RISK FACTORS

RISKS RELATING TO OUR BUSINESS

Prices for solar wafers may fluctuate, subject to future demand for solar products and competitive factors.

In general, the price of solar wafers will depend on, among other factors, the global production capacity, demand for solar products, and global demand conditions for solar modules and solar power systems. The demand for solar products is influenced by macroeconomic factors, such as the supply and price of other energy products, as well as government regulations and policies concerning the electric utility industry. The global financial markets have recently experienced significant downturn and weakened market demand for products that require significant initial capital expenditures for production, including solar products. Recent economic recession in several key solar power markets has resulted in slower investments in new installation of solar power projects and existing solar power projects were also delayed as a result of the unfavorable credit environment. Furthermore, a decrease in the price of other energy products, such as oil, coal and natural gas, has reduced market interest in alternative energy investment. These macroeconomic factors have resulted in reduced demand for solar products, which had led to downward pressure on the prices of solar wafers.

According to Solarbuzz, prices of solar wafers were in the range of US$2.20 to US$2.30 per Watt at the high end during October 2008 and fell below US$2.00 per Watt in early 2009. According to PHOTON Consulting, Solar Updates 2/10/2009, the prices of solar wafers in the beginning of January 2009 were between US$1.65 to US$1.70 per Watt and further fell to between US$1.06 to US$1.13 by the end of March 2009. Changing market conditions have resulted in our customers bargaining for lower prices with us and we have, as a result, to reduce the selling prices of our solar products since November 2008. The average unit price of our 125 mm by 125 mm solar wafer products decreased from RMB17.3 per Watt for the six months ended 30 June 2008, to RMB6.8 per Watt for the six months ended 30 June 2009, representing a decrease of approximately 60.7%. The average unit price of our 156 mm by 156 mm solar wafer products decreased from RMB19.2 per Watt for the six months ended 30 June 2008, to RMB6.5 per Watt for the six months ended 30 June 2009, representing a decrease of approximately 66.1%. The average unit price of our solar ingot products decreased from RMB12.8 per Watt for the six months ended 30 June 2008 to RMB6.1 per Watt for the six months ended 30 June 2009. On the supply side, however, our raw material costs did not fall as dramatically as a result of changing market conditions as the fall in solar wafer prices. As a result, our gross profit margin and gross profit have decreased for the six months ended 30 June 2009. In addition, the sudden and significant fall in the prices of solar wafers, together with the fall in the market prices of our raw materials, also resulted in a decrease in the net realisable value of our inventories and consequently a write-down of our inventories of RMB43.4 million for the year ended 31 December 2008. We cannot assure you that the above trend would not continue in the future, in which case our results of operations and financial conditions will be adversely affected.

In addition, we expect that there will be an industry-wide expansion to increase the overall solar wafer production capacity over the next few years, which will increase solar wafer supply and create downward pressures on pricing of such products, especially if polysilicon shortages experienced in the past do not return. In addition, any aggressive expansion of production capacity by us and our competitors may result in significant excess capacity in the solar wafer sector and, as a result, prices may further decline and have a negative impact on our operating margins. The sensitivity analysis below details our sensitivity to a 10% decrease in the selling prices of solar wafers for each of the three years ended 31 December 2008 and the six months ended 30 June 2009.

	Year ended 31 December			Six months ended 30 June
	2006	2007	2008	2009
	RMB '000	RMB '000	RMB '000	RMB '000
Decrease in profit before taxation for the year/period	10,761	29,491	55,225	15,120

If we are unable to obtain sufficient high quality polysilicon in a timely manner and at commercially reasonable prices, our business could be materially and adversely affected.

We currently manufacture monocrystalline solar wafers primarily using solar-grade virgin polysilicon, and as a result, are more dependent on solar-grade virgin polysilicon supply for our manufacturing process than some of our competitors who use a higher proportion of recyclable silicon. We must procure sufficient quantities of virgin polysilicon on a timely basis and on commercially reasonable terms and fully utilise our expanding production capacity to meet our production schedule. The need for timely delivery of polysilicon on commercially reasonable terms will be exacerbated as we implement our expansion plans.

We procured our virgin polysilicon only from the spot market for the two years ended 31 December 2007. We started to procure our virgin polysilicon from our suppliers through both the spot market and long-term supply contracts since the beginning of 2008. We had four polysilicon suppliers in 2006, eight in 2007, 22 in 2008 and 10 in the six months ended 30 June 2009. As at the Latest Practicable Date, the aggregate annual minimum purchase commitments of our Group under all of our long-term supply contracts are approximately 36,000 kg in 2008, 76,000 kg in 2009, 256,000 kg in 2010, 296,000 kg in 2011 and 366,160 kg for each of the years from 2012 to 2015. By reason of the recent global economic turmoil or otherwise, should we fail to meet the minimum purchase commitments, our long-term suppliers have the right to request payment from us for the purchase quantities as agreed under our long-term supply contracts and/or forfeit our prepayments. Any disruption in the supply of polysilicon, including the failure of a major supplier to supply an adequate amount of polysilicon that meets our quality, quantity and cost requirements in a timely manner, would adversely affect our ability to maintain full production capacity utilisation, limit our ability to meet our customers' demand, increase the cost of sourcing polysilicon, materially and adversely affect our financial condition and results of operations and have a negative impact on our reputation.

Our cost of polysilicon, as a percentage of total cost of sales were 41.3%, 51.5%, 69.8% and 53.4% for each of the three years ended 31 December 2008 and the six months ended 30 June 2009, respectively. Our purchase of virgin polysilicon accounted for 44.4%, 51.9%, 67.8% and 75.9% of our total purchase of raw materials and consumables for each of the three years ended 31 December 2008 and the six months ended 30 June 2009, respectively. The purchase from our top five suppliers, as the percentage of our total purchase of raw materials and consumables, were 77.4%, 69.8%, 62.4% and 82.2% for each of the three years ended 31 December 2008 and the six months ended 30 June 2009. And the purchase from our largest suppliers accounted for 26.4%, 34.0%, 22.0% and 69.7% of our total purchase of raw materials and consumables for each of the three years ended 31 December 2008 and the six months ended 30 June 2009, respectively. We have more than three years of relationship with our top five suppliers, except for one with whom we only started our business relationship since the beginning of 2009, and more than nine years of relationship with our largest supplier. Our unit procurement costs per kilogram for polysilicon for each of the three years ended 31 December 2008 and the six months ended 30 June 2009 were RMB414.9, RMB737.7, RMB1,474.2 and RMB649.4, respectively.

If our contractual counterparties breach their contractual commitments or if we are unable to procure the balance of our requirements of polysilicon, we may not be able to achieve target utilisation of our production capacity, which may have a material adverse effect on our results of operations and financial condition. Please refer to the section headed "Risks Relating to Our Business—If we are unable to maintain full utilisation of our production capacity, our operating margins may decline substantially" in the document.

