

DAQO NEW ENERGY CORP.

Form 424B5

May 12, 2014

The information in this preliminary prospectus supplement is not complete and may be changed. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell nor do they seek offers to buy these securities in any jurisdiction where the offer or sale is not permitted.

Filed Pursuant to Rule 424(b)(5)

Registration No. 333-195239

Subject to Completion. Dated May 12, 2014

Preliminary Prospectus Supplement to Prospectus dated May 2, 2014

2,000,000 American Depositary Shares

DAQO NEW ENERGY CORP.

Representing 50,000,000 ordinary shares

We are offering 2,000,000 American depositary shares, or ADSs, representing 50,000,000 ordinary shares of Daqo New Energy Corp., or Daqo, with this prospectus supplement and the accompanying prospectus. Each ADS represents 25 ordinary shares.

Our ADSs are traded on the New York Stock Exchange, or NYSE, under the symbol DQ. On May 9, 2014, the reported last sale price for the ADSs was US\$36.84 per ADS.

See Risk Factors on page S-11 of this prospectus supplement and those which are included in the documents incorporated by reference in this prospectus supplement and the accompanying prospectus to read about factors you should consider before buying our ADSs.

Neither the Securities and Exchange Commission nor any other state securities commission has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

	Per ADS	Total
Price to public	\$	\$
Underwriting discount	\$	\$
Proceeds, before expenses, to us	\$	\$

The underwriter has an option to purchase up to an additional 300,000 ADSs from us at the price to the public less the underwriting discount.

The underwriter expects to deliver the ADSs against payment in New York, New York on _____, 2014.

Credit Suisse

Prospectus Supplement dated _____, 2014

TABLE OF CONTENTS

TABLE OF CONTENTS
PROSPECTUS SUPPLEMENT

	Page
<u>About this Prospectus Supplement</u>	<u>S-ii</u>
<u>Forward-Looking Statements</u>	<u>S-iii</u>
<u>Prospectus Supplement Summary</u>	<u>S-1</u>
<u>The Offering</u>	<u>S-10</u>
<u>Risk Factors</u>	<u>S-11</u>
<u>Use of Proceeds</u>	<u>S-31</u>
<u>Capitalization</u>	<u>S-32</u>
<u>Market Price Information for our ADSs</u>	<u>S-33</u>

	Page
<u>Shares Eligible for Future Sale</u>	<u>S-34</u>
<u>Taxation</u>	<u>S-35</u>
<u>Underwriting</u>	<u>S-40</u>
<u>Legal Matters</u>	<u>S-46</u>
<u>Experts</u>	<u>S-46</u>
<u>Where You Can Find More Information</u>	<u>S-46</u>
<u>About Us</u>	<u>S-46</u>
<u>Incorporation of Documents by Reference</u>	<u>S-47</u>

PROSPECTUS

	Page
<u>About this Prospectus</u>	<u>1</u>
<u>Where You Can Find More Information</u>	<u>2</u>
<u>About Us</u>	<u>2</u>
<u>Incorporation of Documents by Reference</u>	<u>3</u>
<u>Special Note Regarding Forward-Looking Statements</u>	<u>4</u>
<u>Our Company</u>	<u>5</u>
<u>Risk Factors</u>	<u>5</u>
<u>Use of Proceeds</u>	<u>5</u>
<u>Description of Securities</u>	<u>6</u>

	Page
<u>Description of Share Capital</u>	<u>7</u>
<u>Description of Preferred Shares</u>	<u>16</u>
<u>Description of Warrants</u>	<u>17</u>
<u>Description of American Depositary Shares</u>	<u>18</u>
<u>Plan of Distribution</u>	<u>28</u>
<u>Taxation</u>	<u>29</u>
<u>Enforceability of Civil Liabilities</u>	<u>30</u>
<u>Legal Matters</u>	<u>31</u>
<u>Experts</u>	<u>31</u>

You should rely only on the information contained or incorporated by reference in this prospectus supplement, the accompanying prospectus or in any free writing prospectus filed by us with the SEC. We have not and the underwriter has not authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not and the underwriter is not making an offer of the ADSs in any jurisdiction where the offer is not permitted. You should not assume that the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus or in any free writing prospectus is accurate as of any date other than the respective dates thereof.

Our business, financial condition, results of operations and prospects may have changed since those dates. Neither this prospectus supplement nor the accompanying prospectus constitutes an offer, or an invitation on our behalf or the underwriter to subscribe for and purchase, any of the ADSs and may not be used for or in connection with an offer or solicitation by anyone, in any jurisdiction in which such an offer or solicitation is not authorized or to any person to whom it is unlawful to make such an offer or solicitation.

S-i

TABLE OF CONTENTS

ABOUT THIS PROSPECTUS SUPPLEMENT

This document is in two parts. The first is this prospectus supplement, which describes the specific terms of this offering and also adds to and updates information contained in the accompanying prospectus and the documents incorporated by reference into the accompanying prospectus. The second part, the accompanying prospectus, gives more general information, some of which may not apply to this offering. You should read both this prospectus supplement and the accompanying prospectus before deciding to invest in our ADSs. If the description of the offering varies between this prospectus supplement and the accompanying prospectus, you should rely on the information in this prospectus supplement.

You should not consider any information in this prospectus supplement or the accompanying prospectus to be investment, legal or tax advice. You should consult your own counsel, accountants and other advisers for legal, tax, business, financial and related advice regarding the purchase of ADSs offered by this prospectus supplement. No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this prospectus supplement. You must not rely on any unauthorized information or representations.

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

Before purchasing any securities, you should carefully read this prospectus supplement and the accompanying prospectus together with the additional information described under the headings *Where You Can Find More Information About Us* and *Incorporation of Documents by Reference* in this prospectus supplement.

In this prospectus supplement, unless otherwise indicated or unless the context otherwise requires,

we, us, our company, our and Daqo Cayman refer to Daqo New Energy Corp., its subsidiaries and, until December 30, 2013, its consolidated variable interest entity,

ADSs refers to our American depositary shares, each of which represents 25 ordinary shares. On December 21, 2012, we effected a change of the ADS to ordinary share ratio from one ADS representing five ordinary shares to one ADS representing 25 ordinary shares. The ratio change had the same effect as a 1-for-5 reverse ADS split,

China or PRC refers to the People's Republic of China, excluding, for the purpose of this prospectus supplement only, Taiwan, Hong Kong and Macau,

shares or ordinary shares refers to our ordinary shares, par value \$0.0001 per share, and

RMB or Renminbi refers to the legal currency of China; and \$, dollars or U.S dollars refers to the legal currency of the United States.

S-ii

TABLE OF CONTENTS

FORWARD-LOOKING STATEMENTS

This prospectus supplement and the accompanying prospectus, and the information incorporated by reference herein may contain forward-looking statements that involve risks and uncertainties. All statements other than statements of historical facts are forward-looking statements. These forward-looking statements are made under the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from those expressed or implied by the forward-looking statements. The section of this prospectus supplement entitled Risk Factors among others, discuss factors which could adversely impact our business and financial performance. Moreover, we operate in an evolving environment. New risk factors emerge from time to time and it is not possible for our management to predict all risk factors, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. We qualify all of our forward-looking statements by these cautionary statements.

You can identify these forward-looking statements by words or phrases such as may, will, expect, is expected to, anticipate, aim, estimate, intend, plan, believe, is/are likely to or other similar expressions. We have based our forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs.

These forward-looking statements include, but are not limited to, statements about:

- our business and operating strategies;
- our expansion and capital expenditure plans;
- our operations and business prospects;
- our planned use of proceeds;
- our financial condition and results of operations;
- the industry regulatory environment as well as the industry outlook generally;
- future developments in the polysilicon and wafer manufacturing and photovoltaic and semiconductor industries; and
- government subsidies and economic incentives for solar energy application.

This prospectus supplement and the accompanying prospectus, and the information incorporated by reference herein may also contain estimates, projections and statistical data related to the polysilicon markets and photovoltaic industry in several countries, including China. This market data speaks as of the date it was published and includes projections that are based on a number of assumptions and are not representations of fact. If any one or more of the assumptions underlying the market data proves to be incorrect, actual results may differ from the projections based on these assumptions. You should not place undue reliance on these forward-looking statements.

The forward-looking statements made or incorporated by reference in this prospectus supplement relate only to events or information as of the date on which the statements are made. Except as required by law, we undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, after the date on which the statements are made or to reflect the occurrence of unanticipated events. You should read this prospectus supplement, the accompanying prospectus and the information incorporated by reference in it completely and with the understanding that our actual future results may be materially different from what we expect. You should not place undue reliance on these forward-looking statements.

TABLE OF CONTENTS

PROSPECTUS SUPPLEMENT SUMMARY

The following summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information and financial statements and notes thereto appearing elsewhere in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference. In addition to this summary, we urge you to read the entire prospectus supplement, the accompanying prospectus and the documents incorporated by reference carefully, especially the risks of investing in our ADSs discussed under Risk Factors, before deciding whether to purchase our ADSs.

Our Company

We are a high quality and low cost polysilicon manufacturer based in China. We utilize the chemical vapor deposition process, or the modified Siemens process, to produce polysilicon, and have fully implemented a closed loop system to produce high-quality polysilicon cost-effectively. We manufacture and sell high-quality polysilicon to photovoltaic product manufacturers, who further process our polysilicon into ingots, wafers, cells and modules for solar power solutions.

Our Strengths

We believe that the following strengths enable us to compete effectively and further increase our revenues and profitability:

- One of the lowest polysilicon production costs globally with a clearly defined plan to further reduce costs;
- Low capital expenditure expansion project underway at our western China facilities, which is expected to approximately double our current production capacity by the end of 2014;
- Strategically located production facility in western China with low electricity prices and proximity to customers;
- Superior high quality product; and
- Experienced management team with proven track record.

Our Strategies

Our goal is to become a leading global supplier of polysilicon for the photovoltaic industry. We intend to achieve this goal by pursuing the following strategies:

- Continue reducing our production costs;
- Continue expanding our polysilicon production capacity; and
- Continue growing our customer network and relationships.

Our Risks and Challenges

The successful execution of our strategies is subject to certain risks and uncertainties, including:

- Our future growth and profitability depend on the demand for photovoltaic products and the development of photovoltaic technologies;
- Global supply for polysilicon has exceeded and may continue to exceed demand, which could cause polysilicon prices to continue to decline;
- Our revenues and results of operations have historically fluctuated and may fluctuate in the future;

Alternative technologies in cell manufacturing may replace the need to use polysilicon;
Our future success depends partly on our ability to significantly expand our polysilicon production capacity and continue reducing production costs;

The potential reduction in, or elimination of, government subsidies and economic incentives for solar energy applications could cause demand for our products and our revenues to decline;

S-1

TABLE OF CONTENTS

We operate in an increasingly competitive market and we may not be able to compete successfully with competitors who have greater resources than us;

We depend on a limited number of customers and sales contracts for a significant portion of our revenues; and

We may not be able to manage our growth effectively.

