value-based method.

Earnings Per Share

Basic earnings per share includes no dilution and is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects the potential dilution of securities that could share in the earnings of an entity, similar to fully-diluted earnings per share. Based on the fact that the voting rights and certain other characteristics of the Company's Series A convertible preferred stock are the same as those of common stock, the outstanding shares of the Company's Series A convertible preferred stock at each reporting period are deemed to be common shares outstanding. All of such securities are included in the computation of diluted earnings per share. The number of shares of common stock underlying the outstanding stock warrants and options at December 31, 2009, 2008 and 2007 were 1,478,765, 1,816,289 and 2,665,338, respectively, which were all included in the computation of diluted earnings per share.

Government Subsidies

The Company's subsidiaries in the PRC receive government subsidies from local Chinese government agencies in accordance with relevant Chinese government policies. In general, the Company presents the government subsidies received as part of other income unless the subsidies received are earmarked to compensate a specific expense, which have been accounted for offsetting the specific expense, such as research and development expense or interest expenses. The information relating to government subsidies received and recognized is presented in Note 15.

Research and Development Expenses

Research and development costs are expensed as incurred. Gross research and development expenses for new product development and improvements of existing products by the Company incurred for the years ended December 31, 2009, 2008 and 2007 were \$2,803,634, \$3,151,854 and \$1,822,300, respectively. After offsetting the government subsidies received by the Company that were specified for supporting the Company's research and development efforts, the net research and development expenses for the years ended December 31, 2009, 2008 and 2007 were \$56,948, \$1,144,647 and \$1,554,147, respectively.

ZHONGPIN INC.
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Comprehensive Income (Loss)

The Company adopted FASB Accounting Standards Codification 220, *Comprehensive Income*, which establishes standards for reporting and presentation of comprehensive income (loss) and its components in a full set of general-purpose financial statements. The Company has chosen to report comprehensive income (loss) in the statements of income and comprehensive income. Comprehensive income (loss) is comprised of net income and all changes to stockholders' equity except those due to investments by owners and distributions to owners.

Income Taxes

The Company recognizes deferred tax liabilities and assets. Deferred tax assets and liabilities are recognized for the future tax consequence attributable to the difference between the tax bases of assets and liabilities and their reported amounts in the financial statements. Deferred tax assets and liabilities are measured using the enacted tax rate 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 income in the period that included the enactment date.

Zhongpin Inc. was incorporated under the laws of the State of Delaware on February 4, 2003 and is subject to federal income tax and Delaware state income tax. Falcon Link was established under the laws of the British Virgin Islands on July 21, 2005 and is not subject to income tax in accordance with the laws and regulations of the British Virgin Islands. The Company's other subsidiaries, which are all located in the PRC, are subject to the PRC's Enterprise Income Tax ("EIT") Law, which became effective January 1, 2008 and has a uniform statutory tax rate of 25 percent. Under the EIT Law, income derived by an enterprise from the primary processing of agricultural products (including slaughtering live hogs) is exempt from EIT. Consequently, 10 of the Company's 15 subsidiaries in the PRC that slaughter live hogs are exempted from EIT. During the years ended December 31, 2009, 2008, 2007, the exempted income before income tax were \$40.9 million, \$34.9 million and \$23.2 million, respectively. These exempted income before income tax were deemed as part of permanent difference for the purpose to determine the proper income tax provision. For the years ended December 31, 2009, 2008 and 2007, the impact of income tax resulting from the exemption of net income from preliminary processing of agricultural products was \$10.2 million, \$8.7 million and \$7.7 million, respectively.

The Company's other five subsidiaries in the PRC are subject to the uniform 25% tax rate in relation to non-primary processing of agricultural products. The following table provides a summary of the EIT status.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsidiaries Subject to Enterprise Income Tax	Tax Rate
Henan Zhongpin Food Share Company Limited	EIT Exemption for slaughtering business and 25% for other businesses
Zhumadian Zhongpin Food Company Limited	EIT Exemption
Anyang Zhongpin Food Company Limited	EIT Exemption
Deyang Zhongpin Food Company Limited	EIT Exemption
Heilongjiang Zhongpin Food Company Limited	EIT Exemption

ZHONGPIN INC.
NOTES TO FINANCIAL STATEMENTS

Luoyang Zhongpin Food Company Limited	EIT Exemption
Yongcheng Zhongpin Food Company Limited	EIT Exemption
Tianjin Zhongpin Food Company Limited	EIT Exemption
Jilin Zhongpin Food Company Limited	EIT Exemption
Hengshui Zhongpin Food Company Limited	EIT Exemption
Henan Zhongpin Food Company Limited	25%
Henan Zhongpin Import and Export Trading Company Limited	25%
Henan Zhongpin Fresh Food Logistics Company Limited	25%
Henan Zhongpin Business Development Company Limited	25%
Henan Zhongpin Agriculture Development Company Limited	25%

There is no consolidated enterprise income tax return concept in the PRC. As a result, if one subsidiary has net income, that net income cannot be offset by the loss incurred in another subsidiary within the consolidated company. Similarly, if one subsidiary has a net operating loss, that net operation loss cannot be offset by the net income in another subsidiary within the consolidated company.

Recently Issued Accounting Pronouncements

Adoption of FASB Accounting Standards Codification

In June 2009, the FASB issued SFAS No. 168, "*The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162*". This standard is now included in ASC Topic 105 and established only two levels of GAAP, authoritative and non-authoritative. The FASB Accounting Standards Codification (the "Codification") became the source of authoritative, non-governmental GAAP, except for rules and interpretive releases of the SEC, which are sources of authoritative GAAP for SEC registrants. All other non-grandfathered, non-SEC accounting literature not included in the Codification became non-authoritative. This standard is effective for financial statements for interim or annual reporting periods ending after September 15, 2009. Effective August 1, 2009, we adopted the new guidelines and numbering system prescribed by the Codification when referring to GAAP. The adoption had no impact on our consolidated financial condition, results of operations or cash flows.

Adoption of FASB ASC 805

Effective January 1, 2009, the Company adopted FASB ASC 805, "*Business Combinations*." FASB ASC 805 changed accounting for acquisitions that close beginning in 2009. FASB ASC 805 extends its applicability to all transactions and other events in which one entity obtains control over one or more other businesses. It broadens the fair value measurement and recognition of assets acquired, liabilities assumed, and interests transferred as a result of business combinations. FASB ASC 805 expands on required disclosures to improve the statement users' abilities to evaluate the nature and financial effects of business combinations. The adoption of FASB ASC 805 did not have a material impact on the Company's financial statements.