Due in part to the historical industry-wide shortage of polysilicon from 2006 to the third quarter of 2008, our procurement costs for polysilicon had increased during the same period. Due to the recent financial crisis and the deteriorated worldwide economic conditions, market prices of polysilicon have fallen significantly. According to Solarbuzz, the spot price of virgin polysilicon has dropped from a peak of US$450 per kg in the middle of 2008 to a low of US$150 per kg in the fourth quarter of 2008. According to PHOTON Consulting, *Solar Updates 2/10/2009*, the average market spot price of polysilicon for the week ended 2 October 2009 was approximately US$75 per kg. The average of the prices we expect to pay in the near term for polysilicon from the spot market and pursuant to our other supply sources will likely be lower than the average prices we paid during the Track Record Period for polysilicon. We however cannot assure you that our procurement costs for polysilicon will decrease or continue to decrease in the near and longer terms.

As polysilicon procurement costs comprise a significant portion of our cost of sales, increases in the price of polysilicon will have a negative impact on our results of operations and prospects. The sensitivity analysis below details our sensitivity to a 10% increase in the procurement costs for polysilicon:

	Year ended 31 December			Six months ended 30 June
	2006	**2007**	**2008**	**2009**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Decrease in profit before taxation for the year/period	2,586	7,264	32,965	13,356

Our long-term contract with Major International Supplier A requires us to purchase minimum quantities of polysilicon at fixed prices, subject to adjustments in accordance with changes in an energy price index, from 2008 through 2015. Our long-term contract with Major International Supplier B requires us to purchase minimum quantities of polysilicon at fixed prices, subject to adjustments with reference to an agreed formula taking into account Major International Supplier B’s average purchase prices of metallurgical silicon and electricity, from 2009 through 2015. In the future, we may enter into additional long-term fixed-price supply contracts when we are presented with appropriate opportunities. Therefore, if market prices for polysilicon are below the applicable contract prices, our raw materials costs will be greater than those of our competitors who are able to purchase polysilicon at market rates, which will make us less competitive. With respect to our long-term supply contracts, the prices we paid for our purchases of polysilicon under our long-term supply contract with Major International Supplier A were below the prevailing market spot prices for polysilicon during this period and we did not purchase any polysilicon from Major International Supplier B during the same period as we were re-negotiating the terms of the our long-term supply agreement with them during the period. For the six months ended 30 June 2009, the Group’s purchases for polysilicon under the abovementioned long term supply contracts only represented approximately 8.4% of the Group’s total purchases for polysilicon for the same period. With reference to the recent decline in the market prices of polysilicon, the contract price under our long-term supply contract with Major International Supplier A and the average contract price under our long-term and short-term supply contracts with Major International Supplier B were still lower than the average market spot price for the week ended 2 October 2009, US$75/kg, according to PHOTON Consulting, *Solar Updates 2/10/2009*. If we cannot lower our contract prices with our suppliers and market prices continue to decrease, our profit margin may be negatively affected we may became less competitive. Additionally, as we have not entered into binding long-term wafer sales contracts, if demand for our solar wafers decreases from time to time, we may not be able to utilise all of the polysilicon we are required to purchase pursuant to these agreements.

We experienced a general decline in our gross profit margins during the Track Record Period and various factors that are not within our control could adversely affect our gross profit margins in the future.

The principal raw material used in our production of monocrystalline solar wafers is solar-grade virgin polysilicon and its prices had been rising at a higher rate than the prices for our solar products before the recent economic downturn in the fourth quarter of 2008 and falling at a lower rate than the prices of our solar products since the fourth quarter of 2008, which had caused our gross profit margins to decrease generally over the Track Record Period. Our gross profit margins for the years ended 31 December 2006, 2007, 2008 and the six months ended 30 June 2009 were 49.6%, 45.5%, 30.4% and 10.1%, respectively. The recent financial crisis and deteriorated worldwide economic conditions have resulted in our customers bargaining for lower prices with us and we have, as a result, had to reduce the selling prices of our solar products since November 2008. The average selling prices of our 125 mm by 125 mm solar wafers decreased from RMB16.6 per Watt for the year ended 31 December 2008, to RMB6.8 per Watt for the six months ended 30 June 2009, representing a decrease of approximately 59.0%. The average selling prices of our 156 mm by 156 mm solar wafer products decreased from RMB17.8 per Watt for the year ended 31 December 2008, to RMB6.5 per Watt for the six months ended 30 June 2009, representing a decrease of approximately 63.5%. While the average selling prices of our solar products have decreased in the six months ended 30 June 2009, our raw material costs have decreased at a lower rate during the same period and such decrease did not immediately result in a corresponding reduction in our cost of sales because, due to the historical lead time for the supply of polysilicon, we had committed to purchase polysilicon at higher prices before the sudden fall in the prices of polysilicon in October 2008. In addition, our customers took advantage of their increased bargaining power following the financial crisis by demanding thicker wafers, which would lower the breakage rate during their manufacturing process but increased our production cost for additional raw materials used for such wafers. As a result, our gross profit margin and gross profit for the six months ended 30 June 2009 have decreased. We believe prices of polysilicon and wafers will continue to fluctuate in the near future. Intensifying market competition could reduce our operating margins further due to price competition and loss of market share. In addition, our profit margins will be substantially affected by any economic downturn and reduction in government subsidies in major end-user markets for solar power technology such as Germany, the U.S., Spain and Italy, where the revenues of the end customers of solar products are ultimately derived from. If the financial crisis and deteriorated worldwide economic conditions continue, it could have a further material adverse effect on our profit as demand for solar products could decline. We may experience a decline in our overall gross profit margin and such decline will adversely impact our financial condition, results of operation and prospects.

Our future success depends on our ability to increase our production capacity and to launch new products to remain competitive. We may be unable to achieve our development plans, which would limit our growth potential and impair our results of operations and financial condition.

The solar wafer industry is characterised by rapid expansion in capacity and rapid development in manufacturing technology. Our future success depends on our ability to successfully execute our plans for increasing production capacity primarily through the construction of additional manufacturing facilities and the procurement of additional manufacturing equipment as well as our ability to launch new products timely and at competitive cost. We expect our production capacity will reach 200 MW by the end of November 2009, and we currently intend to further expand our capacity to 504 MW by the end of June 2010. In addition, we have completed our development of 210 mm by 210 mm monocrystalline solar wafers in December 2008. The construction of any additional facility or development of new products will be subject to various risks, including risks of delays and cost overruns as a result of a number of factors, many of which may be out of our control, such as delays in government approvals, problems with suppliers and contractors and adverse weather conditions. We must also purchase, install and commission new manufacturing equipment, which is also subject to significant risk, including risk of delays in delivery and installation. In addition, we may not be successful in developing new products. If we are unable to execute our expansion plan or develop new products at reasonable cost and in a timely manner or at all, we may not be able to achieve economies of scale or offer new products that will allow us to further enhance our competitive position and achieve desired operating and profit margins. We also cannot assure that we will be able to generate sufficient customer demand for our expanded production capacities or our new products.