See Risk Factors and Forward-Looking Statements, as well as Item 3.D. Risk Factors in our annual report on Form 20-F for the fiscal year ended December 31, 2013, for a discussion of these and other risks and uncertainties associated with our business and investing in our ADSs.

Recent Developments

In the three months ended March 31, 2014, we produced 1,517 MT of polysilicon, an increase from 1,445 MT in the three months ended December 31, 2013. Polysilicon production reached nameplate capacity of 6,150 MT during the first quarter of 2014. We shipped 1,391 MT of polysilicon and 16.8 million pieces of wafer in the three months ended March 31, 2014, compared with 1,271 MT of polysilicon and 16.7 million pieces of wafer in the three months ended

December 31, 2013. Our average selling price for polysilicon for the three months ended March 31, 2014 was \$21.63/kg, which increased 15.9% compared to our average selling price of \$18.67/kg for the three months ended December 31, 2013.

Total production cost, including depreciation, was \$14.5/kg for the three months ended March 31, 2014, compared to production cost, including depreciation, of \$15.8/kg for the three months ended December 31, 2013. Cash cost was \$11.8/kg for the three months ended March 31, 2014, compared to cash cost of \$12.0/kg for the three months ended December 31, 2013.

The following table sets forth certain unaudited consolidated statement of operations and comprehensive income/(loss) data for the three months ended March 31, 2013, December 31, 2013 and March 31, 2014. We have prepared this unaudited consolidated financial information on the same basis as our audited consolidated financial statements. These unaudited consolidated statement of operations and comprehensive income/(loss) data reflect all adjustments, consisting only of normal and recurring adjustments, which we consider necessary for a fair statement of our results of operations for the periods presented. Our financial results for the three months ended March 31, 2014 may not be indicative of our full year results for 2014 or future quarterly periods. Please refer to Item 5. Operating and Financial Review and Prospects in our annual report on Form 20-F for the fiscal year ended December 31, 2013 and Risk Factors for information regarding trends and other factors that may affect our results of operations.

	Three Months Ended		
	Mar. 31, 2014	Dec 31, 2013	Mar. 31, 2013
	(\$ in thousands)		
Revenues	\$ 42,087	\$ 37,039	\$ 14,485
Cost of revenues	(33,064)	(36,081)	(27,376)
Gross profit/(loss)	9,023	958	(12,891)
Operating expenses			
Selling, general and administrative expenses	(1,498)	(4,016)	(4,126)
Research and development expenses	(937)	(1,148)	(436)
Other operating income	36	134	832
Total operating expenses	(2,399)	(5,030)	(3,730)
Income/(loss) from operations	6,624	(4,072)	(16,621)

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Interest expense	(4,112)	(4,199)	(5,278)
Interest income	120	49	25
Foreign exchange gain (loss)	(2)	2	1
Income/(loss) before income taxes	2,630	(8,220)	(21,873)
Income tax expense		(60)	
Net income/(loss)	2,630	(8,280)	(21,873)

S-2

TABLE OF CONTENTS

	Three Months Ended		
	Mar. 31, 2014	Dec 31, 2013	Mar. 31, 2013
	(\$ in thousands)		
Net loss attributable to noncontrolling interest		(266)	(3,209)
Net income/(loss) attributable to Daqo New Energy Corp. shareholders	\$2,630	\$(8,014)	\$(18,664)
Net income/(loss)	2,630	(8,280)	(21,873)
Other comprehensive income/(loss):			
Foreign currency translation adjustments	(3,428)	1,010	1,198
Total other comprehensive income/(loss)	(3,428)	1,010	1,198
Comprehensive loss	(798)	(7,270)	(20,675)
Comprehensive loss attributable to noncontrolling interest		(477)	(2,691)
Comprehensive loss attributable to Daqo New Energy Corp. shareholders	\$(798)	\$(6,793)	\$(17,984)
Income/(loss) per ADS			
Basic	0.38	(1.16)	(2.70)
Diluted	0.37	(1.16)	(2.70)
Weighted average ADS outstanding			
Basic	6,937,114	6,937,060	6,915,097
Diluted	7,060,443	6,937,060	6,915,097

Revenues

Revenues were \$42.1 million in the three months ended March 31, 2014, increased from \$37.0 million in the three months ended December 31, 2013 and \$14.5 million in the three months ended March 31, 2013. We generated \$30.1 million of revenues from sales of polysilicon in the three months ended March 31, 2014, increased from \$24.2 million in the three months ended December 31, 2013, and \$11.3 million in the three months ended March 31, 2013. The increase in revenues generated from the sale of polysilicon between the three months ended December 31, 2013 and March 31, 2014 was primarily due to higher sales volumes and higher average selling prices. We generated \$12.0 million of revenues from sales of wafers, as compared to \$12.8 million in the three months ended December 31, 2013 and \$3.2 million in the three months ended March 31, 2013.

Gross profit and margin

Gross profit was \$9.0 million in the three months ended March 31, 2014, as compared to a gross profit of \$1.0 million in the three months ended December 31, 2013 and a gross loss of \$12.9 million in the three months ended March 31, 2013.

Gross margin was 21.4% in the three months ended March 31, 2014, substantially increased from 2.6% in the three months ended December 31, 2013 and negative 89.0% in the three months ended March 31, 2013. The improvement in gross margin was mainly attributable to higher average selling prices and lower production costs for both polysilicon and wafer.

In the three months ended March 31, 2014, we revised our estimate of the expected useful lives of our machinery and equipment from 10 years to 15 years, and our buildings and structures from 20 years to 30 years, to better reflect the economic lives of these assets. The change in estimate was in part based on an analysis provided by a third party

valuation firm to assess the useful lives of these fixed assets. We believe the revised estimate of the useful lives is consistent with industry averages. The change in useful lives reduced depreciation expense that would otherwise have been recorded in the three months ended March 31, 2014 by approximately \$4.7 million, and we expect a similar impact prospectively. The approximate effect on production cost from the change in estimate of the useful lives of certain long-lived assets in the three months ended March 31, 2014 was approximately \$1/kg.

S-3

TABLE OF CONTENTS

In the three months ended March 31, 2014, total costs related to our non-operational Chongqing polysilicon plant, including depreciation, were \$3.7 million, decreased from \$5.9 million in the three months ended December 31, 2013 and \$9.7 million in the three months ended March 31, 2013. Excluding such costs, the non-GAAP gross margin was 30.2% in the three months ended March 31, 2014, as compared to 18.5% in the three months ended December 31, 2013 and negative 22.3% in the three months ended March 31, 2013. For a definition and a reconciliation of non-GAAP gross margin to gross margin, see Non-GAAP Financial Measures below.

Selling, general and administrative expenses

Selling, general and administrative expenses were \$1.5 million in the three months ended March 31, 2014, as compared to \$4.0 million in the three months ended December 31, 2013 and \$4.1 million in the three months ended March 31, 2013. The decrease in selling, general and administrative expenses between the three months ended December 31, 2013 and the three months ended March 31, 2014 was primarily due to a reversal of doubtful accounts of \$1.8 million in the three months ended March 31, 2014.

Research and development expenses

Research and development expenses were \$0.9 million in the three months ended March 31, 2014, as compared to \$1.1 million in the three months ended December 31, 2013 and \$0.4 million in the three months ended March 31, 2013.

Other operating income

Other operating income was \$36 thousand in the three months ended March 31, 2014, as compared to \$134 thousand in the three months ended December 31, 2013 and \$832 thousand in the three months ended March 31, 2013. Other operating income was mainly comprised of unrestricted cash incentives that we received from local government authorities, which fluctuates from period to period.

Operating income/(loss) and margin

As a result of the foregoing, operating income was \$6.6 million in the three months ended March 31, 2014, as compared to operating loss of \$4.1 million in the three months ended December 31, 2013 and operating loss of \$16.6 million in the three months ended March 31, 2013. We achieved quarterly positive operating income in the three months ended March 31, 2014 for the first time since the three months ended September 30, 2011. Operating margin was 15.7% in the three months ended March 31, 2014, compared to negative 11.0% in the three months ended December 31, 2013 and negative 114.7% in the three months ended March 31, 2013.

EBITDA

EBITDA was \$13.7 million in the three months ended March 31, 2014, as compared to \$8.1 million in the three months ended December 31, 2013 and negative \$2.4 million in the three months ended March 31, 2013. EBITDA margin was 32.5% in the three months ended March 31, 2014, as compared to 21.9% in the three months ended December 31, 2013 and negative 16.6% in the three months ended March 31, 2013. For a definition and a reconciliation of EBITDA and EBITDA margin to our income from operations, see Non-GAAP Financial Measures below.

Net income/(loss) attributable to our shareholders and Income/(loss) per ADS

As a result of the aforementioned, net income attributable to our shareholders was \$2.6 million in the three months ended March 31, 2014, as compared to net loss attributable to our shareholders of \$8.0 million in the three months ended December 31, 2013 and \$18.7 million in the three months ended March 31, 2013. We achieved quarterly positive net income in the three months ended March 31, 2014 for the first time since the three months ended September 30, 2011.

Income per ADS was \$0.38 in the three months ended March 31, 2014, as compared to loss per ADS of \$1.16 in the three months ended December 31, 2013 and \$2.70 in the three months ended March 31, 2013.

S-4

TABLE OF CONTENTS**Financial Condition**

The following table sets forth certain unaudited balance sheet data as of the dates indicated.