ZHONGPIN INC.
NOTES TO FINANCIAL STATEMENTS

Adoption of FASB ASC 805-20

Effective January 1, 2009, the Company adopted FASB ASC 805-20, "*Noncontrolling Interests in Consolidated Financial Statements*." FASB ASC 805-20 requires that a noncontrolling interest in a subsidiary be reported as equity and the amount of consolidated net income specifically attributable to the noncontrolling interest be identified in the consolidated financial statements. It also calls for consistency in the manner of reporting changes in the parent's ownership interest and requires fair value measurement of any noncontrolling equity investment retained in a deconsolidation. FASB ASC 805-20 requires retroactive adoption of the presentation and disclosure requirements for existing minority interests.

Adoption of FASB ASC 815

Effective January 1, 2009, the Company adopted FASB ASC 815, "*Disclosures about Derivative Instruments and Hedging Activities*." FASB ASC 815 requires enhanced disclosures about (i) how and why the Company uses derivative instruments, (ii) how the Company accounts for derivative instruments and related hedged items, and (iii) how derivative instruments and related hedged items affect the Company's financial results. The adoption FASB ASC 815 did not have any impact on the Company's financial statements.

Adoption of FASB ASC 350-30

Effective January 1, 2009, the Company adopted FASB ASC 350-30, "*Determination of the Useful Life of Intangible Assets*." FASB ASC 350-30 amended the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. The adoption of FASB ASC 350-30 did not have material impact on the Company's financial statements.

Adoption of FASB ASC 860

In June 2009, the FASB issued ASC 860, which eliminates the concept of a qualifying special-purpose entity, creates more stringent conditions for reporting a transfer of a portion of a financial asset as a sale, clarifies other sale-accounting criteria, and changes the initial measurement of a transferor's interest in transferred financial assets. FASB ASC 860 will be effective for transfers of financial assets in years beginning after November 15, 2009 and in interim periods within those years with earlier adoption prohibited. The adoption of ASC 860 is not expected to have a material impact on our consolidated financial position or results of operations.

Adoption of FASB ASU 2009-05

In August 2009, the FASB issued Accounting Standards Update ("ASU") No. 2009-05, "Measuring Liabilities at Fair Value," which amends the guidance in ASC 820, Fair Value Measurements and Disclosures, to provide guidance on fair value measurement of liabilities. If a quoted price in an active market is not available for an identical liability, ASU 2009-05 requires companies to compute fair value by using quoted prices for an identical liability when traded as an asset, quoted prices for similar liabilities when traded as an asset or another valuation technique that is consistent with the guidance in ASC 820. ASU 2009-05 will be effective for interim and annual periods beginning after its issuance and is not expected to have a material impact on our consolidated financial position or results of operations.

ZHONGPIN INC.
NOTES TO FINANCIAL STATEMENTS

Adoption of FASB ASU 2009-13

In October 2009, the FASB issued ASU No. 2009-13, "Multiple-Deliverable Revenue Arrangements" (ASU 2009-13). This update removes the criterion that entities must use objective and reliable evidence of fair value in separately accounting for deliverables and provides entities with a hierarchy of evidence that must be considered when allocating arrangement consideration. The new guidance also requires entities to allocate arrangement consideration to the separate units of accounting based on the deliverables' relative selling price. The provisions will be effective for revenue arrangements entered into or materially modified in our year 2011 and must be applied prospectively. We are currently evaluating the impact of the provisions of ASU 2009-13.

Reclassification

The presentation of certain line items presented on the consolidated financial statements and the relevant notes for the prior years have been changed in conformity with the current year presentation of the consolidated financial statements and the corresponding notes.

3. INVENTORIES

Inventories at December 31, 2009 and 2008 consisted of:

	At December 31,	
	2009	2008
Raw materials	\$ 4,941,774	\$ 4,361,160
Low value consumables and packaging	961,009	817,862
Work-in-progress	3,020,589	1,961,693
Finished goods	24,936,048	9,583,502
Inventories	<u>\$ 33,859,420</u>	<u>\$ 16,724,217</u>

ZHONGPIN INC.
NOTES TO FINANCIAL STATEMENTS

4. PROPERTY, PLANT AND EQUIPMENT

A summary of property, plant and equipment at cost at December 31, 2009 and 2008 is as follows:

	At December 31,	
	2009	2008
Plants and buildings	\$ 130,399,711	\$ 86,554,180
Machinery and equipment	68,060,172	50,956,352
Office furniture and equipment	2,658,598	2,042,547
Vehicles	3,144,368	2,462,216
Accumulated depreciation	<u>(14,673,945)</u>	<u>(8,147,660)</u>
Total	<u>\$ 189,588,904</u>	<u>\$ 133,867,635</u>

The depreciation expenses for the years ended December 31, 2009, 2008 and 2007 were \$8,512,431, \$4,780,810 and \$1,885,778, respectively.

In 2009 and 2008, the Company entered into various sale-leaseback arrangements. Under the arrangements, the Company sold property and equipment and leased them back for a period of 3 years. The leasebacks have been accounted for as capital leases. The difference between the carrying value of the sale-leaseback equipment and the appraised fair value was recognized to the income statement as loss from sale-leaseback transactions. Further, the difference between the appraised fair value and the sales price was capitalized as deferred loss, which was included in the property and equipment above.

ZHONGPIN INC.
NOTES TO FINANCIAL STATEMENTS

Of the above information, property, plant and equipment under the sale-leaseback agreement at cost at December 31, 2009 and 2008 is as follows:

	At December 31,	
	2009	2008
Plants and buildings	\$ 707,433	\$ 531,627
Machinery and equipment	26,239,328	6,231,556
Office furniture and equipment	28,937	—
Vehicles	3,939	—
Accumulated depreciation	(631,251)	(90,809)
Total	\$ 26,348,386	\$ 6,672,374

The deferred losses included in the property and equipment balance were \$4,149,415 and \$183,584 at December 31, 2009 and 2008, respectively, and would be amortized over the lease term. Of the depreciation expenses, \$179,508 and \$540,294 were amortization of deferred loss and depreciation expense from assets under capital lease for the year ended December 31, 2009; \$16,389 and 90,809 were amortization of the deferred loss and depreciation expense from assets under capital lease for the year ended December 31, 2008. There was no capital lease or sale-leaseback arrangement in 2007.