We will need capital to fund such expansion of our production capacity, including for the purchase of equipment, as well as for our research and development activities, to enable us to remain competitive. The capital expenditures currently budgeted for our capacity expansion to 200 MW by the end of November 2009, and from 200 MW to 504 MW by the end of June 2010 are RMB260.0 million and RMB410.8 million, respectively. We are currently incurring capital expenditures for our capacity expansion to 200 MW and will continue to do so until the fourth quarter of 2010. We will incur capital expenditures for our capacity expansion from 200 MW to 504 MW from the fourth quarter of 2009 to the second quarter of 2011, respectively. We also intend to allocate approximately 5% of our net proceeds from the [●] for our research and development efforts, including the procurement of equipment, consumables and payroll for research and development projects. If we fail to generate sufficient operating cash flows and raise sufficient funds to support such expansion and research and development activities, our business, results of operations and future growth prospects could be adversely affected.

Cash flow from our operations will not be sufficient to fund our current business plans and we may not be able to obtain external financing in a timely manner or on commercially acceptable terms.

We require a large amount of cash to fund our operations, in particular to make advance payments to suppliers in connection with our purchase of raw materials and manufacturing equipment. In addition, to meet the growing demand of our customers and increase our market share, we expect to significantly increase our production capacity and output to 200 MW by the end of November 2009 and 504 MW by the end of June 2010. Future expansions, changes in market conditions or other developments, in particular, changes in technology, may require us to raise additional capital. Our ability to obtain external financing in the future is subject to a number of uncertainties, including our financial condition, the general market conditions of our industry, and economic, political and other conditions in the PRC. Further, the recent credit crisis has had and may continue to have a negative impact on our operations and growth prospects. Financial institutions may become more conservative on granting bank loans and our costs of funding may increase, making access to capital more difficult. Private investors may not subscribe to our Shares. Our liquidity position may worsen if cash flows from operating activities deteriorate with the credit crisis. If we are unable to obtain necessary capital in a timely manner or on commercially acceptable terms, our operations, results of operations and growth prospects may be materially and adversely affected. In addition, we may seek to sell additional equity or debt securities or obtain additional credit facilities if our resources are insufficient to satisfy our cash requirements. The sale of additional equity securities could result in additional dilution to our Shareholders. The incurrence of indebtedness would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations. We also cannot assure you that financing will be available in amounts or on terms acceptable to us, or at all.

Advance payment arrangements with most of our polysilicon suppliers and equipment suppliers expose us to their credit risk.

We are required to make advance payments to our long-term suppliers of polysilicon. We have entered into an eight-year supply contract with Major International Supplier A expiring on 31 December 2015, pursuant to which we have committed to purchase a minimum amount of polysilicon and if such minimum amount is not met, advances amounting to 20% to 26% of such minimum amount could be forfeited to Major International Supplier A. We also entered into a seven-year supply contract with Major International Supplier B expiring on 31 December 2015, pursuant to which we will purchase fixed quantity of virgin polysilicon, which requires that we make advance payments that are generally not refundable, except in limited circumstances, which include termination of the contract by mutual agreement, breach of contract by Major International Supplier B, bankruptcy or insolvency of Major International Supplier B and Major International Supplier B's inability to deliver products to us. As at 31 December 2006, 2007 and 2008 and 30 June 2009, our Group had outstanding advance payments to polysolicon suppliers of approximately RMB45.3 million, RMB90.1 million, RMB218.3 million and RMB203.7 million, respectively. We may continue to have similar arrangement after the expiry of such supply contracts. We also make advance payments to equipment suppliers at the time we place our purchase orders and a substantial portion of the purchase price is usually required to be paid before we take delivery of the equipment. As at 30 June 2009, our advance payments to suppliers of equipment amounted to RMB54.7 million. As we make such advance payments without receiving any collateral, in the event we do not receive the materials or equipment we ordered and we must make a claim against the suppliers to recover our advance payments, our claims for such advance payments would be unsecured claims, exposing us to the credit risk of the suppliers in the event of their insolvency or bankruptcy. We may not be able to recover such advance payments and could thereby suffer losses.

Our dependence on a limited number of key manufacturing equipment and spare parts suppliers could prevent us from fulfilling our customer orders in a timely manner or implementing our expansion plan.

The production of monocrystalline solar wafers is complex and requires costly equipment that requires lead times to manufacture and install. There is a limited number of equipment and spare parts manufacturers worldwide with the technical and manufacturing expertise to produce the equipment and spare parts, such as pullers, cropping saws, squarers, wire saws and wires, used in the production of our monocrystalline solar wafers. During the Track Record Period, the equipment that are currently used were primarily purchased from four suppliers, three of which are overseas equipment manufacturers, such as Ferrotec for ingot pullers, Meyer Burger for cropping saws and wire saws and HCT Shaping for squarers, and we also source from 17 other suppliers for spare parts. While we will continue to source some of our equipment from these suppliers, we also intend to start sourcing equipment from other suppliers who are more cost competitive and whose quality standards we found acceptable. We have, for instance, purchased wire saws and squarers from Nissin, a PRC-based manufacturer. Our inability to procure equipment or spare parts in a timely manner on commercially reasonable terms would have a material adverse effect on our ability to meet our contractual obligations, impact our expansion plans and is likely to have a material adverse effect on our business, prospects, financial condition and results of operations.

We depend on a limited number of customers for a significant portion of our revenues, and we anticipate such dependence to continue in the near future.

We rely on a limited number of customers for a significant portion of our revenues. For each of the three years ended 31 December 2008 and the six months ended 30 June 2009, our top five customers accounted for 69.5%, 84.4%, 66.1% and 62.8% of our revenues, respectively. Sales to Suntech, our largest customer for 2006, 2007 and 2008, accounted for 34.8%, 53.8%, 21.6% and 18.3% of total revenues for each of the three years ended 31 December 2008 and the six months ended 30 June 2009, respectively. Other than the five-year framework agreement we entered into with Suntech on 10 November 2006, we do not currently have any long-term agreements with any of our major customers. Please refer to the section headed "Business — Sales and Marketing — Monocrystalline solar wafers" in this document. We anticipate that our dependence on a limited number of customers will continue in the foreseeable future. Consequently, any one of the following events will likely to have material adverse impact on our revenue, financial condition and results of operations:

- decrease or cancellation in purchase orders by some or all of our large customers, or any material delays in the acceptance of our solar products, due to market or competitive factors or due to our inability to provide such customers with quality products on a timely basis at competitive rates;

- loss of one or more of our significant customers and our failure to identify additional or replacement customers; and

- failure of any of our significant customers to make timely payment for our solar products.

We began commercially manufacturing monocrystalline solar products in 2004 and you should evaluate the prospects of our business in light of our limited operating history.

We were first founded in 1999 to engage in the business of manufacturing semiconductor wafers and ingots. We commenced our solar products business in 2004, and since then we have expanded this business rapidly and it has replaced our semiconductor business to become our principal source of revenues, accounting for approximately 88.6%, 91.9%, 95.2% and 92.0% of our total revenues for each of the three years ended 31 December 2008 and the six months ended 30 June 2009, respectively. While we expect that the production of solar products will continue to be our primary business in the near future, given our limited operating history in this business, our operating results over the Track Record Period may not provide a meaningful basis for evaluating our business, financial performance and prospects.