	As of		
	Mar 31,	Dec 31,	Mar 31,
	2014	2013	2013
	(\$ in thousands)		
ASSETS:			
Current Assets:			
Cash and cash equivalents	\$8,702	\$7,831	\$5,539
Restricted cash	15,468	8,826	6,147
Accounts receivable, net	5,114	9,910	19,305
Note Receivable	34,042	15,930	13,907
Prepaid expenses and other current assets	18,534	23,871	24,265
Advances to suppliers	4,320	861	1,820
Inventories	12,371	10,500	19,305
Amount due from related party	11,323	13,416	6,944
Deferred tax assets-current			360
Total current assets	109,874	91,145	97,592
Property, plant and equipment, net	475,850	488,504	673,499
Prepaid land use right	29,428	30,377	36,105
Deferred tax assets			1,061
Other non-current assets	169	174	4,633
TOTAL ASSETS	615,321	610,200	812,890
Current liabilities:			
Short-term borrowings, including current portion of long-term borrowings	135,290	118,871	122,834
Accounts payable	17,396	17,695	13,544
Note payable	25,843	1,573	10,671
Advances from customers	10,842	13,218	29,439
Payables for purchases of property, plant and equipment	45,708	51,767	
Accrued expenses and other current liabilities	6,217	7,462	6,560
Amount due to related party	78,164	88,538	54,160
Income tax payable			161
Total current liabilities	319,460	299,124	286,106
Long-term borrowings	124,912	134,870	178,652
Advance from customers long term portion	6,877	11,924	
Payables for Purchases of Property, Plant and Equipment			1,131
Other long Term Liabilities	26,915	26,955	26,453
TOTAL LIABILITIES	478,164	472,873	492,342
EQUITY:			
Ordinary shares	17	17	17
Treasury stock	(398)	(398)	(495)
Additional paid-in capital	147,304	146,676	145,101
Retained earnings (accumulated losses)	(30,037)	(32,667)	19,612

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Accumulated other comprehensive income	20,271	23,699	20,232
Total Daqo New Energy Corp. s shareholders equity	137,157	137,327	184,467
Noncontrolling interest			136,081
Total equity	137,157	137,327,	320,548
TOTAL LIABILITIES & EQUITY	615,321	610,200	812,890

S-5

TABLE OF CONTENTS

As of March 31, 2014, we had \$24.2 million in cash and cash equivalents and restricted cash, compared to \$16.7 million as of December 31, 2013 and \$11.7 million as of March 31, 2013. As of March 31, 2014, our accounts receivable balance was \$5.1 million, compared to \$9.9 million as of December 31, 2013. As of March 31, 2014, our notes receivable balance was \$34.0 million, compared to \$15.9 million as of December 31, 2013. As of March 31, 2014, total borrowings were \$260.2 million, of which \$124.9 million were long-term borrowings, as compared to total borrowings of \$253.7 million, including \$134.9 million long-term borrowings, as of December 31, 2013.

S-6

TABLE OF CONTENTS**Cash Flows**

The following table sets forth certain unaudited cash flow statements data for the periods indicated.

	Three months ended	
	March 31,	
	2014	2013
Operating Activities:		
Net income/(loss)	2,630	(21,873)
Adjustments to reconcile net loss to net cash used in operating activities:		
Share-based compensation	628	345
Inventory write-down		(170)
Allowance/(reversal) for doubtful accounts	(1,837)	870
Depreciation of property, plant and equipment	7,060	14,219
Changes in operating assets and liabilities:		
Accounts receivables	6,633	7,730
Notes receivables	(18,112)	(9,231)
Prepaid expenses and other current assets	5,336	(239)
Advances to suppliers	(3,460)	(1,076)
Inventories	(1,871)	(3,930)
Amount due from related parties	2,093	(356)
Amount due to related parties	(97)	
Prepaid land use rights	949	190
Other non-current assets	5	71
Accounts payable	(299)	1,146
Notes payable	24,268	(10,713)
Accrued expenses and other current liabilities	(1,245)	(1,083)
Advances from customers	(7,423)	(69)
Deferred government subsidies	(39)	(120)
Net cash provided by (used in) operating activities	15,219	(24,289)
Investing activities:		
Purchases of property, plant and equipment	(4,398)	(4,165)
(Increase)/decrease in restricted cash	(6,642)	4,531
Net cash (used in) provided by investing activities	(11,040)	366
Financing activities:		
Proceeds from related parties loans	46,438	30,274
Repayment of related parties loans	(56,714)	
Proceeds from other bank borrowings	6,462	
Proceeds from short-term bank borrowings	11,475	19,009
Repayment of bank borrowings	(11,475)	(26,478)
Net cash (used in) provided by financing activities	(3,814)	22,805
Effect of exchange rate changes	506	(22)
Net increase (decrease) in cash and cash equivalents	871	(1,140)
Cash and cash equivalents at the beginning of the period	7,831	6,679
Cash and cash equivalents at the end of the period	8,702	5,539

S-7

TABLE OF CONTENTS

In the three months ended March 31, 2014, net cash provided by operating activities was \$15.2 million, as compared to net cash used in operating activities of \$24.3 million in the three months ended March 31, 2013. From a quarterly perspective, we generated positive operating cash flow of \$15.2 million, \$0.3 million and \$8.8 million in the three months ended March 31, 2014, December 31, 2013 and September 30, 2013, respectively. The improvement in operating cash flow was primarily due to the recovery of sales prices associated with improvements in the overall solar market and our continuous cost reduction efforts at our Xinjiang facilities.

In the three months ended March 31, 2014, net cash used in investing activities was \$11.0 million, as compared to net cash provided by investing activities of \$0.4 million in the three months ended March 31, 2013.

In the three months ended March 31, 2014, net cash used in financing activities was \$3.8 million. Net cash provided by financing activities in the three months ended March 31, 2013 was \$22.8 million.

Non-GAAP Financial Measures

The following table sets forth, for the periods specified, our non-GAAP gross profit and non-GAAP gross margin, which exclude costs related to the non-operational polysilicon operations in Chongqing, China, EBITDA, which represents earnings before interest, taxes, depreciation and amortization and EBITDA margin, which represents the proportion of EBITDA in revenue. We present these non-GAAP financial measures because they are used by our management to evaluate our operating performance, formulate business plans, and make strategic decisions on capital allocation. These non-GAAP financial measures enable our management to assess our operating results without considering the impact of non-cash charges, including depreciation expenses and interest expenses or the costs related to our non-operational polysilicon operations in Chongqing, China. We also believe they are indicative of our operating performance and are used by investors and analysts to evaluate companies in our industry.

These non-GAAP measures of our performance are not required by, or presented in accordance with, U.S. GAAP. Such measures are not a measurement of financial performance or liquidity under U.S. GAAP and should not be considered as an alternative to gross profit, gross margin, net income (loss), net margin or any other performance measures derived in accordance with U.S. GAAP or an alternative to cash flows from operating activities as a measure of liquidity. Our presentation of such measures may not be comparable to similarly titled measures presented by other companies. You should not compare such measures as presented by us with the presentation of such measures by other companies because not all companies use the same definition.

The use of the above non-GAAP financial measures has material limitations as an analytical tool, as they do not include all items that impact our gross profit, gross margin, net income (loss) and net margin for the period. We compensate for these limitations by reconciling these non-GAAP financial measures to the nearest U.S. GAAP performance measure, which should be considered when evaluating our performance. We urge you to review our financial information in its entirety and not rely on a single financial measure.

The following tables reconcile our non-GAAP gross profit, gross margin, EBITDA and EBITDA margin in the periods presented to the most directly comparable financial measure calculated and presented in accordance with U.S. GAAP:

Three months Ended		
March	December	March 31,
31, 2014	31, 2013	2013

	(\$ in thousands)		
Gross profit/(loss)	9,023	958	(12,891)
Costs related to the Chongqing polysilicon operations	3,683	5,931	9,660
Non-GAAP gross profit/(loss)	12,706	6,889	(3,231)

S-8

TABLE OF CONTENTS

	Three months Ended		
	March 31, 2014	December 31, 2013	March 31, 2013
	(\$ in thousands)		
Gross margin	21.4%	2.6 %	(89.0)%
Costs related to the Chongqing polysilicon operations (proportion of revenue)	8.8 %	15.9 %	66.7 %
Non-GAAP gross margin	30.2%	18.5 %	(22.3)%

	Three months Ended		
	March 31, 2014	December 31, 2013	March 31, 2013
	(\$ in thousands)		
Net income/(loss)	2,630	(8,280)	(21,873)
Income tax expense		60	
Interest expense	4,112	4,199	5,278
Interest income	(120)	(49)	(25)
Depreciation	7,060	12,166	14,219
EBITDA (non-GAAP)	13,682	8,096	(2,401)
EBIDTA margin (non-GAAP)	32.5 %	21.9 %	(16.6)%

Corporate Information

Our company was incorporated in the Cayman Islands as Mega Stand International Limited in November 2007. We changed our corporate name to Daqo New Energy Corp., or Daqo Cayman, in August 2009. Our American depositary shares, one of which represents 25 ordinary shares, par value US\$0.0001 per share, currently trade on the NYSE under the ticker symbol DQ.

Our principal executive offices are located at 666 Longdu Avenue, Wanzhou, Chongqing 404000, The People's Republic of China, and our telephone number at that location is (86-23) 6486-6666. Our registered office in the Cayman Islands is located at International Corporation Services Ltd., P.O. Box 472, 2nd Floor Harbor Place, Grand Cayman KY1-1106, Cayman Islands. Our agent for service of process in the United States is Law Debenture Corporate Services Inc.

Our website is www.dqsolar.com. Information contained on our website does not constitute a part of this prospectus supplement or the accompanying prospectus.

TABLE OF CONTENTS

THE OFFERING

Price per ADS

\$

ADSs offered by us

2,000,000 ADSs

ADSs outstanding immediately after this offering

4,850,670 ADSs (or 5,150,670 ADSs if the underwriter exercises its over-allotment option in full)

Ordinary shares outstanding immediately after this offering⁽¹⁾

223,427,853 ordinary shares

Over-allotment option

We have granted to the underwriter an option, which is exercisable within 30 days from the date of this prospectus supplement, to purchase up to 300,000 additional ADSs at the public offering price less the underwriting discount.

Use of proceeds

We estimate that we will receive net proceeds from this offering of approximately \$69.3 million, or approximately \$79.8 million if the underwriter exercises its option to purchase additional ADSs in full, after deducting underwriting discounts and the estimated offering expenses payable by us. We currently plan to use the net proceeds of this offering for the expansion of our Xinjiang polysilicon facility, upgrade of process technology at the Xinjiang polysilicon facility and general corporate purposes. See Use of Proceeds.

Risk factors

You should carefully consider the information set forth in the Risk Factors section of this prospectus supplement and accompanying prospectus as well as the other information included in or incorporated by reference in this prospectus supplement and the accompanying prospectus before deciding whether to invest in our ADSs.

Lock-up

We have agreed, subject to certain exceptions, for a period of 90 days after the date of this prospectus supplement not to sell, transfer or otherwise dispose of any of our ordinary shares, ADSs or similar securities. Furthermore, each of our directors and executive officers, and certain of our shareholders have agreed, subject to certain exceptions, to a similar 90-day lock-up. See Underwriting for more information.

NYSE symbol

Our ADSs are listed on the NYSE under the symbol DQ.

⁽¹⁾ Reflects 173,427,853 ordinary shares issued and outstanding as of the date of this prospectus and excludes the following as of the date of this prospectus:

shares issuable upon exercise of the underwriter's option to purchase additional ADSs in this offering; and 12,645,416 ordinary shares issuable upon exercise of outstanding options with a weighted average exercise price of \$0.86 per ordinary share, and 1,172,497 shares reserved for future issuance under our 2009 share incentive plan.

S-10

TABLE OF CONTENTS

RISK FACTORS

Investing in our ADSs involves a high degree of risk. Before you decide to buy our securities, you should carefully consider the risks described below together with the risks described in our annual report on Form 20-F for the fiscal year ended December 31, 2013 and the other information contained in this prospectus supplement and the accompanying prospectus, including the documents incorporated by reference. If any of these risks actually occurs, our business, financial condition and results of operations could suffer, and you may lose all or part of your investment.