5. LAND USE RIGHTS

The Company's land use rights at December 31, 2009 and 2008 are summarized as follows:

	At December 31,	
	2009	2008
Land use rights	\$ 63,412,436	\$ 37,249,227
Accumulated amortization	(2,284,005)	(1,265,280)
Total	\$ 61,128,431	\$ 35,983,947

The amortization of land use rights for the years ended December 31, 2009, 2008 and 2007 were \$1,019,363, \$602,511 and \$397,975, respectively.

ZHONGPIN INC.
NOTES TO FINANCIAL STATEMENTS

6. CONSTRUCTION IN PROGRESS

Construction in progress at December 31, 2009 and 2008 consisted of:

Construction Project	Date or Estimated Date Put in Service ⁽¹⁾	December 31, 2009	December 31, 2008
Waste water solution system in Deyang	Completed	\$ —	\$ 7,329
Production facility for chilled and frozen pork in Zhumadian	Completed	—	16,709
Production line for fruits and vegetables in Changege industrial park	Completed	—	13,670,361
Production facility for chilled and frozen pork in Yongcheng	Completed	—	25,434,684
Production line for prepared pork in Changege industrial park	January 2010	75,203	547,225
Zhengzhou office	February 2010	12,390	—
Water solution Station in Changege industrial park	April 2010	64,439	1,048,296
Replacement and maintenance in Changege industrial park	April 2010	121,187	48,435
Production facility for prepared pork products in Changege industrial park	April 2010	17,145,694	—
Dormitories and other infrastructure in Changege industrial park	April 2010	2,844,349	—
Production facility for food oil in Changege industrial park	April 2010	4,515,099	—
Production facility for chilled and frozen pork in Tianjin	April 2010	38,100,295	—
Distribution center in Zhumadian	April 2010	3,611,201	—
Distribution center in Anyang	June 2010	2,958,320	—
Distribution center in Luoyang	September 2010	743,973	—
Total		<u>\$ 70,192,150</u>	<u>\$ 40,773,039</u>

Estimated cost to complete current construction in process is \$14.8 million.

- (1) Represents date all regulatory permits and approvals were received and project is placed in service. In certain cases, construction of a project may be substantially completed and the project may be operational during a testing period prior to such date.

8. SHORT TERM BANK LOANS

Short-term loans are due within one year. Of the \$84.7 million aggregate principal amount of short-term loans at December 31, 2009, loans in the principal amount of \$51.7 million were secured by the Company's plants located in the PRC and loans in the aggregate principal amount of \$14.6 million were guaranteed by Huanghe Enterprises Group Co., Ltd., a group corporation based in Henan province that is not affiliated with our company or with any of our subsidiaries ("Huanghe Group"). These loans bear interest at prevailing lending rate in the PRC as 5.31% per annum at December 31, 2009.

ZHONGPIN INC.
NOTES TO FINANCIAL STATEMENTS

9. LONG TERM BANK LOANS

Amounts outstanding under the Company's long-term debt arrangements at December 31, 2009 and 2008 were as follows:

Bank	At December 31,	
	2009	2008
Canadian Government Transfer Loan	\$ 1,489,099	\$ 1,634,771
Rabobank Nederland Shanghai	11,716,118	11,725,906
China CITIC Bank	4,393,544	4,397,215
Bank of Communications	—	5,862,953
China Construction Bank	7,322,574	—
Agriculture Bank of China	10,251,605	—
China Minsheng Bank	7,322,574	—
China Merchants Bank	6,956,445	—
	<u>49,451,959</u>	<u>23,620,845</u>
Current portion	(4,539,215)	(145,671)
Total	<u><u>\$ 44,912,744</u></u>	<u><u>\$ 23,475,174</u></u>

In December 2009, Henan Zhongpin entered into a loan agreement with Agriculture Bank of China pursuant to which Henan Zhongpin borrowed RMB 70 million (\$10.3 million). All amounts borrowed under the loan agreement bear interest at a floating rate that is based on the prime rate published by the People's Bank of China for loans with the same or similar terms on the drawdown date (5.76% per annum on December 31, 2009) and are payable on December 27, 2014. Borrowings under the loan agreement are guaranteed by the land usage right, property and plant of Luoyang Zhongpin.

In November 2009, Henan Zhongpin entered into a loan agreement with China Merchants Bank pursuant to which Henan Zhongpin borrowed RMB 47.5 million (\$7.0 million). All amounts borrowed under the loan agreement bear interest at a floating rate that is based on the prime rate published by the People's Bank of China for loans with the same or similar terms on the drawdown date (5.76% per annum on December 31, 2009) and are payable on November 26, 2014. Borrowings under the loan agreement are guaranteed by Luoyang Zhongpin.

In June 2009, Henan Zhongpin entered into a loan agreement with China Construction Bank pursuant to which Henan Zhongpin borrowed RMB 50 million (\$7.3 million). All amounts borrowed under the loan agreement bear interest at a floating rate that is based on the prime rate published by the People's Bank of China for loans with the same or similar terms on the drawdown date (5.4% per annum on December 31, 2009) and are payable on June 10, 2011. Borrowings under the loan agreement are guaranteed by the land usage right, property and plant of Henan Zhongpin.

In May 2009, Henan Zhongpin entered into a loan agreement with China Minsheng Bank pursuant to which Henan Zhongpin borrowed RMB 50 million (\$7.3 million). All amounts borrowed under the loan agreement bear interest at a floating rate that is based on the prime rate published by the People's Bank of China for loans with the same or similar terms on the drawdown date (5.4% per annum on December 31, 2009) and are payable on May 6, 2011. Borrowings under the loan agreement are guaranteed by our wholly-owned subsidiary, Yongcheng Zhongpin Food Company Limited.

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In May 2008, Henan Zhongpin entered into a credit agreement with Rabobank Nederland Shanghai Branch that provided for a three-year term loan of up to RMB 80 million (\$11.7 million). On June 10, 2008, the first 50% of the long-term loan was funded by the bank. The remaining 50% of the long-term loan was drawn down by Henan Zhongpin on July 10, 2008. Amounts currently outstanding under the term loan bear interest at the rate published by the People's Bank of China for loans with the same or similar terms. The accrued interest on this loan is payable on a quarterly basis. Of the outstanding principal under the long-term loan, 25% is payable 24 months after the first drawdown date (June 10, 2008), 37.5% is payable 30 months after the first drawdown date and the balance is payable 36 months after the first drawdown date.