Interruptions in the supply of electricity and other utilities to our manufacturing facilities may adversely affect our production and results of operations.

We consume electricity supply in our manufacturing operations. As the PRC economy has grown at a rapid pace in recent years, demand for electricity has continued to increase. There have been shortages of electricity from time to time in the past, particularly in heavily populated or industrialised areas such as Shanghai. We primarily source our electricity from a state-owned company, Shanghai Municipal Electric Power Company, and there have been instances where the public electricity utility has imposed restricted electrical usage periods of up to three days per year in accordance with the power supply rules of Shanghai Municipal Electric Power Company in the area where our production facilities are located, during which times we were unable to operate some or all of our equipment. The restricted electrical usage periods are normally imposed in the summer, which is the peak season for electricity utilisation. We were able to manage such risk as the restricted usage periods are generally negotiable for each individual company. The loss of utilisation caused by these periods has affected our utilisation rates by approximately one percent and consequently, there was no material impact on our operating margins. We have installed backup power transformer substations at our site with an aggregate capacity of 500 KW. However, the capacity of our backup transformer substation is only sufficient to enable us to keep our pullers from cooling down at a rapid rate and being damaged. As we expand our production capacity, we must also have access to additional sources of electricity to meet our expanded capacity. We have explored new areas for expansion where there would be sufficient electricity for our operations, and on the other hand, we are continuously negotiating with our electricity supplier to minimise the instances of restricted electrical usage period each year. No assurance, however, can be given that we will have sufficient electrical power and other utilities available for our future production requirements and we cannot assure that our electricity supplier will give us priority when there is electricity shortage.

Equipment failures may disrupt our business.

No assurance can be given that we will not experience equipment failure in the future and that we will have sufficient spare parts which are in good working order on hand to prevent any material slowdown or stoppage in our manufacturing process. Any disruption to any step of the manufacturing process would affect our yields, business and results of operations.

Our inability to adequately address the financial, operational, infrastructure and human resources challenges of managing a rapidly growing business may negatively impact on our ability to implement our strategic initiatives.

We have experienced significant growth over the three years ended 31 December 2008 and expect our business to continue to grow if we are successful in implementing our key strategic initiatives. The growth of our business has required significant attention from our management and expenditure of other resources and will likely continue to strain our finances, infrastructure and personnel as we implement our strategies. In order to properly manage this planned growth, we must improve our operational and financial systems, expand our network and system infrastructure, and enhance the effectiveness of our financial controls and procedures. We also will need to continue to manage our customer relationships and manage our relationships with equipment and raw materials suppliers. Our inability to manage this planned growth may prevent us from achieving our desired growth and producing high quality products, which could negatively impact our reputation and may result in us not being able to attract and retain customers. As a result, our business, prospects, financial condition and results of operations may be materially and adversely affected.

Our continued success and expansion plans also depend, to a significant extent, on our ability to attract, train and retain qualified technical personnel with expertise in the solar power industry. As part of our expansion plans, we plan to hire approximately an additional 200 employees during the period from July 2009 to November 2009 and approximately another 495 employees from January to June 2010. Since July 2009, we have hired 147 new employees as at the Latest Practicable Date. Since our industry is characterised by evolving technologies and high demand for skilled technical personnel, 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 our business has grown rapidly in recent years, 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.

We may not be able to monitor and deploy internal control measures with respect to our business operations in an effective and timely manner because of our business expansion plans.

The development of our management and internal control measures has largely coincided with the expansion of our businesses. As we implement our expansion plan, ensuring financial and operational control by effective allocation of financial and management resources to our growing operations will become an increasingly important task. We cannot assure you that we will be able to implement internal control mechanisms that will promptly and adequately respond to our expanded operations and other integration issues we may face especially as we operate in multiple geographic locations. To manage our geographical expansion, we have adopted a balance of decentralised and centralised controls. For instance, all of our purchases and sales contracts require approval by the relevant department manager. If the purchases or sales amounts exceed a certain level, the contracts would need the approval of our CEO. In addition, our quality assurance team would ensure that the production processes and product quality at the new geographic locations are consistent with our existing facilities. Any deficiency in internal controls or resource allocation policies would impair our ability to accurately report our financial results and expose us to a certain degree of risk including fraud. As a result, our failure to implement effective internal controls or instances of fraud within our Group may cause loss of investor confidence, which could in turn negatively impact the [●].

Our geographical expansion may adversely affect our results of operations and financial condition.

Our geographical expansion exposes us to uncertainty of new markets. We will incur additional costs to establish our new facilities and purchase new equipment. There may be increased administrative, marketing and promotion costs. We cannot assure you that our expansion into new markets will improve our profit. Further potential geographical expansion of our business would require us to operate in new geographical locations and to allocate some of our financial and management resources to these locations.

If we are unable to maintain full utilisation of our production capacity, our operating margins may decline substantially.

Our ability to maintain profitability depends in part on our ability to maintain full utilisation of our production capacity. We are currently in the process of expanding our production capacity but we do not currently have binding orders for the solar products that we will be capable of producing on completion of such expansion. If we are unable to obtain additional orders for our solar products, procure sufficient raw materials, or if we experience any material equipment failure, then we will not be able to fully utilise of our production capacity. As we incur fixed costs associated with our facilities and equipment whether they are being utilised, operating at less than full utilisation results in expenses without corresponding revenue, which reduces our operating margins.

We will need to invest significant financial and managerial resources in research and development to keep pace with technology advances and compete effectively in the solar power industry maintain our market position.

The production of monocrystalline solar wafers is characterised by evolving customer demands and continuously evolving technologies. We must continue to invest in research and development to improve our manufacturing process, including improving the quality of our solar products, increasing yields and reducing breakage rates, to maintain our market position as a manufacturer of high quality monocrystalline solar wafers in the PRC. Technologies developed or adopted by others may prove more effective than ours in enabling them to produce, at a higher yield and lower cost, larger and thinner solar wafers with higher efficiency than our solar products. If we fail to keep pace with evolving technologies, our manufacturing process will not be as efficient as our competitors' and the quality of our solar wafers may not meet our customers' demands, which will adversely affect our operating margins, reduce our competitiveness and cause us to lose market share. The amount of our research and development expenses was insignificant during the Track Record Period as research and development were mainly performed by our staff by utilising our existing fixed assets, and we therefore did not record research and development expenses as a separate item until July 2008, when we started to recognise research and development expenses separately. Our research and development expenses were approximately RMB1,079,000 and RMB1,683,000 for the year ended 31 December 2008 and the six months ended 30 June 2009, respectively.

Our business depends substantially on the continuing efforts of our executive officers and key employees.