Please see [Where You Can Find More Information About Us](#) and [Incorporation of Documents by Reference](#) for information on where you can find the documents we have filed with or furnished to the SEC and which are incorporated into this prospectus supplement by reference.

Risks Related to Our Business

Our ability to return to growth and profitability depend on the demand for photovoltaic products and the development of photovoltaic technologies, among other things.

The solar industry is at a relatively early stage of development, and the extent of acceptance of photovoltaic products is uncertain. The photovoltaic industry does not have data as far back as the semiconductor industry or other more established industries, for which trends can be assessed more reliably from data gathered over a longer period of time. Demand for photovoltaic products may not develop or may develop to a lesser extent than we anticipate. Many factors may affect the viability of widespread adoption of photovoltaic technology and demand for photovoltaic products, including:

- decreases in government subsidies and incentives to support the development of the photovoltaic industry;
- the international trade conflicts and the consequential imposed tariffs for solar photovoltaic, or PV, products;
- relative cost-effectiveness, performance and reliability of photovoltaic products compared to conventional and other renewable energy sources and products;

- success of other alternative energy sources, such as wind power, hydroelectric power and biofuel;
- fluctuations in economic and market conditions that affect the viability of conventional and other renewable energy sources, such as increases or decreases in the prices of oil and other fossil fuels;
- the ability of photovoltaic product manufacturers to finance their business operations, expansions and other capital expenditures;
- capital expenditures by end users of photovoltaic products, which tend to decrease when the economy slows down;
- and

- deregulation or other regulatory actions affecting the electric power industry and the broader energy industry.

In the event that demand for solar products does not expand as we expect or photovoltaic technologies do not develop in a manner that increases the demand for polysilicon, average selling prices may cease their current upward trend and begin moving downward, and our future growth and profitability will be materially and adversely affected.

After a few years of polysilicon oversupply, a number of polysilicon manufacturers with non-competitive cost structures went out of business, reducing the severity of the oversupply. But, with prices increasing, some

polysilicon manufacturers may reenter the market, which could cause polysilicon prices to decline and materially and adversely affect our profitability.

Our polysilicon sales prices are affected by a variety of factors, including global supply and demand conditions. Over the years, many polysilicon manufacturers have significantly increased their capacity to meet customer demand and continue to expand capacities in order to achieve economies of scale. However, the slow and uneven economic recovery from the global financial crisis as well as the significant decrease in

S-11

TABLE OF CONTENTS

global petroleum prices since their peak in mid-2008 have reduced or delayed the general demand for photovoltaic products. In late 2008 and 2009, newly available polysilicon supply and slowed global photovoltaic market growth resulted in an excess supply of polysilicon, which led to a significant decline in polysilicon prices. Although global photovoltaic demand recovered substantially from the second half of 2010 through the first half of 2011, the market price for polysilicon experienced another significant decline in the second half of 2011 due to excess supply and decreasing demand. In 2012, the market price for polysilicon continued to decline. As a result of the polysilicon supply and demand fluctuation, we reduced the selling price of our polysilicon and thus experienced a continued decrease in revenues derived from polysilicon in 2012. In 2013, global demand for polysilicon began to increase, and polysilicon manufacturers with competitive cost structures benefited from a continuing increase in sales prices and global demand. If sales price continue to go up, some polysilicon manufacturers with less competitive cost structures may be able to reenter the market, which could cause polysilicon prices to decline and thus materially and adversely affect our profitability.

We may not be able to continue to receive the same level of support from Daqo Group, which may have a material adverse effect on our business and results of operations.

Since our inception, we have substantially benefited and expect in the future to continue to benefit from financial support from Daqo Group, one of the largest electrical equipment manufacturers in China. As of March 31, 2014, we had amounts due to Daqo Group and its subsidiaries in the form of interest-free loans of \$78.2 million which are payable on demand. Please see We need a significant amount of cash to fund our future capital expenditure requirements and working capital needs; if we cannot obtain additional sources of liquidity when needed, our growth prospects and future profitability may be materially and adversely affected below. In addition, Daqo Group has granted us a permanent and royalty-free license to use the Daqo brand, which is a well-recognized brand in the electrical industry in China. We have benefited from the strong brand recognition of Daqo in our business development efforts, as evidenced by our ability to secure major customers based in China within a short period after we commenced commercial production of polysilicon. Daqo Group has agreed in writing not to engage in the business of manufacturing, marketing or distributing polysilicon or any other solar power products anywhere in the world or compete in any manner with our businesses without our consent for an indefinite term. Daqo Group provides financial support to us to meet certain of our working capital requirements and obligations as they come due. However, we cannot assure you that we will continue to receive the same level of support, or any support at all, from Daqo Group in the future. If Daqo Group ceases to support us, our business, results of operations and prospects may be materially and adversely affected. In addition, any negative publicity associated with Daqo Group will likely have an adverse impact on our reputation, which could materially and adversely affect our business. In the event of any disagreements with Daqo Group, we may have to resort to legal proceedings in China to enforce our rights, which could be costly, time consuming and involve uncertain outcomes.

We experienced a significant decrease in our revenues in 2012 and incurred substantial net losses in 2012 and 2013.

As a result of the slump in the global demand for and sales price of polysilicon, we experienced a significant decrease in our revenues for our continuing operations and suffered large net losses in 2012. Despite improvements in our revenue in 2013 compared to 2012, in 2013 we still incurred a net loss of \$221.1 million including \$158.4 million of fixed-asset impairment loss, compared to \$115.6 million including \$42.8 million of fixed-asset impairment loss in 2012. While global demand for and the sales price of polysilicon have been recovering since the first quarter of 2013 from their historical lows in 2012, we cannot predict when we will be able to regain a positive net income. If we

cannot obtain positive revenue growth and regain profitability in the near future, our status as a going concern will be jeopardized.

S-12

We experienced a significant decrease in our revenues in 2012 and incurred substantial net losses in 2012 and 2013.

TABLE OF CONTENTS

We had a significant working capital deficit as of March 31, 2014. Daqo Group provides financial support to us to meet certain of our working capital requirements and obligations as they come due. If we are not able to generate adequate operating cash flow or obtain adequate financial support from Daqo Group or from other sources, we will face the risk of not being able to continue as a going concern.

The challenging solar photovoltaic market situation in the past two years characterized by declining prices across the whole value chain has caused our polysilicon and wafer businesses to experience significant financial losses. Even though the industry started to recover slowly during 2013 and into 2014, we are unable to predict if the current upward trend will continue. As of March 31, 2014, we had a working capital deficit (being our total consolidated current liabilities less our total consolidated current assets) of \$209.6 million. In addition, we have made significant capital expenditures on our expansion project at our Xinjiang polysilicon facilities.

Our continuation as a going concern is dependent upon financial support from Daqo Group Co., Ltd., or Daqo Group, a related party of ours, and our ability to continue to obtain other sources of financing. Daqo Group provides financial support to us to meet certain of our working capital requirements and obligations as they come due. As of March 31, 2014, we had amounts due to Daqo Group and its subsidiaries in the form of interest-free loans of \$78.2 million which are payable on demand. On March 30, 2014, we obtained an irrevocable, legally enforceable letter of financial support from Daqo Group in which they have committed to provide us sufficient financial support to ensure that we have the funds required to satisfy our obligations as they come due in the normal course during the year ending December 31, 2014. Further, although amounts advanced to us by Daqo Group and two of its subsidiaries, Daqo Solar and Xinjiang Daqo Investment, are repayable on demand, the letter of financial support provides that Daqo Group and its subsidiaries Daqo Solar and Xinjiang Daqo Investment will not require the Company to pay the amounts that we owe them as of December 31, 2013, before January 1, 2015. However, we can provide no assurances that Daqo Group and its subsidiaries will honor their undertakings under the letter of financial support. In addition, we had committed and available bank standby credit facilities of \$39.0 million as of March 31, 2014. If the Daqo Group or its subsidiaries were to be unable to honor their undertaking under the letter of financial support or if the industry reverses its current upward trend in prices we will face significant pressure on our working capital and we will face the risk of not being able to continue as a going concern.

Our consolidated financial statements do not reflect any adjustments relating to recoverability and classification of recorded assets or the amounts and classification of liabilities or any other adjustments that might be necessary should we be unable to continue as a going concern. Our inability to continue as a going concern would materially and adversely affect our financial condition, results of operations and business prospects.

The reduction in or elimination of government subsidies and economic incentives for solar energy applications could cause demand for our products and our revenues to decline.

When upfront system costs are factored into cost per kilowatt hour, the current cost of solar power substantially exceeds the cost of traditional forms of energy in many locations. As a result, national and local governmental authorities in many countries, including China, have provided subsidies and economic incentives in the form of feed-in tariffs, rebates, tax credits and other incentives to distributors, system integrators and manufacturers of photovoltaic products to promote the use of solar energy and to reduce dependency on other forms of energy. We

We had a significant working capital deficit as of March 31, 2014. Daqo Group provides financial support to us to m

believe that the near-term growth of the market for solar energy applications depends in large part on the availability and size of government subsidies and economic incentives. The reduction or elimination of government subsidies and economic incentives may hinder the growth of this market or result in increased price competition for solar energy products, which could cause our revenues to decline. These government subsidies and economic incentives could be reduced or eliminated altogether. For example, in 2010, Spain announced its plan to cut the subsidized electricity prices paid to new photovoltaic solar power plants by up to 45%, which significantly reduced installations of new solar energy projects in the country. In 2010, Germany introduced an approximately 24% to 26% solar feed-in tariffs reduction for rooftop systems and 20% to 25% reduction for ground-based systems. In early 2012, Germany further reduced its feed-in tariffs by 15% to up to 24.43 Euro cents per kilowatt hour for rooftop systems and up to 18.76 Euro cents per kilowatt hour for ground-based systems. On July 5, 2012, Italian officials published a ministerial decree which

S-13

TABLE OF CONTENTS

revised the system of incentives for the production of electricity from PV plants. Pursuant to the ministerial decree, the incentives for new PV plants will cease once the relevant total expenditure reaches EUR6.7 billion. In addition, new feed-in tariffs for existing plants will apply beginning in 2013, and the overall public expenditure for renewable energy should not exceed EUR5.8 billion per year. In 2013, the German government announced plans to reduce the expansion of solar power after Germany added 7,500 megawatts and 7,600 megawatts of capacity in 2011 and 2012, respectively, to bring its total to 32,600 MW, which is nearly as much as the rest of the world combined. The German government wants to see the FIT cut by up to 30 percent in a one-off move, after a series of annual cuts of about 15 percent in recent years. Such actions may result in a significant fall in the demand for photovoltaic products. In addition, government financial support of photovoltaic products has been, and may continue to be, challenged on constitutional grounds and found unlawful in certain countries. The escalation of the European sovereign debt crisis since 2011 and the slowdown of the Chinese economy in 2012 and 2013 may continue to exert downward pressure on the amount of government subsidies for solar energy applications in these two regions. In 2013, although global solar PV installations increased by over 16% compared to 2012, the European markets shrank significantly due to subsidy cuts in major markets like Germany, Italy and Spain. Reductions in, or elimination of, government subsidies and economic incentives for solar energy applications before the photovoltaic industry reaches the economies of scale necessary for solar power to become cost-effective in a non-subsidized market place could result in decreased demand for solar generation products and, as a result, for polysilicon, which could cause our revenues to decline.