Borrowings under the term loan agreement are guaranteed by the Company's subsidiaries, Anyang Zhongpin Food Co., Ltd. and Zhumadian Zhongpin Food Co., Ltd., are secured by the Company's prepared pork production facilities located at Changege City, Henan province and are subject to various financial and non-financial covenants, including a debt-to-net-worth ratio, a debt-to-EBIDTA ratio, an interest coverage ratio, a required minimum tangible net worth, restrictions on investments in fixed assets and financial assets, on inter-company indebtedness and on consolidated contingent liabilities and a requirement that a minimum percentage of Henan Zhongpin's consolidated EBITDA be generated by Henan Zhongpin and the guarantors. Henan Zhongpin also is prohibited from paying dividends in an amount in excess of 50% of its retained earnings during the term of the credit facility.

9. LONG TERM BANK LOANS (continued)

In April 2008, Henan Zhongpin entered into a loan agreement with China CITIC Bank pursuant to which Henan Zhongpin borrowed RMB 30 million (\$4.4 million). All amounts borrowed under the loan agreement bear interest at a floating rate that was based on the prime rate published by the People's Bank of China for loans with the same or similar terms on the drawdown date (5.40% per annum on December 31, 2009) and are payable on January 23, 2010. The accrued interest on this loan is payable quarterly on the 20th day of the last month of each quarter since the drawdown date. Borrowings under the loan agreement are guaranteed by a Xuji Group. Henan Zhongpin repaid the loan when it became due.

In May 2002, Henan Zhongpin entered into a loan agreement with Bank of Communications, Zhengzhou Branch, which is the intermediary bank for a 40-year term loan in the amount of \$2,504,969 from the Canadian government. Under the terms of the loan agreement, 58% of the principal amount (\$1,452,882) of this loan bears interest at the fixed rate of 6.02% per annum and remaining principal amount of this loan is interest free. The loan is repayable in a fixed amount of \$145,671, which includes principal and interest, that is payable on a semi-annual basis through May 15, 2042. Borrowings under the loan agreement are guaranteed by the Financing Department, Henan province.

The following table shows the minimum payment obligation for the next five years.

Due on December 31,	Amount
2010	\$ 4,539,215
2011	26,506,938
2012	145,671
2013	—
2014	17,208,048
Above 5 years	1,052,087
Subtotal	49,451,959
Less: current portion	(4,539,215)
Total	\$ 44,912,744

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11. INCOME TAX

The income before income taxes for the years ended December 31, 2009, 2008 and 2007 was as following:

	Years Ended December 31,		
	2009	2008	2007
Income in China-based entities	\$ 53,892,780	37,605,710	\$ 24,345,602
Income in non-China and non-US entities	(20,780)	32,626	76,592
Loss in the U.S entity	(4,464,561)	(3,388,941)	(4,500,206)
Elimination during consolidation process	2,009	(173,229)	(94,814)
Income before income taxes	<u>\$ 49,409,448</u>	<u>34,076,166</u>	<u>\$ 19,827,174</u>

The income tax provision for the years ended December 31, 2009, 2008 and 2007 was as follows:

	Years Ended December 31,		
	2009	2008	2007
Current:			
China	\$ 3,731,444	\$ 2,681,006	\$ 1,431,579
Federal State	—	—	—
Deferred:			
China	87,624	(212,347)	—
U.S.	—	—	—
	<u>\$ 3,819,068</u>	<u>\$ 2,468,659</u>	<u>\$ 1,431,579</u>

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Deferred tax assets and liabilities reflect the net tax effects of temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components that give rise to deferred tax assets and liabilities as of December 31, 2009 were as follows:

	At December 31	
	2009	2008
Current:		
Bad debt allowance	\$ 161,323	\$ 138,850
Accrued salaries	70,766	69,650
Other accrued liabilities	24,062	5,066
Current deferred tax asset	256,151	213,566
Non-current:		
Depreciation	(497,426)	(48,969)
Net operating loss carry forwards	3,927,610	1,978,144
Total Non-current	3,430,184	1,929,175
Valuation allowance	(3,678,129)	(1,926,498)
Net non-current deferred tax assets/(liability)	\$ (247,945)	\$ 2,677

11. INCOME TAX (continued)

The U.S. entity had an accumulated net operating loss of \$9,945,223, \$5,480,662 and \$3,567,507 at December 31, 2009, 2008 and 2007, respectively. There was no net operating loss in 2005. Under the U.S. tax laws, the net operating loss can be carried forward for 20 years and carried back for 2 years. Accordingly, the nominal deferred tax assets could be \$3,480,828 at December 31, 2009. Management believes it is more likely than not that the Company will not realize these potential tax benefits as the Company's U.S. operations will not generate any operating profits in the foreseeable future. As a result, the full amount of the valuation allowance was provided against the potential tax benefits.

The difference between the effective income tax rate and the expected federal statutory rate was as follows:

	Years Ended December 31,		
	2009	2008	2007
Statutory rate	34.0%	34.0%	34.0%
Income tax rate reduction	(9.0)%	(9.0)%	(1.0)%
Permanent differences	(19.5)%	(19.9)%	(27.0)%
Valuation allowance	3.5%	2.0%	
Other	(1.3)%	0.1%	1.2%
Effective income tax rate	7.7%	7.2%	7.2%

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The permanent differences were related to tax-exempted profits that were derived from conducting slaughtering live stock business.

12. EQUITY TRANSACTIONS

Activities in 2008

During 2008, warrants to purchase an aggregate of 225,000 shares of common stock were exercised with an exercise price of \$5.00 per share and warrants to purchase an aggregate of 45,338 shares of common stock were exercised with an exercise price of \$5.50 per share. The Company received net proceeds from these transactions in the aggregate amount of approximately \$1.24 million, after payment of a 10% commission to the placement agent in accordance with the relevant retainer agreements.

During 2008, warrants to purchase an aggregate of 45,000 shares of common stock with an exercise price of \$6.50 per share were exercised on a cashless basis. In connection with these transactions, the Company issued an aggregate of 20,523 shares of common stock and received no cash from such issuances. For cash flow purposes, these transactions were non-cash transactions.

During 2008, warrants to purchase an aggregate of 72,187 shares of common stock with an exercise price of \$8.00 per share were exercised on a cashless basis. In connection with these transactions, the Company issued an aggregate of 24,256 shares of common stock and the Company received no cash from such issuances. For cash flow purposes, these transactions were non-cash transactions.

During 2008, warrants to purchase an aggregate of 135,012 units were exercised on a cashless basis. Each unit is comprised of two shares of Series A preferred stock, \$4.00 per share and a five-year warrant to purchase one share of common stock with the exercise price of \$5.00 per share. At the time of exercise of the unit warrants, the holders also exercised the underlying warrants to purchase shares of common stock. In connection with these transactions, the Company issued an aggregate of 269,102 shares of common stock and received no cash proceeds from such issuances. For cash flow purposes, these transactions were non-cash transactions.