Our future success depends substantially on the continued services of our executive officers and key employees, especially Mr. Zhang, our CEO, Mr. Chau Kwok Keung, our CFO, Mr. Shi Cheng Qi, our CTO, Mr. James J. Wang, our COO and Ms. Jane Wu, our President of Global Operation. If one or more of our executive officers or key employees were unable or unwilling to continue to work for us, we might not be able to replace them in a timely manner, or at all. Our business may be severely interrupted, our financial condition and results of operations may be materially and adversely affected and we may incur additional expenses to recruit, train and retain personnel. Mr. Shi Cheng Qi, our CTO, who is now assisted by a number of production managers, has passed the legal age of retirement under applicable PRC laws and regulations, therefore his employment contract with our Company may not be legally enforceable under PRC labour laws. We are in the process of hiring a vice president of technology in case of an early termination of his employment with us. If any of our executive officers or key employees joins a competitor or forms a competing company, we may lose customers, suppliers, expertise and key professionals and staff members. Each of our executive officers and key employees has entered into an employment agreement with us, as well as a non-competition agreement. However, if any dispute arises between our executive officers and us, these agreements may not be enforceable in the PRC, where a majority of these executive officers reside, in light of the uncertainties of the PRC legal system.

If we fail to strictly adhere to vigorous manufacturing standards and are unable to manufacture high quality monocrystalline solar wafers, our yields, reputation, business and prospects would be negatively impacted.

We must continue to improve our manufacturing processes and produce high quality monocrystalline solar wafers for our customers to remain competitive. The production of monocrystalline solar wafers is technologically complex and requires strict adherence to manufacturing processes to limit contaminants and to have high yield rates for our solar products with a limited amount of raw materials. As our customers are allowed to return solar wafers which do not meet agreed product specifications, deviations from strict manufacturing standards would decrease yields, negatively impact our reputation and result in a material adverse effect on our business, results of operations and prospects. According to the records of our quality assurance team, the rate of return of our solar products based on total revenue was less than 2% for each of the years ended 31 December 2008 and the six months ended 30 June 2009.

We may not be able to compete effectively against manufacturers who may have greater resources and more advanced technologies than we do.

The solar power market, including in particular the production and sale of solar wafers, is highly competitive and constantly changing, and we expect competition to increase in the future. We believe the key competitive factors in the solar wafer market include product quality, production technology and efficiency, relationship with suppliers, cost competitiveness and price, and sales and marketing network. We expect to face increased competition, which may result in price reductions, reduced profit margins or loss of market share. Our main competitors include specialised solar wafer manufacturers, as well as solar wafer manufacturing divisions of large conglomerates. Some of our competitors have a longer operating history, larger manufacturing capacity, stronger market position, greater resources, and better access to polysilicon raw materials than we do. Some of our competitors also have more established distribution networks and a larger customer base than we do. In addition, many of our competitors have well-established relationships with our customers and have extensive knowledge of our target markets. Accordingly, they may be able to devote greater resources to the research, development, promotion and sale of their products, or respond more quickly to evolving industry standards and changes in market conditions, than we can.

The current key barriers to entry in the solar wafer industry are access to high purity polysilicon raw materials, key manufacturing equipment, capital resources, manufacturing expertise and skilled personnel. If these barriers disappear or become more easily surmountable, new competitors may successfully enter our industry. In addition, as new and more efficient technologies develop to produce energy more efficiently on a cost-effective basis, we expect to compete with other sources of renewable power as well as other solar power generating methods, including thin film technology. If we fail to compete successfully, our business, prospects, financial condition and results of operation would suffer and we may lose or be unable to maintain or increase our market share.

Our principal manufacturing facilities are currently located in Nanhui Industrial Zone, Shanghai, PRC and any damage to such facilities could cause severe disruption to our business.

All of our manufacturing facilities are currently located in Nanhui Industrial Zone which is located approximately 50 km southeast from the city centre of Shanghai in the PRC, where we manufacture all of our monocrystalline solar wafers, and store raw materials, work-in-progress and inventories. We also conduct all of our research and development at such facilities. Our production, operations and business could be adversely affected by the effects of fire, severe weather, flood or earthquake and similar events or labour disputes. The occurrence of a natural disaster or prolonged adverse weather conditions in Nanhui Industrial Zone may result in severe damage to our production facilities. In addition, we may incur substantial repair and reconstruction expenses, which will materially affect our results of operations and financial condition. In addition, our manufacturing processes require the proper, skilful and experienced operations of hazardous equipment, such as pullers and wire saws. We may experience equipment failures or shutdowns or periods of reduced production due to human error or due to unforeseen equipment malfunctions, accidents or interruptions in power supply, any of which could adversely impact our production and operations. Furthermore, such events could cause damages to others' properties or cause personnel injury or death, which could lead to us paying civil compensation, administrative penalties and lead to litigation or regulatory enforcement proceedings. Any occurrence of these events could interrupt or limit our production capacity, or affect our ability to meet customer demand and orders, which would have a negative impact on our reputation, and have a material adverse effect on our financial condition and results of operations.

Our insurance coverage may not be sufficient to cover the risks related to our business operations.

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 an adverse effect on our business and results of operations.

As with other solar product manufacturers, we are exposed to risks associated with product liability claims if the use of our solar products results in injury. 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. Furthermore, widespread product failures may damage our market reputation, reduce our market share and cause our sales to decline.

We may be exposed to infringement or misappropriation claims by third parties.

Our success depends largely on our ability to use and develop our technology and expertise without infringing the intellectual property rights of third parties. The validity and scope of claims relating to solar power technology patents may 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 defence 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 licences from third parties, to pay ongoing royalties, or to redesign our solar products or subject us to injunctions prohibiting the production and sale of our solar 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 solar products until resolution of such litigation.

We may not be able to adequately protect our intellectual property, which could adversely affect business operations.

We rely primarily on patent laws, proprietary technology and contractual restrictions to protect our intellectual property. As at the Latest Practicable Date, we have registered five patents in the PRC and one trademark in Hong Kong. Nevertheless, such registration may only provide limited protection for our intellectual properties. In addition, contractual arrangements, such as the confidentiality and non-competition agreements and terms between us and our research and development personnel, may also afford only limited protection and the actions we may take to protect our proprietary technology and other intellectual property may not be adequate. Our failure to protect our intellectual property and proprietary rights may undermine our competitive position. Third parties may infringe or misappropriate our proprietary technologies or other intellectual property and proprietary rights. Policing unauthorised use of proprietary technology can be difficult and expensive. In particular, the legal regime governing intellectual property in the PRC is still evolving and the level of protection afforded to intellectual property rights in the PRC may not be as effective as those in other jurisdictions. Litigation relating to our intellectual property may result in substantial costs and diversion of resources and management attention away from our business. Even if we have the legal grounds for a lawsuit, we may need to resort to court proceedings to enforce our intellectual property rights. If a lawsuit is brought, an adverse determination in any such litigation will impair our intellectual property and proprietary rights and may harm our business, prospects and reputation.