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

We have a limited operating history. We commenced polysilicon manufacturing in 2008 and wafer manufacturing in 2011. Several of our senior management and key employees have worked together at our company for only a relatively short period of time, and a number of our senior officers were promoted to their posts in October 2012. Our future success will depend on our ability to expand our manufacturing capacity significantly beyond its current level and further expand our customer base. To address these risks, we must, among other things, continue to respond to competition and volatile market developments, attract, retain and motivate qualified personnel, implement and successfully execute expansion plans and improve our technologies. We cannot assure you that we will be successful in addressing such risks.

Although we were profitable in 2011, we experienced significant decreases in revenue and incurred substantial net losses in 2012 and 2013. Our limited operating history makes the prediction of future results of operations difficult, and therefore, it is unclear if we could regain positive revenue growth or become profitable again in the future. Our business model, technology and ability to achieve satisfactory manufacturing yields for polysilicon at higher volumes are unproven. Compared to companies with a long and well-established operating history and companies operating in less volatile sectors, our results of operations are more susceptible to the impact of adverse operating environment and supply and demand risks.

Our revenues and results of operations have fluctuated and are likely to fluctuate in the future.

Fluctuations of our revenues and results of operations may occur on a quarterly and on an annual basis and may be due to a number of factors, many of which are beyond our control. These factors include, among others, fluctuation in the global average selling prices of photovoltaic products, fluctuation in the volume of our products shipped, changes in end-user demand for the photovoltaic products manufactured and sold by us or our customers, the gain or loss of significant customers, the availability of governmental subsidies or financial support and changes in our electricity, natural gas, raw material or labor costs. For example, although our net loss improved in 2013 relative to 2012, it may

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

worsen again if one or more of these factors become unfavorable to our business. Furthermore, wafers traditionally have had lower profit margins than polysilicon, and we may need to price aggressively to gain market share or remain competitive in this business, which may further reduce our net margins and cause our financial results to fluctuate from time to time.

Therefore, you should consider our future prospects in light of the risks and uncertainties experienced by early stage companies in a rapidly evolving and increasingly competitive market in China.

S-14

TABLE OF CONTENTS

We need a significant amount of cash to fund our future capital expenditure requirements and working capital needs; if we cannot obtain additional sources of liquidity when needed, our growth prospects and future profitability may be materially and adversely affected.

We need a significant amount of cash to fund our operations. In particular, we will need substantial additional funding to finance our expansion project at our Xinjiang polysilicon facilities, which includes relocating existing equipment from Chongqing, to meet our working capital requirements, and to repay any short-term or long-term bank borrowings when due. We will also require cash resources to fund our research and development activities in order to remain competitive on cost and technology. In addition, we will need to contribute registered capital to our Chongqing and Xinjiang facilities in the amount of \$26.4 million and \$61.6 million, respectively.

We have in the past and expect in the future to rely in part on long-term bank borrowings, advance payments from customers and financial support from Daqo Group, including interest free loans payable on demand, to finance our working capital requirements. However, we expect that we may not be able to obtain a substantial amount of, or any, advance payments from customers in the future as the photovoltaic markets remains competitive. Payment collection in the solar photovoltaic industry remains challenging. Any delay or failure in collecting amounts owed from customers will adversely affect our company's cash flow situation. In addition, future acquisitions, expansions, market changes or other developments may cause us to require additional financing. We expect to incur additional debt in the future. Our ability to obtain external financing in the future is subject to a number of uncertainties, including:

our future financial condition, results of operations and cash flows;
general market conditions for financing activities by companies in our industry;
economic, political and other conditions in China and elsewhere; and
development and duration of the current global economic slowdown.

If we are unable to obtain funding in a timely manner or on commercially acceptable terms, or at all, our growth prospects and ability to return to profitability may be materially and adversely affected.

We may not be successful in our efforts to continue to manufacture polysilicon in a cost-effective manner.

The technology used to manufacture polysilicon is complex, requires costly equipment and is continuously being modified in an effort to improve yields and product performance. We may face significant challenges relating to polysilicon production in the future. Microscopic impurities such as dust and other contaminants, difficulties in the manufacturing process, disruptions in the supply of utilities or defects in the key materials or tools used to manufacture polysilicon could interrupt manufacturing, reduce yields or cause a portion of the polysilicon to be rejected by our customers, which would materially and adversely affect our profitability.

Our effective capacity and ability to produce high volumes of polysilicon depend on the cycle time for each batch of polysilicon. We may encounter problems in our manufacturing process or facilities as a result of, among other things, production failures, construction delays, human error, equipment malfunction or process contamination, all of which could seriously harm our operations. We are dependent on the availability of inexpensive electricity to keep our production costs down. We may experience production delays if any modifications we make in the manufacturing process to shorten production cycles are unsuccessful. Moreover, failure to achieve acceptable manufacturing levels may make our polysilicon costs uncompetitive, which could materially and adversely affect our business, financial condition and results of operations.

We need a significant amount of cash to fund our future capital expenditure requirements and working capital needs

Further development in alternative polysilicon production technologies or other changes in the photovoltaic industry could render our production process too costly or obsolete, which could reduce our market share and cause our sales and profits to decline.

Although the vast majority of the polysilicon produced in the world utilizes the chemical vapor deposition process, or the modified Siemens process, several alternative production processes have been developed that may have significantly lower production costs. Compared with other polysilicon production

S-15

TABLE OF CONTENTS

processes, a disadvantage of the modified Siemens process is the large amount of electricity required. For example, MEMC and REC currently operate or are constructing facilities that use the fluidized bed reactor method for producing polysilicon. Tokuyama has developed a polysilicon technology called the vapor-to-liquid deposition process. Other polysilicon manufacturers are establishing facilities using upgraded metallurgical grade silicon process to produce solar-grade polysilicon. Moreover, some polysilicon manufacturers who are using modified Siemens process have adopted newer technologies such as Hydrochlorination, which could enable them to produce polysilicon in a more cost effective way compared to the traditional modified Siemens process.

Further developments in competing polysilicon production technologies may result in lower manufacturing costs or higher product performance than those achieved from the modified Siemens process, including the one we employ. We will need to invest significant financial resources in research and development to expand our market position, keep pace with technological advances in polysilicon production and effectively compete in the future. Failure to further refine our technology could make our production process too costly or obsolete, which could reduce our margins and market share, cause our revenues to decline and materially and adversely affect our results of operations.

Technological changes in the solar power industry could render our products uncompetitive or obsolete, which could reduce our market share and cause our sales and profits to decline.

The solar power industry is characterized by evolving technologies and standards. These technological evolutions and developments place increasing demands on the improvement of our products, such as polysilicon and wafers. Other companies may develop production technologies that enable them to produce silicon wafers of higher quality at a lower cost than our products. Technologies developed or adopted by others may prove more advantageous than ours for commercialization of solar power products and may render our products obsolete. As a result, we may need to invest significant resources in research and development to maintain our market position, keep pace with technological advances in the solar power industry, and effectively compete in the future. Our failure to further refine and enhance our products and processes or to keep pace with evolving technologies and industry standards could cause our products to become uncompetitive or obsolete, which could materially and adversely reduce our market share and affect our results of operations.

Alternative technologies in cell manufacturing may reduce the demand for polysilicon.

The vast majority of silicon-based photovoltaic cell manufacturers use chunk or granular polysilicon. However, alternative technologies have been commercialized. One such technology, thin-film cell production, uses little to no silicon in the production of solar cells. Thin-film solar cells are currently less costly to produce than silicon-based solar cells. Significant expansion of thin-film solar cell production has been announced which may put pressure on the entire value chain of silicon-based solar cell production. This expansion may in turn restrict the market for silicon-based solar cells, which would reduce the demand for our polysilicon. If the demand for polysilicon is adversely affected by increased demand for, and improvements to, alternative technologies, our revenues and results of operations could be materially and adversely affected.

Our future success depends substantially on our ability to significantly expand our polysilicon production capacity and output, and to relocate equipment to our Xinjiang facilities, which exposes us to a number of risks

Technological changes in the solar power industry could render our products uncompetitive or obsolete, which could

and uncertainties.

Our future success depends on our ability to significantly increase both polysilicon production capacity and output, and to relocate equipment to our Xinjiang facilities. If we fail to do so, we may not be able to benefit from economies of scale to reduce our costs per kilogram of polysilicon, to maintain our competitive position or to improve our profitability. Further, our expansion plans are dependent on the successful installation of the equipment we are relocating to our Xinjiang facilities. Our ability to establish additional production capacity and increase output is subject to significant risks and uncertainties, including:

the need to raise significant additional funds to purchase additional production equipment or to build additional manufacturing facilities, which we may not be able to obtain on commercially viable terms or at all;

S-16

TABLE OF CONTENTS

cost overruns and delays as a result of a number of factors, many of which are beyond our control, such as increases in the price of electricity or problems with equipment delivery;

delays or denial of required approvals by relevant government authorities;
failure to obtain production inputs in sufficient quantities or at acceptable cost;
significant diversion of management's attention and other resources; and
failure to execute our expansion plan effectively.

Our future commercial production and expansion project in Xinjiang, China may not be successful.

We finished construction of our Phase 2a polysilicon facilities in Shihezi, Xinjiang Uyghur Autonomous Region in September 2012 and successfully reached our targets in terms of capacity and cost structure by the end of the first quarter of 2013. We are conducting an expansion plan to increase our polysilicon annual capacity from 6,150 MT to 12,150 MT. We also plan to upgrade our off-gas treatment process from traditional Hydrogenation technology to Hydrochlorination technology. Simultaneous with our 2014 annual maintenance, we will prepare our Xinjiang facilities for expansion. Although the Xinjiang location provides many strategic advantages, including lower electricity costs, we face a number of uncertainties in relation with our future commercial production and expansion project in Xinjiang.

There are many risks associated with our future production in Xinjiang, any of which could cause significant disruption to production, including:

failure to successfully adopt and implement Hydrochlorination technology, given our lack of experience with the technology or the provider;

being unable to complete our expansion plan as scheduled;
failure to successfully install equipment relocated from the Phase 1 polysilicon facilities;
being unable to fully ramp-up the newly added capacity or achieve our targets for cost and quality;
extremely cold temperatures;
lack of workers in Xinjiang experienced with polysilicon manufacturing;
difficulties in timely transporting products to our customers, most of whom are located in other areas of China that are a significant distance from Xinjiang; and
political or social unrest.