During 2008, an aggregate of 995,800 shares of Series A convertible preferred stock were converted into 995,800 shares of common stock. For cash flow purposes, these transactions were non-cash transactions.

During 2008, options to purchase an aggregate of 33,333 shares of common stock were exercised on a broker-assisted cashless basis. In connection with the transaction, the Company issued 33,333 shares of common stock and received approximately \$0.3 million.

Activities in 2009

During 2009, an aggregate of 2,129,200 shares of the Company's Series A convertible preferred stock were converted into corresponding shares of common stock. For cash flow purposes, these transactions were non-cash transactions.

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During 2009, warrants to purchase an aggregate of 53,888 units were exercised on a cashless basis. Each unit is comprised of two shares of Series A preferred stock, \$4.00 per share and a five-year warrant to purchase one share of common stock with the exercise price of \$5.00 per share. At the time of exercise of the unit warrants, the holders also exercised the underlying warrants to purchase shares of common stock. In connection with these transactions, the Company issued an aggregate of 103,242 shares of common stock and received no cash proceeds from such issuances. For cash flow purposes, these transactions were non-cash transactions.

During 2009, warrants to purchase an aggregate of 20,000 units were exercised on a cash basis. Each unit is comprised of two shares of Series A preferred stock, \$4.00 per share and a five-year warrant to purchase one share of common stock with the exercise price of \$5.00 per share. At the time of exercise of the unit warrants, the holders also exercised the underlying warrants to purchase shares of common stock. In connection with these transactions, the Company issued an aggregate of 60,000 shares of common stock and received \$260,000 from such issuances. For cash flow purposes, these transactions were cash transactions.

During 2009, warrants to purchase an aggregate of 55,000 shares of common stock with an exercise price of \$6.50 per share were exercised on a cashless basis. In connection with these transactions, the Company issued an aggregate of 20,359 shares of common stock and received no cash from such issuances. For cash flow purposes, these transactions were non-cash transactions.

During 2009, warrants to purchase an aggregate of 267,062 shares of common stock with an exercise price of \$8.00 per share were exercised on a cashless basis. In connection with these transactions, the Company issued an aggregate of 124,595 shares of common stock and the Company received no cash from such issuances. For cash flow purposes, these transactions were non-cash transactions.

During 2009, options to purchase an aggregate of 120,000 shares of common stock were exercised on a broker-assisted cashless basis. In connection with the transaction, the Company issued 120,000 shares of common stock and received approximately \$1.4 million.

During 2009, the Company issued 4,600,000 shares of common stock at \$13.25 per share. In connection with the transaction, the Company received approximately \$57.1 million.

13. STOCK WARRANTS AND OPTIONS

As of December 31, 2009, the Company had outstanding warrants and options to purchase an aggregate of 1,478,765 shares of common stock.

On January 30, 2006, the Company's board of directors and stockholders adopted and approved, and on February 27, 2007 the Company's board of directors and stockholders approved the amendment and restatement of, the Company's Amended and Restated 2006 Equity Incentive Plan (the "Incentive Plan"). The Incentive Plan allows for awards of stock options, restricted stock grants and share appreciation rights for up to 1,800,000 shares of common stock. On April 21, 2008, the Compensation Committee of the Company's board of directors approved, and on June 26, 2008 the Company's stockholders approved, an amendment to the Incentive Plan for the purpose of increasing the authorized shares from 1,800,000 shares to 2,500,000 shares.

The Company adopted the fair value recognition which requires the measurement and recognition of compensation expense for all stock-based payment awards made to the Company's employees and directors, including stock options and employee stock purchases. Stock-based compensation expense for stock options was based on the grant-date fair value. During the process of estimating the fair value of the stock options granted and recognizing share-based compensation, the following assumptions were adopted.

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13. STOCK WARRANTS AND OPTIONS (continued)

The fair value for these awards was estimated using the Black-Scholes option pricing model with the following weighted average assumptions, assuming no expected dividends:

	Years Ended December 31,		
	2009	2008	2007
Expected life (years)	3	—	3-5
Expected volatility	39.91-40.33%	—%	46-55%
Risk-free interest rate	1.15-1.36%	—%	3.63-4.19%
Dividend yield	—%	—%	—%

The expected volatilities are based on the historical volatility of the Company's common stock. The observation is made on a weekly basis. The observation period covered is consistent with the expected life of the options. The risk-free rate is consistent with the expected terms of the stock options and is based on the United States Treasury yield curve in effect at the time of grant. In estimating expected lives of the options, the Company considered the contractual and vesting terms of awards, along with historical experience; however, due to insufficient historical data from which to reliably estimate expected lives, Zhongpin used estimates based on the "simplified method" set forth by the SEC in Staff Accounting Bulletins No. 107, where expected life is estimated by summing the award's vesting term and contractual term and dividing that result by two. Insufficient historical data from which to reliably estimate expected lives is expected to exist for the foreseeable future due to different terms associated with awards granted in recent years, along with other factors

Granting Activities in 2008

During 2008, the Company did not grant any stock warrants or options.

Granting Activities in 2009

On March 31, 2009, the Company issued stock purchase options to an executive officer to purchase 33,000 shares of common stock at an initial exercise price of \$8.88 per share. These options were accounted for using the fair value method, with the expense being recognized ratably over the requisite service period (one year for the executive officer). The compensation expense for these options amounted to \$62,865 for the years ended December 31, 2009.

On April 17, 2009, the Company issued stock purchase options to 22 key employees to purchase 240,000 shares of common stock at an initial exercise price of \$9.51 per share. These options were accounted for using the fair value method, with the expense being recognized ratably over the requisite service period (one year). The compensation expense for these options amounted to \$457,425 for the years ended December 31, 2009.