Compliance with environmental regulations can be expensive, and any material non-compliance may result in adverse publicity, potentially significant monetary damages and fines, and suspensions of our operations.

As our manufacturing processes, including the processing of polysilicon raw materials, growing of ingots and slicing of wafers, generate noise, waste water and gaseous and other industrial wastes, we are required to comply with various applicable regulations regarding protection of the environment. We believe that we are in material compliance with present environmental protection requirements. In May 2009, Comtec Solar was fined by Shanghai Naihui Bureau of Environmental Protection for RMB40,000 for the over-discharging of polluted water. We have settled the fine on 25 May 2009 and we have implemented procedures designed to ensure compliance with the relevant laws and regulations when discharging polluted water, including the training of production personnel. However, if more stringent regulations are adopted in the future or our business model changes requiring adherence to more strict standards or regulations, the cost of compliance with these new regulations or standards 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. We use hazardous chemicals to handle the waste liquid produced by manufacturing activities. We also generate hazardous waste, which we process through our internal waste treatment facilities and external waste treatment facilities. Any failure by us to control the use of, or to adequately treat, hazardous substances could subject us to potentially significant monetary damages and fines and suspensions of our business operations.

Fluctuations in exchange rates could adversely affect our results of operations and our profitability.

Our PRC operating subsidiaries' functional currency is Renminbi and we report our financial statements in Renminbi. Our Group's operations are mainly based in the PRC. During each of the three years ended 31 December 2008 and the six months ended 30 June 2009, we derived about 19.7%, 15.8%, 9.7% and 7.3% respectively of our sales in U.S. dollars and nil, 0.7%, 3.7% and 6.2% of our sales in Euro for the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, respectively, while our costs of sales, except raw material costs, and operating expenses have been denominated primarily in RMB. During each of the three years ended 31 December 2008 and the six months ended 30 June 2009, about 65.2%, 18.4%, 22.5% and 1.6%, respectively of our total purchases of raw materials and consumables were denominated in U.S. dollars and nil, 33.7%, 20.3% and 69.7% of our purchases of raw materials and consumables were denominated in Euro for each of the three years ended 31 December 2008 and the six months ended 30 June 2009, respectively. As at 30 June 2009, our Group's foreign-currency denominated bank balance and cash amounted to approximately RMB[83.7 million]. Due to our strategy to diversify our customer base, our sales to foreign countries, such as Germany and Thailand, as a percentage of our total sales have increased and may continue to increase. Therefore, any significant fluctuation in the exchange rate of the Renminbi against other currencies may adversely affect our financial condition and results of operations. The change in value of the Renminbi against other currencies is affected by changes in the PRC's political and economic conditions, among other factors. The value of the Renminbi has steadily appreciated since the PRC Government changed its policy of pegging the value of the Renminbi to the U.S. dollar in 2005. If the PRC Government decides to adopt an even more flexible currency policy in the future, the Renminbi may further appreciate against other currencies. The appreciation of Renminbi against the U.S. dollar and other currencies may have an adverse effect on our results of operations, in particular as our revenues denominated in U.S. dollars and Euros increase.

The value of your investment in our Shares and our financial performance will be affected by the foreign exchange rate between HK dollars and Renminbi. As the proceeds of the [●] will be denominated in HK dollar, the appreciation of the Renminbi against the HK dollar would reduce the amount of Renminbi that would be available for our use upon conversion of such proceeds to Renminbi. On the other hand, if the Renminbi depreciates, the HK dollar equivalent dividends from our operating companies to us which are denominated in Renminbi would decrease correspondingly. We incurred net foreign exchange gain of RMB0.05 million, RMB3.8 million and RMB2.1 million during 2006, 2007 and 2008, respectively and net foreign exchange loss of RMB2.0 million during the six months ended 30 June 2009. We cannot predict the impact of future exchange rate fluctuations on our financial condition and results of operations, and we may incur net foreign exchange losses in the future.

As at the Latest Practicable Date, we have not entered into any hedging transactions to reduce our exposure to foreign currency exchange risk. While we may enter into hedging transactions in the future, the availability and effectiveness of these transactions may be limited and we may not be able to successfully hedge our exposure, or at all. In addition, our foreign currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert Renminbi into foreign currencies.

We may be required to relocate the operations of our leased properties due to the lessors' failure to register the lease agreement.

Our Group has leased certain industrial buildings in Shanghai that are being used for our production and office use. Our leased properties contributed to all of our production capacity for the year ended 31 December 2006 and the nine months ended 30 September 2007, and contributed to approximately 8.4 MW on an annualised basis, which represents approximately 15.3% of our total production capacity for the three months ended 31 December 2007, the year ended 31 December 2008 and the six months ended 30 June 2009. The revenues and profits from our Group's leased properties during the Track Record Period were generally in proportion to their production capacity contribution. Our current leased properties located in Huinan Town, Nanhui District have not been filed and registered by the respective lessor with the relevant PRC Governmental authority, despite our Directors have made their best endeavours to request the landlord to register the lease agreement with us. Our Directors confirm that, as at the Latest Practicable Date, the landlord has not registered our lease agreement.

Accordingly, there is no assurance that our Group would be able to continue using the real property described above if a third party were to assert a claim over such real property or the PRC authorities require the lessor to stop leasing. If we are required to relocate our operations, our business may be interrupted and production capacity of approximately 0.2 MW would be lost during the period of relocation, which may adversely affect our financial condition.

An outbreak of avian influenza or H1N1 influenza A or a recurrence of SARS or any other similar epidemic may, directly or indirectly, adversely affect our operating results and the market price of our [●].

Our business could be adversely affected by the effects of avian influenza, H1N1 influenza A (also known as swine influenza), SARS or other epidemic or outbreak of disease. China reported a number of cases of SARS in 2004. Recently, certain countries have encountered incidents of avian influenza and H1N1 influenza A. If any of our employees are identified as a possible source of avian influenza, H1N1 influenza A or any other epidemic or serious disease, we may be required to quarantine the employees that have been suspected of becoming or confirmed to be infected, as well as others that have come into contact with those employees. We may also be required to disinfect any affected production facilities, which could cause a temporary suspension of operations at those sites. As a result, our business, financial condition and results of operations could be adversely affected and the market price of our Shares may fall. Even if we are not directly affected by the epidemic, an outbreak of avian influenza, H1N1 influenza A or recurrence of SARS or another epidemic or serious disease, whether inside or outside China, could slow down, disrupt or restrict the level of economic activity generally in the markets where we operate, which could also adversely affect our business, financial condition and results of operations and [●].

RISKS RELATING TO THE RECENT GLOBAL FINANCIAL MARKET TURMOIL

The recent global financial market turmoil has adversely affected the market sentiment in the solar power industry. According to Solarbuzz, prices of solar wafers were in the range of US$2.20 to US$2.30 per Watt at the high end during October 2008 and fell below US$2.00 per Watt in early 2009. According to PHOTON Consulting, Solar Updates 2/10/2009, the prices of solar wafers in the beginning of January were between US$1.65 to US$1.70 per Watt and further fell to between US$1.06 to US$1.13 by the end of March 2009. We have experienced a significant reduction in the selling price of our solar products, and we cannot assure you that it will not continue in the future.