One or more of these factors could harm our Xinjiang operations and consequently, could adversely affect our overall operating results.

We operate in an increasingly competitive market, and we may not be able to compete successfully with competitors who have greater resources than us.

The photovoltaic market is expected to become increasingly competitive. Our competitors include international polysilicon and wafer manufacturers, such as Hemlock, Wacker, OCI, REC, MEMC, Green Energy Technology and Sino-American Silicon and Chinese domestic polysilicon and wafer manufacturers, such as GCL-Poly, TBEA, China Silicon Corporation, Sichuan Xinguang Silicon Science and Technology, LDK Solar, ReneSola, JinkoSolar and Comtec Solar Systems. In addition, some solar cell and module manufacturers, including some of our existing and potential customers, have established or have announced the intention of establishing polysilicon production or affiliate relationships with manufacturers of polysilicon. We compete with these in-house capabilities, which could limit our ability to expand our sales or even reduce our sales to our existing customers. Many of our competitors have substantially greater financial, technical, manufacturing and other resources than we do. Our competitors' greater size and longer operating history provide them with a competitive advantage with respect to manufacturing costs because

of their economies of scale and their ability to purchase raw materials at lower prices. Our competitors may have stronger relationships or may enter into exclusive relationships with some of our key customers. As a result, they may be able to respond more quickly to changing customer demands or to devote greater resources to the

S-17

TABLE OF CONTENTS

development, promotion and sales of polysilicon than we can. Failure to adapt to changing market conditions and to compete successfully with existing or new competitors may materially and adversely affect our financial condition and results of operations.

We depend on a limited number of customers and sales contracts for a significant portion of our revenues, and the loss of any customer or cancellation of any contract may cause significant fluctuations or declines in our revenues.

In 2011, 2012 and 2013, our top three customers in aggregate accounted for approximately 38.7%, 40.9% and 38.5% of our total revenues, respectively. We anticipate that our dependence on a limited number of customers will continue for the foreseeable future. Consequently, any one of the following events may cause material fluctuations or declines in our revenues:

reduction, delay or cancellation of orders from one or more of our significant customers;
loss of one or more of our significant customers and failure to identify additional or replacement customers; and
failure of any of our significant customers to make timely payment for our products.

If we are unable to manage our growth effectively, our business and financial results may be adversely affected.

We experienced a period of growth and expansion, despite significant setbacks in revenue in 2012 and 2013. We generated revenue of \$232.2 million, \$86.9 million and \$109.0 million in 2011, 2012 and 2013, respectively. To accommodate our growth, we anticipate that we will need to implement a variety of new and upgraded operational and financial systems, procedures and controls, including the improvement of our accounting and other internal management systems, all of which require substantial management efforts. We also will need to continue to expand, train, manage and motivate our workforce and manage our customer relationships. All of these endeavors will require substantial management efforts and skill and require significant additional expenditures. We cannot assure you that we will be able to manage our growth effectively, and any failure to do so may have a material adverse effect on our business and financial results. Moreover, even if we do expand our polysilicon manufacturing capacity and our wafer business as planned, we may be unable to generate sufficient customer demand for our photovoltaic products to support our increased production levels or successfully integrate our polysilicon and wafer manufacturing businesses to achieve operational efficiency, which could adversely affect our business and results of operations.

Polysilicon production is energy-intensive, and if our energy costs rise or if our electricity and other utility supplies are disrupted, our results of operations will be materially and adversely affected.

The polysilicon production process, particularly the modified Siemens process that we use, is highly dependent on a constant supply of electricity and other utilities, such as steam, natural gas and water, to maintain the optimal conditions for polysilicon production. If electricity or other utility supplies are not maintained at the desired level, we may experience significant delays in the production of polysilicon. In the past, there were shortages in electricity supply in various regions across China, especially during peak seasons, such as in the summer. In addition, the uncommonly cold weather in China in the winter of 2010 resulted in a surge in natural gas demand, which in turn caused severe gas shortages in many regions, including Chongqing, where one of our polysilicon manufacturing sites is located. The local governmental authorities in the worst-hit areas took measures to reduce or restrict the amount of

natural gas supplied to non-residential users. We primarily use natural gas for our in-house steam production and steam is critical for our manufacturing process. Although the natural gas shortage did not directly affect our operations, if shortages becomes more severe in the future, our natural gas supply may be reduced or suspended, which would significantly disrupt our manufacturing process. In addition to shortages, we are subject to potential risks of interruptions in energy supply due to power outages, equipment failure, weather conditions or other causes which could force us to cease production for a prolonged period of time. In the event that electricity or other utility supplies to our manufacturing facilities are disrupted, our business, results of operations and financial condition could be materially and adversely affected. Even if we have access to sufficient sources of electricity and other utilities, any significant increase in the costs of utilities could adversely affect our

S-18

TABLE OF CONTENTS

profitability, as we consume substantial amounts of electricity and other utilities in our manufacturing process. If electricity and other utility costs were to rise, our results of operations could be materially and adversely affected.

Our current indebtedness could adversely affect our business, financial condition and results of operations.

As of March 31, 2014, we had outstanding borrowings of \$260.2 million with a weighted average floating interest rate of 6.89%, and we expect to incur additional debt in the future. We borrowed the majority of these bank loans from Bank of China and China Construction Bank with guarantees from Daqo Group, a related party of ours. We cannot assure you that we will be able to renew these borrowings when they become due or to obtain other loans or credits from other banks or other lenders on terms satisfactory to us or at all to satisfy the substantial capital expenditure requirements associated with our capacity expansion, whether on our own or with the continuing support from Daqo Group. In addition, the indebtedness could have an adverse effect on our future operations, including, among other things: (1) reducing the availability of our cash flow to fund our working capital, capital expenditures or other general corporate purposes as a result of interest or principal payments; (2) subjecting us to the risk of interest rate increases on our indebtedness which bears floating interest rates; and (3) placing us at a competitive disadvantage compared to our competitors that have less debt or are otherwise less leveraged. Any of these factors could have a material and adverse effect on our business, financial condition and results of operations.

We face risks and uncertainties expanding our business through alliances, joint ventures or acquisitions.

We may in the future, if presented with appropriate opportunities, acquire or invest in technologies, businesses or assets that are strategically important to our business or form alliances with key players in the photovoltaic industry to further expand our business. Such acquisitions and investments could expose us to potential risks, including risks associated with the assimilation of new operations, technologies and personnel, unforeseen or hidden liabilities, the inability to generate sufficient revenues to offset the costs and expenses of acquisitions, and potential loss of, or harm to, our relationships with employees, customers and suppliers as a result of integration of new businesses. Investments in new businesses may also divert our cash flow from servicing our debts and making necessary capital expenditures. In addition, we may incur impairment losses on our acquisitions and investments in equity securities. The diversion of our management's attention and any difficulties encountered with respect to the acquisitions, investments or alliances or in the process of integration could have an adverse effect on our ability to manage our business. For example, in 2011, we formed alliances with JNE Solar Inc., a party unrelated to us prior to this transaction, in Hamilton, Ontario, through our wholly owned subsidiary, Daqo New Energy Holdings (Canada) Ltd., to build and operate a solar module production facility in Hamilton, Ontario, Canada. Due to negative developments in the solar photovoltaic market, we discontinued this project and terminated the joint venture in April 2012 without incurring any loss to us. Furthermore, our experience in the polysilicon manufacturing industry may not be as relevant or applicable in downstream markets. We may also face intense competition from companies with greater experience or established presence in the targeted downstream markets or competition from our industry peers with similar expansion plans. Any failure to integrate any acquired businesses or joint ventures into our operations successfully and any material liabilities or potential liabilities of any acquired businesses or joint ventures that are not identified by us during our due diligence process for such acquisitions or investments could materially and adversely affect our business and financial condition.

If we are unable to operate effectively or operational disruptions occur, our business, results of operations and financial condition could be adversely affected.

Production of polysilicon requires the use of volatile materials and chemical reactions sensitive to temperature and pressure and requires the use of external controls to maintain safety. For example, in the production of polysilicon, we use trichlorosilane, or TCS, which is a highly combustible substance if brought into contact with moisture in the air and is therefore potentially destructive and extremely dangerous if mishandled or used in uncontrolled circumstances.

The occurrence of a catastrophic event involving TCS as a result of a natural disaster or human error at one of our polysilicon production facilities could threaten, disrupt

S-19

TABLE OF CONTENTS

or destroy a significant portion or all of our polysilicon production capacity at such facility for a significant period of time. Additionally, the smooth operation of our polysilicon production facilities depends significantly on our ability to maintain temperatures and pressure at appropriate levels, the supply of steam at a consistent pressure level, the availability of adequate electricity and our ability to control the application of such electricity. Accordingly, mistakes in operating our equipment or an interruption in the supply of electricity or steam at our production facilities could result in the production of substandard polysilicon or substantial shortfalls in production and could reduce our production capacity for a significant period of time. In addition, we voluntarily shut down our manufacturing facilities from time to time on an as-needed basis for maintenance and quality check purposes. For example, we temporarily shut down the Phase 1 facilities in April 2010 for periodic maintenance, in December 2010 for periodic maintenance and capacity enhancement, and in December 2011 for periodic maintenance. In September 2012, we halted production at the Phase 1 polysilicon facilities for maintenance and technology improvement projects, which lasted until we decided to relocate the equipment at this facility to Xinjiang in the second quarter of 2013. In April 2013, we temporarily shut down our Phase 2 facilities in Xinjiang for periodic maintenance and technology improvements.

These abovementioned shutdowns have reduced and may further reduce the volume and increase the cost of polysilicon we produce. In addition, we may need to use hazardous equipment for our wafer manufacturing process.

Such equipment requires skill and experience for safe operation. We could experience events such as equipment failures, explosions or fires due to employee errors, equipment malfunctions, accidents, and interruptions in electricity or water cooling supplies, natural disasters or other causes. In addition, such events could cause damage to properties, personal injuries or even deaths. As a result, we may in the future experience production curtailments or shutdowns or periods of reduced production. The occurrence of any such events or disruptions could result in loss of revenues and could also damage our reputation, any of which could have a material adverse effect on our business, operating results and financial condition.

Our operations are subject to natural disasters, adverse weather conditions, operating hazards, environmental incidents and labor disputes.

We may experience earthquakes, floods, mudslides, snowstorms, typhoon, power outages, labor disputes or similar events beyond our control that would affect our operations. Our manufacturing processes involve the use of hazardous equipment, including, but not limited to, furnaces, squaring machines and wire saws. We also use, store and generate volatile and otherwise dangerous chemicals and waste during our manufacturing processes, which are potentially destructive and dangerous if not properly handled or in the event of uncontrollable or catastrophic circumstances, including operating hazards, fires and explosions, natural disasters, adverse weather conditions and major equipment failures.