At December 31, 2009, the Company had unrecognized stock-based compensation in the aggregate amount of \$1,277,546. That cost is expected to be recognized over a period of two years. A summary of stock warrant and option activities during the two-year period ended December 31, 2009 is as follows:

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	Warrants and Options	Weighted- Average Exercise Price	Weighted - Average Remaining Contractual Life	Aggregate Intrinsic
Outstanding at 01/01/07	5,124,799	\$ 4.98	4.21	\$ 7.12
Granted	1,197,500	10.03		
Exercised	(3,734,945)	5.06		
Forfeited or expired	(14,202)	4.00		
Outstanding at 12/31/07	2,573,152	7.23	3.85	\$ 7.94
Exercisable at 12/31/07	1,861,211	\$ 5.69		\$ 7.31
Granted	-			
Exercised	(617,552)	5.40		
Forfeited or expired	(139,997)	8.28		
Outstanding at 12/31/08	1,815,603	7.77	3.03	\$ 6.66
Exercisable at 12/31/08	1,436,992	\$ 6.90		\$ 5.10
Granted	273,000	9.43		
Exercised	(428,196)	7.64		
Forfeited or expired	(181,642)	7.61		
Outstanding at 12/31/09	1,478,765	8.19	2.44	\$ 7.25
Exercisable at 12/31/09	1,215,237	\$ 7.77		\$ 7.84

The weighted-average grant-date fair value of stock warrants and options granted during the years 2009, 2008 and 2007 was \$2.69, \$0 and \$5.55, respectively. The total intrinsic value of warrants and options exercised during the years ended December 31, 2009, 2008 and 2007, was approximately \$3.5 million, \$4.3 million and \$21.3 million, respectively.

The total fair value of shares vested during the years ended December 31, 2009, 2008 and 2007, was \$1,269,445, \$1,475,768 and \$213,028, respectively.

14. EARNINGS PER SHARE

Earnings per share (basic and diluted) for the years ended December 31, 2009, 2008 and 2007 were as follows:

	Years Ended December 31,		
	2009	2008	2007
Net income attributable to common shares	\$ 45,590,380	\$ 31,376,946	\$ 15,081,431
Basic Earnings Per Share			
Basic earnings per share from net income	\$ 1.48	\$ 1.06	\$ 0.84
Diluted Earnings Per Share			
Diluted earnings per share from net income	\$ 1.46	\$ 1.05	\$ 0.80
Weighted average number of common shares outstanding – Basic	30,750,054	29,475,817	18,000,437
Dilutive effect of stock options	480,482	358,696	5,077,427
Weighted average number of common shares outstanding – Diluted	31,230,536	29,834,513	23,077,864

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15. GOVERNMENT SUBSIDIES

The local government in Change City, Henan province provided Henan Zhongpin with various subsidies to encourage its research and development activities and its establishment of a fresh fruit and vegetable production facility in Change City, and for other contributions to the local community, such as increasing employment opportunities. The government subsidies are generally classified as earmarked (such as research and development activities) or non-earmarked. The interest subsidies were earmarked to offset the Company's interest expenses incurred in relation to the construction of its fruit and vegetable production facility. All subsidies were accounted for based on evidence that cash has been received and the earmarked activities have taken place. Subsidies earmarked for research and development activities were first offset against relevant research and development expenses incurred, and interest subsidies were offset against the relevant interest expense incurred. Non-earmarked subsidies are generally recognized as other income.

Government subsidies received by the Company during the years ended December 31, 2009, 2008 and 2007 are as follows:

	2009	2008	2007
Deferred subsidies opening balance:			
Interest subsidies	—	\$ 274,175	\$ —
Earmarked subsidies	—	217,635	249,449
Total	—	\$ 491,810	\$ 249,449
Subsidies received:			
Interest subsidies	\$ 537,256	\$ 622,520	\$ 263,571
Earmarked subsidies	92,227	868,907	220,820
Unearmarked subsidies	3,440,569	—	—
Total	\$ 4,070,052	\$ 1,491,427	\$ 484,391
Subsidies recognized:			
Interest subsidies	\$ 537,256	\$ 910,058	\$ —
Earmarked subsidies	92,227	1,097,149	268,153
Unearmarked subsidies	3,440,569	—	—
Total	\$ 4,070,052	\$ 2,007,207	\$ 268,153
Deferred subsidies year ending balance:			
Interest subsidies	\$ —	\$ —	\$ 274,175
Earmarked subsidies	—	—	217,635
Total	\$ —	\$ —	\$ 491,810

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(Subsidies received and other income recognized are translated at the average exchange rate. The beginning and ending balances are translated at the year-end exchange rate.)

16. COMMITMENTS AND CONTINGENCIES

Mutual Guarantee

In June 2009, Henan Zhongpin entered into a mutual guarantee agreement with Huanghe Group. Under the agreement, Henan Zhongpin agreed to guarantee bank loans of Huanghe Group in an amount up to \$8.8 million and Huanghe Group agreed to guarantee Henan Zhongpin's bank loans in an amount up to \$8.8 million. The agreement expires in June 2010. In September 2009, Henan Zhongpin entered into a mutual guarantee agreement with Huanghe Group. Under the agreement, Henan Zhongpin agreed to guarantee bank loans of Huanghe Group in an amount up to \$5.9 million and Huanghe Group agreed to guarantee Henan Zhongpin's bank loans in an amount up to \$5.9 million. The agreement expires in September 2010. At the expiration of the agreement, each party will remain obligated under its guarantee for any loans of the other party that are outstanding on the date of expiration of the agreement. This mutual guarantee may be terminated by either party at any time; provided, however, that any loan guarantees in effect prior to termination shall remain in effect.

The business purpose for the mutual guarantee is to provide each party with a credit line from banks that would have otherwise been unavailable absent the guarantee. As bank credit loans are generally unavailable in China, companies are required to provide either a pledge of assets, a third-party guarantee or a combination of both in order to receive loans. In the case of pledges, companies can pledge their assets, including, among other things, land, buildings and machines, to banks as collateral to secure loans; however, banks generally will only loan up to 50% to 70% of the value of the pledged assets. Alternatively, if a company provides the banks with a guarantee agreement, the banks generally will loan up to 90% to 100% of the amount being guaranteed.

Henan Zhongpin's obligation as guarantor to repay loans on behalf of Huanghe Group will only arise if Huanghe Group cannot repay its loans and proceeds from liquidating Huanghe Group's pledged assets are insufficient to cover its outstanding debt. Henan Zhongpin's actual liability for such guarantee, should the guarantee obligation become due, will vary depending on the difference between the outstanding bank loan plus accrued interest and the proceeds received for the liquidated collateral. Henan Zhongpin did not pledge any of its assets in connection with the mutual guarantee agreement as this guarantee was not based on credit quality concerns, but rather based on the local banks' requirements. In the event Henan Zhongpin is required to pay all or a portion of any loans covered by the mutual guarantee, Henan Zhongpin would seek reimbursement for such payment from Huanghe Group.

At December 31, 2009, Henan Zhongpin had outstanding guarantees for \$14.6 million of Huanghe Group's bank loans under the agreement. All of the bank loans guaranteed by Henan Zhongpin will mature within the next 12 months. As a result, the maximum potential amount of future payments (undiscounted) Henan Zhongpin could be obligated to make under the mutual guarantee at such date was \$38.1 million. The Company did not record any liability on its balance sheet with respect to this mutual guarantee as the Company believes, based upon its continuing due diligence on Xuji Group and its business, that Henan Zhongpin's liability there under remains contingent.