Given the current macro-economic environment, it has become more difficult for businesses to obtain credit from financial institutions. As at the Latest Practicable Date, there is no indication from the Agricultural Bank of China that they may withdraw any of the banking facilities granted to our Group and our standby short-term banking facilities remain available to us according to their original terms and interest rates. However, there is no assurance that we may continue to maintain our banking facilities with the Agricultural Bank of China and maintain our current liquidity position.

As a result of the disruptions in the financial markets and other macro-economic challenges currently affecting the economy of the U.S. and other parts of the world, our customers and suppliers may experience cash flow concerns. As a result, our customers may delay their payment to us and suppliers may increase their prices, reduce their output or change terms of sales. Additionally, if the operating and financial performance of our customers and/or suppliers deteriorates, or if they are unable to make scheduled payments or obtain credit, our customers may not be able to pay, or may delay payment of, accounts receivable owed to us and our suppliers may restrict credit or impose different payment terms. Any inability of our current or potential customers to pay us or any demands by our suppliers for different payments may adversely affect our earnings and cash flow.

In light of the volatile macro-economic climate, our Directors are closely monitoring the development in the global market and constantly engaging in close communication with our customers and suppliers, and are exploring the possibility of renegotiating the pricing terms with our suppliers and have negotiated with our suppliers to reduce our procurement costs and as a result, we entered into the amendment contract with respect to the long-term supply contract with Major International Supplier B. No assurance, however, can be given that such specific measures can be sufficient and effective in mitigating any adverse impact of the recent global financial market turmoil may have on our business, prospects, financial condition and results of operation.

RISKS RELATING TO OUR INDUSTRY

A substantial reduction or elimination of government subsidies and economic incentives for solar power applications may adversely affect our business and prospects.

The growth of substantially all of the target markets for solar power applications usually depends on the availability and size of government subsidies and economic incentives, as the cost of solar power substantially exceeds the cost of power furnished by the electric utility grid. As a result, countries such as Australia, the PRC, Germany, Korea, Spain and the U.S. have offered or plan to offer substantial incentives in the form of feed-in tariffs direct subsidies for solar power system installations or rebates for electricity produced from solar power and other incentives, to promote the use of solar power and to reduce dependence on non-renewable power. Certain government subsidies and economic incentives have contributed to the recent increased demand for solar products, which has increased per unit price for solar wafers. Therefore, a substantial reduction or elimination of these government subsidies and economic incentives would likely reduce the size of these markets, result in decreased demand for solar products and result in increased price competition, which may adversely affect our results of operations.

Market demand for solar wafers will be subject to various factors, including competing sources of power.

The solar power market, in particular, the production of power using polysilicon-based solar panels, is in early stages of development compared to other sources of power, including sources such as coal, hydro and nuclear energy. As a result, markets for solar power and the consequent demand for solar wafers may not develop in line with current and expected trends. The demand for solar wafers will depend upon such factors as the cost-effectiveness, performance, reliability and availability of other sources of power compared to solar power-based energy. The solar wafer industry is expanding based on the expected growth of the solar power market. If solar power technology is not viable for widespread adoption or sufficient demand for solar products does not develop or develops to a lesser extent than anticipated, the solar wafer industry may be materially and adversely affected.

Solar wafer sales have recently enjoyed high demand and high growth. Solar cell production capacity has grown from 930 MW for 2003 to 11,706 MW for 2008, according to Solarbuzz 2009. However, a variety of factors could cause a downturn in current market conditions, including:

- the cost effectiveness of solar power, especially when compared to other sources of power generation;
- changes in market and social conditions which impact the viability and desirability of alternative sources of energy, including conventional and non-solar power alternatives;
- the success of other solar power generating methods, including thin film technologies;
- the success of other renewable energy technologies such as fuel cells, wind power and micro turbines;
- continued government support for solar power generation systems;
- prices of raw materials; and
- global economic and credit environment that affects the solar power industry in general.

The recent ease of imbalance of market supply and demand of polysilicon may not continue, and we may not be able pass on increases in our raw material costs to our customers.

The primary raw material used in the production of monocrystalline solar wafers is polysilicon. In part due to the fact that production of polysilicon had not kept pace with the rapid growth in the solar power industry, solar wafer manufacturers had competed for supply of polysilicon from a limited number of polysilicon suppliers. In addition, to meet increased demand for solar products, solar wafer manufacturers had announced plans for expansion of existing capacity and new players had announced plans for construction of new capacity, which worked to increase the demand for polysilicon. However, the recent financial crisis and deteriorated worldwide economic conditions have moderated the demand for polysilicon and we believe the demand and supply imbalance has eased. According to Solarbuzz, the spot price of virgin polysilicon has dropped to a low of US$150 per kg in the fourth quarter of 2008. We however cannot assure you that the demand and supply imbalance will not return in the future if the demand for polysilicon increases in a short period of time, as the production of polysilicon requires significant capital investment, advanced technical expertise and the supply of metallurgical silicon, as well as significant lead time.

According to Solarbuzz, spot prices for polysilicon had risen to US$250/kg-US$400/kg in 2007 from US$100/kg-US$200/kg in 2006. Although the prices for polysolocon have decreased since the fourth quarter of 2008, we cannot assure you that such decreasing trend will continue in the future. If we fail to pass on any increases in our raw material costs to our customers, our business and results of operations may be adversely affected.

Solar wafer products utilising crystalline-silicon-based technology may become obsolete; solar power may not be adopted for wide commercial application.

Improvements in solar wafer technologies may render obsolete the products that are currently produced and the manufacturing processes and related equipment that are currently employed in connection with solar wafer production. In addition, technologies for the development of alternative and competing solar power technologies, such as thin film technologies, that require significantly less polysilicon than monocrystalline or multicrystalline solar cells and modules, or no silicon at all, are currently being developed. Technologies developed or adopted by others may prove more advantageous than current crystalline-silicon-based technologies, which may enable the production, at a higher yield and lower cost, of larger and thinner wafers with higher efficiency than existing crystalline-silicon-based solar wafers, or produce superior methods of producing solar power. In addition, as the development of solar power as an alternative source of power is at an early stage of development, the viability of solar power for wide commercial application is not yet proven. Various factors will affect whether solar power becomes a viable source of power, including, the efficiency and price competitiveness of solar power when compared to conventional sources of power and the continued support of solar power by governments.

RISKS RELATING TO THE PRC

Changes in the economic, political and social conditions in the PRC and policies adopted by the PRC Government may adversely affect our business, growth strategies, financial condition and results of operations.