In addition, our polysilicon and wafer production and storage facilities are located in either Chongqing or Xinjiang, China. The occurrence of any natural disaster, unanticipated catastrophic event or unexpected accident in this location could result in production curtailments, shutdowns or periods of reduced production, which could significantly disrupt our business operations, cause us to incur additional costs and affect our ability to deliver our products to our customers as scheduled, which may adversely affect our business, financial condition and results of operations. Moreover, such events could result in severe damage to property, personal injuries, fatalities, regulatory enforcement proceedings or in our being named as a defendant in lawsuits asserting claims for large amounts of damages, which in turn could lead to significant liabilities.

Occurrences of natural disasters, as well as accidents and incidents of adverse weather in or around either Chongqing or Xinjiang, China in the future may result in significant property damage, electricity shortages, disruption of our operations, work stoppages, civil unrest, personal injuries and, in severe cases, fatalities. Such incidents may result in damage to our reputation or cause us to lose all or a portion of our production capacity, and future revenue anticipated

Our operations are subject to natural disasters, adverse weather conditions, operating hazards, environmental incidents

to be derived from the relevant facilities, any of which could have a material adverse effect on our business, operating results and financial condition.

Existing regulations and changes to these regulations may present technical, regulatory, economic and trade barriers to the purchase and use of photovoltaic products, which may significantly reduce demand for our products.

Photovoltaic products are subject to national and local regulations relating to building codes, safety, environmental protection, utility interconnection and metering and other aspects of the electric utility industry.

S-20

TABLE OF CONTENTS

In a number of countries, including China, these regulations are being modified and may continue to be modified. The purchases of, or further investment in the research and development of, alternative energy sources, including photovoltaic technology, could be deterred by unfavorable regulations, which could result in a significant reduction in the potential demand for our products. For example, without a regulatory mandated exception for solar power systems, electric utility companies are often charged interconnection or standby fees for putting distributed power generation on the electric utility grid. These fees could increase the cost to end users of using photovoltaic products and make them less desirable. In addition, trade authorities in foreign countries may apply trade sanctions against photovoltaic product imports from China, if the foreign trade authorities determine that the export sales from China are in violation of fair trade practices. Such trade sanctions can result in significant additional duties, which will adversely affect our photovoltaic product demand, thereby harming our business, prospects, results of operations and financial condition.

We obtain certain production equipment from a limited number of suppliers, and if such equipment is not delivered on time, is damaged in shipment or is otherwise unavailable, our ability to deliver polysilicon on time will suffer, which in turn could result in cancellation of orders and loss of revenues.

Our operations and expansion plans depend on our ability to obtain a sufficient amount of equipment that meets our specifications on a timely basis. Some of our equipment used in polysilicon and wafer production is not readily available from alternative vendors and would be difficult to repair or replace if it were to become damaged or cease working. If any of these suppliers were to experience financial difficulties or go out of business, or if there were any damage to or a breakdown of our production equipment, our business would incur losses. In addition, a supplier's failure to supply our ordered equipment in a timely manner, with adequate quality and on terms acceptable to us, could delay the capacity expansion of our manufacturing facilities and otherwise disrupt our production schedule or increase our costs of production. We have experienced significant delays in the delivery of our key equipment in the past. Failure to obtain equipment meeting our specifications could have a material adverse effect on our business, financial condition and results of operations. Furthermore, demand for polysilicon and wafer production equipment may result in significant increases in prices of such equipment or shortages in related components for our intended expansion. Any unexpected price increases could materially and adversely affect our financial condition and results of operations.

We have sourced and will continue to source some of our production equipment from Chinese manufacturers, and we cannot assure you that the China-sourced equipment will perform at the same level as our imported equipment or will meet our quality requirements.

We have purchased key equipment from Chinese and international suppliers. Compared to major international suppliers, our China-based suppliers generally have shorter operating histories and less experience in providing equipment for the polysilicon industry. We cannot assure you that the locally made equipment will perform at similar levels of quality and reliability as our imported equipment. In the event the China-sourced equipment does not perform as well as the imported equipment or does not perform at all, we may encounter disruption in our manufacture or deterioration of product quality, which in turn could materially and adversely affect our business, financial condition and results of operations.

We obtain certain production equipment from a limited number of suppliers, and if such equipment is not delivered o

Product defects could result in increased costs, decreased sales, and damage to our customer relationships and our reputation.

Our photovoltaic products may contain defects that are not detected until after it is shipped or processed by our customers. In the event our products are returned to us due to product defects, we would be required to replace the defective products promptly. If we deliver products with defects, or if there is a perception that our products are of substandard quality, we may incur substantially increased costs associated with termination of contracts and replacement of shipped products, and our credibility, market reputation and relationship with customers will be harmed and sales of our products may be materially and adversely affected.

S-21

TABLE OF CONTENTS

Substantially all of our production, storage, administrative, and research and development facilities are located in either Chongqing or Xinjiang, China. Any damage or disruption at these facilities would have a material adverse effect on our financial condition and results of operations.

Substantially all of our production, storage, administrative, and research and development facilities are currently located in either Chongqing or Xinjiang, China. Natural disasters, such as fire, floods, typhoons, earthquakes, snow storms, or other unanticipated catastrophic events, including power interruption, telecommunications failures, equipment failures, explosions, break-ins, terrorist acts or war, could significantly disrupt our ability to manufacture our products and operate our business. If any of our production facilities or material equipment were to experience any significant damage or downtime, we would not be able to meet our production targets and our business would incur losses. Any damage or disruption at these facilities would have a material adverse effect on our business, financial condition and results of operations.

We rely on third party intellectual property for certain key aspects of our operations, which subjects us to the payment of license fees and potential disruption or delays in the production of our products.

While we continue to develop and pursue patent protection for our own technologies, we expect to continue to rely on third party license arrangements for certain key aspects of our operations. For instance, we license from third party hydrochlorination process technology for our polysilicon production. See Item 4. Information on the Company B. Business Overview Intellectual Property for details of the contractual arrangements. The fees associated with such licenses could adversely affect our financial condition and operating results. If for any reason we are unable to license necessary technology on acceptable terms or at all, it may become necessary for us to develop alternative technology internally, which could be costly and delay or disrupt our production and therefore have a material adverse effect on our business and operating results.

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

We rely primarily on trade secrets and other contractual restrictions to protect our intellectual property. Contractual arrangements, such as the confidentiality and non-competition agreements and terms between us and our research and development personnel, afford only limited protection and the actions we may take to protect our trade secrets and other intellectual property may not be adequate. In addition, we currently hold 21 patents and have 10 pending patent applications in China covering various aspects of the polysilicon and wafer manufacturing processes. However, we cannot assure you that our patent applications will be eventually issued with sufficiently broad coverage to protect our technology and products. Failure to protect our intellectual property and proprietary rights may undermine our competitive position. Third parties may infringe on or misappropriate our proprietary technologies or other intellectual property and proprietary rights and use them to compete against us, which could have a material adverse effect on our business, financial condition or operating results.

Policing unauthorized use of proprietary technology can be difficult and expensive. In particular, the laws and enforcement procedures of China and certain other countries are uncertain or do not protect intellectual property rights to the same extent as the laws and enforcement procedures of the United States do. See Risks Relating to Doing

Substantially all of our production, storage, administrative, and research and development facilities are located in ei

Business in China Uncertainties in the interpretation and enforcement of Chinese laws and regulations could limit the legal protection available to you and us. We may need to resort to court proceedings to enforce our intellectual property rights in the future. Litigation relating to our intellectual property might result in substantial costs and diversion of resources and management attention away from our business. An adverse determination in any such litigation will impair our intellectual property and proprietary rights and may harm our business, prospects and reputation.

We may be exposed to infringement or misappropriation claims by third parties, which, if determined adversely to us, could cause us to pay significant damage awards.

Although we are currently strengthening our research and development capability, to date, substantially all of the intellectual property used in our production process was developed by third parties. Our success will be jeopardized if we cannot use and develop our technology and know-how without infringing the intellectual

S-22

TABLE OF CONTENTS

property rights of third parties. The validity and scope of claims relating to photovoltaic technology patents involve complex scientific, legal and factual questions and analysis and, therefore, may be highly uncertain. We may be subject to litigation involving claims of patent infringement or violation of other intellectual property rights of third parties. The defense and prosecution of intellectual property suits, patent opposition proceedings, and related legal and administrative proceedings can be both costly and time-consuming and may significantly divert the efforts and resources of our technical and management personnel. An adverse determination in any such litigation or proceedings to which we may become a party could subject us to significant liability to third parties, require us to seek licenses from third parties, to pay ongoing royalties, or to redesign our manufacturing process or our products or subject us to injunctions prohibiting the manufacture and sale of our products or the use of our technologies. Protracted litigation could also result in our customers or potential customers deferring or limiting their purchase or use of our products until resolution of such litigation.

Our business depends substantially on the continuing efforts of our executive officers and key employees, and our business may be severely disrupted if we lose their services.

Our future success depends substantially on the continued services of our executive officers and key employees, especially Mr. Guangfu Xu, our chairman, and Dr. Gongda Yao, our chief executive officer. If one or more of our executive officers or key employees were unable or unwilling to continue in their present positions, we might not be able to replace them easily, in a timely manner, or at all. Our business may be severely disrupted, our financial conditions and results of operations may be materially and adversely affected and we may incur additional expenses to recruit, train and retain personnel. If any of our executive officers or key employees join a competitor or form a competing company, we may lose customers, suppliers, know-how and key professionals and staff members. Each of our executive officers and key employees has entered into an employment agreement with us, which contains non-competition provisions. However, if any dispute arises between our executive officers and us, these agreements may not be enforceable in China, where these executive officers reside, in light of uncertainties with China's legal system. See Risks Relating to Doing Business in China Uncertainties in the interpretation and enforcement of Chinese laws and regulations could limit the legal protection available to you and us.

Certain of our principal shareholders have substantial influence over our company and their interests may not be aligned with the interests of our other shareholders.

As of the date of our annual report for the fiscal year ended December 31, 2013, Messrs. Guangfu Xu, Xiang Xu and Dafeng Shi, our directors that are affiliated with Daqo Group, beneficially own an aggregate of 35.6% of our outstanding share capital. As a result of their high level of shareholding, these shareholders have substantial influence over our business, including decisions regarding mergers, consolidations and the sale of all or substantially all of our assets, election of directors and other significant corporate actions. These shareholders may take actions that are not in the best interest of us or our other shareholders. This concentration of ownership may discourage, delay or prevent a change in control of our company, which could deprive our other shareholders of an opportunity to receive a premium for their shares as part of a sale of our company and might reduce the price of our ADSs. These actions may be taken even if they are opposed by our other shareholders. These shareholders' interests as beneficial owners of Daqo Group and Daqo New Material may not always be aligned with their interests as our shareholders. Should any conflict of interest arise, these shareholders may take actions not in the best interest of us and our other shareholders.