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16. COMMITMENTS AND CONTINGENCIES (continued)

Legal Proceedings

As of December 31, 2009, there was no material legal proceeding to which the Company was a party or to which any of the Company's assets was subject that will have a material adverse effect on the Company's financial condition.

Operating Leases

The Company leases plants and buildings in two locations, Changchun City of Jilin province starting from December 2008 and Tianjin starting from September 2007 under their respective lease agreements. The terms of these operating lease agreements range two to three years from their respective starting dates. The respective monthly rental payment ranges from RMB200,000 (\$29,278) to RMB233,333 (\$34,201). The Company has adopted the straight-line method to record the monthly rental expenses. The rental expenses under these lease agreements were \$796,369, \$707,344 and \$466,521 for the years ended December 31, 2009, 2008 and 2007, respectively.

Capital Leases

In November 2009, Henan Zhongpin entered into a sale-leaseback agreement with CMB Financial Leasing Co., Ltd. ("CMB Leasing") pursuant to which we sold to CMB Leasing equipment with a book net value of \$8.3 million for \$5.9 million and leased such equipment back. The lease payments for this equipment are paid on a monthly basis over a three-year period and consist of a fixed payment based upon a 36-month amortization of the purchase price plus an interest component that is based upon the rate announced from time to time by the People's Bank of China for three-year loans. At December, 2009, the monthly rental fee under the agreement was \$175,936, which included an interest component calculated at the rate of 4.91% per annum. Henan Zhongpin has the right at the end of the lease term to repurchase all of the equipment for a nominal purchase price.

In November 2009, Luoyang Zhongpin entered into a sale-leaseback agreement with CMB Leasing pursuant to which we sold to CMB Leasing equipment with a book net value of \$6.8 million for \$4.4 million and leased such equipment back. The lease payments for this equipment are paid on a monthly basis over a three-year period and consist of a fixed payment based upon a 36-month amortization of the purchase price plus an interest component that is based upon the rate announced from time to time by the People's Bank of China for three-year loans. At December 31, 2009, the monthly rental fee under the agreement was \$131,952, which included an interest component calculated at the rate of 4.91% per annum. Henan Zhongpin has the right at the end of the lease term to repurchase all of the equipment for a nominal purchase price.

In November 2009, Zhumadian Zhongpin entered into a sale-leaseback agreement with De Lage Landen (China) Co., Ltd. ("De Lage Landen") pursuant to which we sold to De Lage Landen equipment with a book net value of \$5.9 million for \$6.0 million and leased such equipment back. The lease payments for this equipment are paid on a monthly basis over a three-year period and consist of a fixed payment based upon a 36-month amortization of the purchase price plus an interest component that is based upon the rate announced from time to time by the People's Bank of China for three-year loans. At December 31, 2009, the monthly rental fee under the agreement was \$176,402, which included an interest component calculated at the rate of 5.31% per annum. Henan Zhongpin has the right at the end of the lease term to repurchase all of the equipment for a nominal purchase price.

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On October 28, 2008, Henan Zhongpin entered into a sale-leaseback agreement with CMB Finance pursuant to which Henan Zhongpin, as lessee, sold to CMB Finance, as lessor, plants, buildings, machinery and equipment owned by Henan Zhongpin and located in Change City, Henan province with a net book value of \$6,779,873 for net proceeds of \$6,579,600 and leased these assets back immediately. The principal terms of this sale-leaseback agreement are as follows: 1) lessee sold the assets to lessor for cash proceeds of \$6,579,600; 2) lessee immediately leased back the assets from lessor; 3) the lease term is three years; 4) the monthly lease payment of RMB948,113 (\$138,796) is payable on the first day of each month after the starting date; 5) the interest rate applied in the lease agreement is 7.02% per annum, which is a three-year bank loan interest rate issued by the People's Bank of China; 6) the interest rate will be adjusted whenever the People's Bank of China adjusts the interest rate of its three-year bank loans and, upon any such adjustment, an incremental interest calculation will be provided by lessor; 7) Mr. Xianfu Zhu, the Company's Chief Executive Officer, provided his personal irrevocable guarantee of the obligations of Henan Zhongpin; 8) lessee has the right to repurchase the leased assets back at a nominal price of RMB 1 when the lease agreement expires; 9) lessee is required to pay RMB14,437,120 (\$2,116,204), which includes the first monthly payment of RMB970,524 (\$142,253) on the effective date of the lease agreement; and 10) lessee is required to make a deposit of RMB2,513,802 (\$368,457), which is refundable or will be applied to offset the last monthly payment.

Based on the above terms, the Company determined that this transaction is a capital lease transaction. Using the effective interest method, the Company prepared an amortization schedule to recognize the principal payment and corresponding interest expenses in terms of the monthly payment. Once the interest rate is adjusted by the People's Bank of China, the amortization schedule will be adjusted accordingly. As of December 31, 2009, the outstanding capital lease obligation was \$2,914,708. The loss derived from this sale-leaseback transaction was RMB1,366,363 (\$200,273), which will be amortized over the three-year lease period. As of December 31, 2009, the unamortized loss resulting from this sale-leaseback transaction was \$116,278.

Under the Company's non-cancellable lease agreements, the minimum lease payments for the remaining lease terms are summarized as follows:

December 31,	Operating Leases	Capital Leases
2010	\$ 497,731	\$ 7,480,098
2011	409,896	7,063,541
2012	409,896	5,460,920
Total minimum lease payments	<u>1,317,523</u>	<u>20,004,559</u>
Less amounts representing interest	<u>—</u>	<u>(1,420,026)</u>
	<u>\$ 1,317,523</u>	<u>\$ 18,584,533</u>
Less current portion		<u>(7,480,098)</u>
Capital lease non-current portion		<u>\$ 11,104,435</u>

17. SEGMENT REPORTING

The Company operates in only one segment: meat production (fruit and vegetable segment is not material enough to compete with meat production). However, the Company's product lines are divided into two divisions: pork and pork products, and vegetables and fruits.

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The pork and pork products division is involved primarily in the processing of live hogs into fresh, frozen and processed pork products. The pork and pork products division markets its products domestically to branded stores and to food retailers, foodservice distributors, restaurant operators and noncommercial foodservice establishments, such as schools, hotel chains, healthcare facilities, the military and other food processors, as well as in certain international markets on a limited basis.