If we are unable to attract, train and retain qualified personnel, our business may be materially and adversely affected.

Our future success depends, to a significant extent, on our ability to attract, train and retain qualified personnel, particularly technical personnel with expertise in the photovoltaic industry. Since our industry is characterized by high demand and intense competition for talent, there can be no assurance that we will be able to attract or retain qualified technical staff or other highly skilled employees that we will need to achieve our strategic objectives. As we have a limited operating history and are in a stage of rapid growth, despite recent setbacks, our ability to train and integrate new employees into our operations may not meet the growing demands of our business. If we are unable to attract and retain qualified personnel, our business may be materially and adversely affected.

S-23

TABLE OF CONTENTS

Compliance with environmental regulations can be expensive, and non-compliance with these regulations may result in adverse publicity and potentially significant monetary damages and fines.

As our manufacturing processes generate waste water and gas and other industrial wastes, we are required to comply with all applicable regulations regarding protection of the environment. We are in compliance with present environmental protection requirements and have all the necessary environmental permits to conduct our business in all material respects. However, if more stringent regulations are adopted in the future, the cost of compliance with these new regulations could be substantial. If we fail to comply with present or future environmental regulations, we may be required to pay substantial fines, suspend production or cease operations, which in turn would have a material adverse effect on our financial condition and results of operations.

The discontinuation of any of the preferential tax treatments or the financial incentives and grants currently available to us in China could adversely affect our overall results of operations.

Various Chinese governmental authorities have provided tax incentives to our subsidiaries in China. These incentives include income tax exemption or reduced enterprise income tax rates. For example, under the PRC Enterprise Income Tax Law, or the EIT Law, the statutory enterprise income tax rate is 25%. However, our Chinese subsidiary Chongqing Daqo New Energy Co., Ltd., or Chongqing Daqo, as a Chongqing Municipality High and New Technology Enterprise, is entitled to a preferential enterprise income tax rate of 15%. The status is valid until December 2014 and can be renewed for additional three-year terms upon Chongqing Daqo's application and the government's approval. If there are significant changes in the business operations, manufacturing technologies or other criteria that cause the enterprise to no longer meet the criteria as a high and new technology enterprise, such status will be terminated from the year of such change. We cannot assure you that Chongqing Daqo will continue to qualify as a high and new technology enterprise in future periods. In addition, Chongqing Daqo has received various financial incentives and grants from the local government since its inception. For example, it received government grants in the amount of \$11.5 million, \$7.7 million and \$4.8 million in 2011, 2012 and 2013, respectively. Any increase in the enterprise income tax rate applicable to our Chinese subsidiaries or discontinuation or reduction of any of the preferential tax treatments or financial incentives currently enjoyed by our subsidiaries in China could adversely affect our business, operating results and financial condition. Xinjiang Daqo New Energy Co., Ltd., or Xinjiang Daqo, is currently in the process of applying for Xinjiang Municipality High and New Technology Enterprise status.

The dividends we receive from our Chinese subsidiaries and our global income may be subject to Chinese tax under the EIT Law, which would have a material adverse effect on our results of operations; our foreign ADS holders may be subject to a Chinese withholding tax upon the dividends payable by us and Chinese tax on gains realized upon the sale or other disposition of our ADSs if we are classified as a Chinese resident enterprise.

Under the Chinese enterprise income tax laws and regulations, dividends, interests, rent, royalties and gains on transfers of property payable by a foreign-invested enterprise in China to its foreign investor who is a non-resident enterprise will be subject to a 10% withholding tax, unless such non-resident enterprise's jurisdiction of incorporation has a tax treaty with China that provides for a reduced rate of withholding tax and such non-resident enterprise is the

beneficial owner of the dividends, interests, rent, royalties and gain on transfers of property. The Cayman Islands, where Daqo Cayman is incorporated, does not have such a tax treaty with China.

Under the EIT Law, an enterprise established outside China with its de facto management body within China is considered a resident enterprise in China and will be subject to the Chinese enterprise income tax at the rate of 25% on its worldwide income. In April 2009, the Chinese State Administration of Taxation issued a circular to clarify criteria for determining the resident enterprise status of foreign companies which are controlled by enterprises incorporated in China. Pursuant to the circular, to determine whether a company formed outside of mainland China and controlled by an enterprise incorporated in China should be treated as a Chinese resident enterprise, the tax authority will review factors such as the routine operation of the organizational body that effectively manages the enterprise's production and business operations, locations of personnel holding decision-making power, location of finance and accounting functions and properties of the

S-24

TABLE OF CONTENTS

enterprise, and whether more than half of the directors or senior management personnel reside in China. Substantially all of our management members are based in China. However, it remains unclear how PRC tax authorities will treat an overseas company such as ours, which is controlled by PRC natural persons rather than PRC enterprises. If the Chinese tax authorities subsequently determine that Daqo Cayman should be classified as a resident enterprise, then our worldwide income will be subject to Chinese income tax, which may have a material adverse effect on our financial condition and results of operations. Notwithstanding the foregoing provision, the EIT Law also provides that, if a resident enterprise directly invests in another resident enterprise, the dividends received by the investing resident enterprise from the invested enterprise are exempted from income tax, subject to certain conditions. Therefore, if Daqo Cayman is classified as resident enterprise under the EIT Law, the dividends received from our Chinese subsidiaries may be exempted from withholding tax.

Moreover, foreign enterprise ADS holders may be subject to a 10% withholding tax (20% in the case of foreign individual ADS holders) upon dividends payable by us and 10% tax on gains realized upon the sale or other disposition of our ADSs (20% in the case of foreign individual ADS holders) if Daqo Cayman is classified as resident enterprise under the EIT Law. Any such tax may reduce the returns on your investment in our ADSs.

We have limited insurance coverage. In particular, we do not have any product liability insurance or business interruption insurance.

As the insurance industry in China is still in an early stage of development, the product liability insurance and business interruption insurance available in China offer limited coverage compared to that offered in many other countries. We do not have any product liability insurance or business interruption insurance. Any business disruption or natural disaster could result in substantial costs and a diversion of resources, which would have a material adverse effect on our business and results of operations.

As with other photovoltaic product manufacturers, we are exposed to risks associated with product liability claims if the use of our photovoltaic products results in injury. Since our polysilicon products are made into electricity generating devices, it is possible that users could be injured or killed by devices that use our products as a result of product malfunctions, defects, improper installation or other causes. We only began commercial shipment of our photovoltaic products in July 2008 and, because of our limited operating history, we cannot predict whether product liability claims will be brought against us in the future or the effect of any resulting negative publicity on our business. The successful assertion of product liability claims against us could result in potentially significant monetary damages and require us to make significant payments.

We have granted, and may continue to grant, stock options and other share-based compensation in the future, which may materially impact our future results of operations.

We adopted our 2009 share incentive plan, or the 2009 Plan, in August 2009 that permits the grant of stock options, restricted shares and restricted share units to employees, directors and consultants of our company. Under the 2009 Plan, we may issue awards to purchase up to 15,000,000 ordinary shares. As of the date of our annual report for the fiscal year ended December 31, 2013, excluding expired or cancelled options, the Company has granted options to purchase a total of 13,195,816 of our ordinary shares under this plan. In addition, we modified the exercise prices for certain outstanding options in January 2012 and April 2013 in order to provide additional incentives to our employees and directors pursuant to an express authorization under our share incentive plan, allowing our board of directors to approve a downward adjustment of the option exercise prices without our shareholders' approval. As a result of these

We have limited insurance coverage. In particular, we do not have any product liability insurance or business interruption

option grants, option re-pricings and potential future grants under the plan, we have incurred, and will incur in future periods, significant share-based compensation expenses. We account for compensation costs for all stock options using a fair-value based method and recognize expenses in our consolidated statement of income in accordance with the relevant rules in accordance with U.S. GAAP, which may have a material adverse effect on our net income.

Moreover, the additional expenses associated with share-based compensation may reduce the attractiveness of such incentive plan to us. However, if we limit the scope of our share incentive plan, we may not be able to attract or retain key personnel who expect to be compensated with incentive shares or options.

S-25

TABLE OF CONTENTS

Risks Related to Our ADSs and This Offering

The trading prices of our ADSs have been and may continue to be volatile, which could result in substantial losses to investors.

The closing trading prices of our ADSs ranged from \$4.07 to \$46.55 in 2013, and may remain volatile in the future and could fluctuate widely due to factors beyond our control. This may happen because of broad market and industry factors, like the performance and fluctuation of the market prices of other companies with business operations located mainly in China that have listed their securities in the United States. A number of China-based companies, including many solar energy companies, have listed their securities on U.S. stock exchanges. The securities of some of these companies have experienced significant volatility, including price declines in connection with their initial public offerings. The trading performances of these Chinese companies' securities after their offerings may affect the attitudes of investors toward Chinese companies listed in the United States in general and consequently may impact the trading performance of our ADSs, regardless of our actual operating performance.

In addition to market and industry factors, the price and trading volume for our ADSs may be volatile for factors specific to our own operations, including the following:

- variations in our revenues, earnings and cash flow;
- announcements of our new investments, acquisitions, strategic partnerships, or joint ventures;
- announcements of new products and expansions by us or our competitors;
- announcements of sale of existing business segments;
- fluctuations in market prices of or demand for our products;
- changes in financial estimates by securities analysts;
- changes in the ratio of ADSs vs. common shares;
- additions or departures of key personnel; and
- potential litigation or regulatory investigations.

Any of these factors may result in large and sudden changes in the volume and price at which our ADSs will trade.

We cannot assure you that these factors will not occur in the future.

The sale or availability for sale of substantial amounts of our ADSs could adversely affect their market price.

Sales of substantial amounts of our ADSs in the public market or the perception that these sales could occur, could adversely affect the market price of our ADSs and could materially impair our ability to raise capital through equity offerings in the future. Our ADSs are freely tradable without restriction or further registration under the U.S. Securities Act of 1933, as amended, or the Securities Act, subject to the restrictions in Rule 144 and Rule 701 under the Securities Act. In addition, market sales of securities held by our significant shareholders or any other shareholder or the availability of these securities for future sale may adversely affect the market price of our ADSs.

Our Third Amended and Restated Memorandum and Articles of Association contain anti-takeover provisions that could have a material adverse effect on the rights of holders of our ordinary shares and ADSs.

Our Third Amended and Restated Memorandum and Articles of Association contain provisions to limit the ability of others to acquire control of our company or cause us to engage in change-of-control transactions. These provisions could have the effect of depriving our shareholders of an opportunity to sell their shares at a premium over prevailing market prices by discouraging third parties from seeking to obtain control of our company in a tender offer or similar transaction.

S-26

TABLE OF CONTENTS