The vegetables and fruits division is involved primarily in the processing of fresh vegetables and fruits. The Company contracts with more than 100 farms in Henan province and nearby areas to produce high-quality vegetable varieties and fruits suitable for export purposes. The proximity of the contracted farms to operations ensures freshness from harvest to processing. The Company contracts with those farms to grow more than 34 categories of vegetables and fruits, including asparagus, sweet corn, broccoli, mushrooms, lima beans and strawberries.

Sales by Division
(U.S. dollars in millions)

	Years Ended December 31,		Net Change 2009/2008	Percentage Change 2009/2008
	2009	2008		
Pork and Pork Products				
Chilled Pork	\$ 396.1	\$ 289.3	\$ 106.8	37%
Frozen Pork	224.8	187.9	36.9	20%
Prepared Pork Products	93.0	53.7	39.3	73%
Vegetables and Fruits	12.1	8.9	3.2	36%
Total	<u>\$ 726.0</u>	<u>\$ 539.8</u>	<u>\$ 186.2</u>	34%

Cost of Sales by Division
(U.S. dollars in millions)

	Years Ended December 31,		Net Change 2009/2008	Percentage Change 2009/2008
	2009	2008		
Pork and Pork Products	\$ 629.5	\$ 463.8	\$ 165.7	36%
Vegetables and Fruits	10.1	7.5	2.6	35%
Total	<u>\$ 639.6</u>	<u>\$ 471.3</u>	<u>\$ 168.3</u>	36%

Sales by Division
(U.S. dollars in millions)

	Years Ended December 31,		Net Change 2008/2007	Percentage Change 2008/2007
	2008	2007		
Pork and Pork Products				
Chilled Pork	\$ 289.3	\$ 151.0	\$ 138.3	92%
Frozen Pork	187.9	102.6	85.3	83%
Prepared Pork Products	53.7	29.2	24.5	84%
Vegetables and Fruits	8.9	8.6	0.3	3%
Total	<u>\$ 539.8</u>	<u>\$ 291.4</u>	<u>\$ 248.4</u>	85%

ZHONGPIN INC.
NOTES TO FINANCIAL STATEMENTS

	Cost of Sales by Division (U.S. dollars in millions)			Percentage Change 2008/2007
	Years Ended December 31,		Net Change 2008/2007	
	2008	2007		
Pork and Pork Products	\$ 463.8	\$ 246.7	\$ 217.1	88%
Vegetables and Fruits	7.5	7.2	0.3	4%
Total	\$ 471.3	\$ 253.9	\$ 217.4	86%

17. SEGMENT REPORTING (continued)

	Gross Profit by Division (U.S. dollars in millions)			Percentage Change 2009/2008
	Years Ended December 31,		Net Change 2009/2008	
	2009	2008		
Pork and Pork Products	\$ 84.6	\$ 67.2	\$ 17.4	26%
Vegetables and Fruits	1.9	1.4	0.5	36%
Total	\$ 86.5	\$ 68.6	\$ 17.9	26%

	Gross Profit by Division (U.S. dollars in millions)			Percentage Change 2008/2007
	Years Ended December 31,		Net Change 2008/2007	
	2008	2007		
Pork and Pork Products	\$ 67.1	\$ 36.1	\$ 31.0	86%
Vegetables and Fruits	1.4	1.4	—	0%
Total	\$ 68.5	\$ 37.5	\$ 31.0	83%

ZHONGPIN INC.
NOTES TO FINANCIAL STATEMENTS

18. QUARTERLY FINANCIAL INFORMATION

Year Ended December 31, 2009					
	Q4	Q3	Q2	Q1	Total

(In thousands, except per share amounts)

Selected Income Statement Data:

Net Sales	\$ 215,490	\$ 194,851	\$ 161,847	\$ 153,849	\$ 726,037
Gross Profit	24,659	23,707	18,968	19,144	86,478
Income From Operations	13,166	15,464	12,583	11,695	52,908
Net Income	11,891	13,235	10,723	9,741	45,590
Net Income per Common Share:					
Basic	0.35	0.44	0.36	0.33	1.48
Diluted	0.34	0.44	0.36	0.33	1.46

Year Ended December 31, 2008					
	Q4	Q3	Q2	Q1	Total

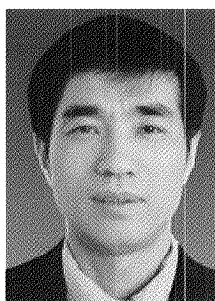
(In thousands, except per share amounts)

Selected Income Statement Data:

Net Sales	\$ 139,817	\$ 153,753	\$ 137,527	\$ 108,728	\$ 539,825
Gross Profit	17,678	19,587	17,104	14,192	68,561
Income From Operations	8,292	11,354	9,332	7,803	36,781
Net Income	5,517	10,050	8,522	7,288	31,377
Net Income per Common Share:					
Basic	0.18	0.34	0.29	0.25	1.06
Diluted	0.18	0.34	0.29	0.24	1.05

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Management and Board of Directors



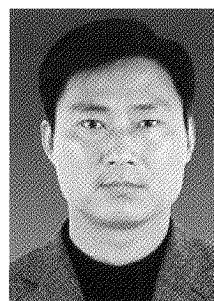
Xianfu Zhu
Chairman, President
and Chief Executive Officer



Warren Wang
Vice President,
Chief Financial Officer
and Treasurer



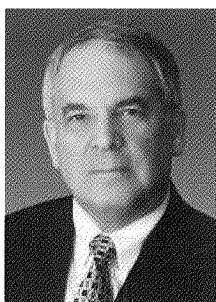
Baoke Ben
Director,
Executive Vice President
and Secretary



Chaoyang Liu
Vice President
of Operations



Min Chen
Independent Director,
Chairman of
Nominating Committee



Raymond Leal
Independent Director,
Chairman of
Audit Committee



Yaoguo Pan
Independent Director,
Chairman of
Compensation Committee

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Stockholder Information

Management Team

Xianfu Zhu

*President, Chief Executive Officer,
Chairman and Director*

Warren Wang

*Vice President,
Chief Financial Officer
and Treasurer*

Baoke Ben

*Director, Executive Vice President
and Secretary*

Chaoyang Liu

Vice President of Operations

Board of Directors

Raymond Leal

Independent Director

Yaoguo Pan

Independent Director

Min Chen

Independent Director

Corporate Governance

Yaoguo Pan

*Chairman of the Compensation
Committee*

Raymond Leal

Chairman of the Audit Committee

Min Chen

*Chairman of the Nominating
Committee*

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