During the Track Record Period, the majority of our revenues are derived from our operations in the PRC. As a result, our business is significantly subject to economic, political and social developments of the PRC. The economy of the PRC differs from the economies of most developed countries in many respects, including government involvement, level of development, growth rate, control of foreign exchange, capital reinvestment, allocation of resources, rate of inflation and trade balance position. In recent years, the PRC Government has implemented measures emphasising market forces for economic reform. However, the PRC Government continues to play a significant role in regulating industrial development, the allocation of resources, production, pricing and management, and there can be no assurance that the PRC Government will continue to pursue a policy of economic reform or that the direction of reform will continue to be market-oriented.

We may not in all cases be able to capitalise on the economic reform measures adopted by the PRC Government. Changes in the economic, political and social conditions or the relevant policies of the PRC Government, such as changes in laws and regulations (or the interpretation thereof) or restrictive financial measures, could have adverse effects on the overall economic growth of the PRC and investment in the solar power industry, which could subsequently hinder our current or future business, growth strategies, financial condition and results of operations. In recent years, credit tightening measures have been adopted in the PRC and increased the market interest rates. The annual interest rate on our bank loans had increased from 6.12% in 2006 to an average of approximately 7.67% in 2008, which decreased to an average of approximately 5.54% for the six months ended 30 June 2009. We therefore had experienced an increase in the cost for our Group to raise financing to fund our operations and expansion during the Track Record Period.

The PRC legal system is not fully developed so the legal protections available to you may not be as comprehensive as those [●] in other jurisdictions.

Our Company is a holding company established in the Cayman Islands, and we currently conduct our business primarily through two entities, namely, Comtec Solar and Comtec Semi, both of which are incorporated in the PRC. We also acquired Comtec Solar (Jiangxi) in 2008. These three entities were established under the laws of the PRC and are generally subject to the laws and regulations applicable to foreign investment in the PRC, including, laws applicable to wholly foreign-owned enterprises. Since 1979, the PRC has been developing a comprehensive system of laws, rules and regulations, especially in respect of economic issues, including, but not limited to, foreign investments, corporate governance, commerce, taxation and trade. Nevertheless, compared to more developed legal systems in other countries, the PRC has a much shorter history of modern legislation. The promulgation of new laws is frequent, which may bring more protections and restrictions, but at the same time, increase the uncertainty of current laws. Also, the enforcement of existing laws in the PRC may not be as systematic as in other countries.

Changes in the attitude of the PRC Government towards the development of the solar power industry may adversely affect our current or future business, growth strategies, financial condition and results of operations.

We currently conduct our business primarily through our entities incorporated in the PRC. The growth and performance of our business is affected by the availability of support and financial incentives from the PRC Government. The solar power industry in the PRC has accumulated excess production capacity primarily due to the rapid growth in the number of solar power enterprises in the PRC in recent years. It is generally expected that many solar power enterprises will be faced with difficulties in maintaining their competitive position in the future. There are also uncertainties as the PRC Government recently indicated that it will formulate new policies to restrain, limit or control the continued development of solar power enterprises, particularly those in the polysilicon industry, which may lead to consolidation in the solar power industry in the PRC. During the six months ended 30 June 2009, a majority of our polysilicon was sourced from overseas suppliers. In the event that the PRC Government promulgates any further policy to restrict the import of polysilicon to rectify the excess supply of domestic polysilicon, we may need to source more polysilicon in the PRC polysilicon market and modify our procurement strategy, which we may not be able to accomplish in a timely and cost effective manner, or at all. There is no assurance that our Group will compete effectively under such regulatory restraints. Changes in the PRC Government attitude towards the solar power industry may have adverse effects on the development and sustainability of solar wafers producers in the PRC and hinder our current or future business, growth strategies, financial condition and results of operations.

Our primary source of funds in the form of dividends and other distributions from our operating subsidiary in the PRC is subject to various legal restrictions and uncertainties which may limit our ability to pay dividends or make other distributions to our Shareholders.

Our Company is a holding company established in the Cayman Islands, and we currently conduct our business primarily through two entities, namely, Comtec Solar and Comtec Semi, both of which are incorporated in the PRC. We have also acquired Comtec Solar (Jiangxi) in 2008, which is also established in the PRC. As a result, future profits available for distribution to our Shareholders will be dependant on the profits available for distribution from Comtec Solar, Comtec Solar (Jiangxi) and Comtec Semi. If these three entities incur debts or losses, such indebtedness or loss may impair our ability to pay dividends on our Shares. Under PRC laws and regulations, Comtec Solar, Comtec Solar (Jiangxi) and Comtec Semi are regarded as wholly foreign-owned enterprises. PRC laws and regulations require dividends be paid only out of distributable profits as determined in accordance with PRC accounting principles, which differ in many aspects from generally accepted accounting principles in other jurisdictions. As a result, our primary internal source of funds for dividend payments from Comtec Solar, Comtec Solar (Jiangxi) and Comtec Semi is subject to restrictions and uncertainties. This may in turn affects the amount of our future distributions to our Shareholders.

Expiration of, or changes to, current PRC tax incentives that our business enjoys could have a material adverse effect on our results of operations.

Under previous PRC laws and regulations, a PRC domestic company was subject to a national enterprise income tax rate of 30% on its taxable income and a local enterprise income tax at the rate of 3% on its taxable income. The PRC Government has provided various incentives to foreign-invested enterprises to encourage foreign investments. Such incentives include exemption and reduction of income tax and other measures. Our two principal operating subsidiaries, Comtec Semi and Comtec Solar, are exempted from enterprise income tax and local income tax for two years starting 2003 and 2006 respectively, and after such period are entitled to a 50% reduction in enterprise income tax and local income tax for three years thereafter until 2007 and 2010 respectively. Pursuant to 《中華人民共和國企業所得稅法》 (The Enterprise Income Tax Law of the PRC) enacted on 16 March 2007 and《中華人民共和國企業所得稅法實施條例》 (The Implementation Regulations of Enterprise Income Tax Law of the PRC) enacted on 6 December 2007 (collectively the "Income Tax Law"), which both took effect on 1 January 2008, foreign invested enterprises that were incorporated before 16 March 2007, and then entitled to exemptions or reductions of the enterprise income tax for a fixed term according to the then applicable tax laws, administrative regulations and the relevant eligible documents, such as those enjoyed by Comtec Semi and Comtec Solar, would continue to enjoy such treatment until the fixed terms expires, but not beyond 2012.

There is uncertainty regarding the application of various aspects of the PRC Income Tax Law which could result in an increase in withholding taxes that would adversely affect our profitability and cash flow

Under the Income Tax Law, dividends from PRC enterprises to their foreign shareholders will be subject to a withholding tax at a rate of 10%, unless the jurisdiction of incorporation of such foreign shareholders has a tax treaty with the PRC that provides for a different withholding arrangement. On 21 August 2006, Hong Kong and the Mainland of China entered into 《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》(The Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income, "Tax Arrangement"), which provides that the withholding tax rate for the dividends between Hong Kong resident enterprises and PRC resident enterprises is: (a) 5% of dividends in case that the enterprise of one side holds at least a 25% equity interest of the enterprise of the other side or (b) 10% of dividends in other cases. According to the Notice of the State Administration of Taxation on Issues Relating to The Administration of The Dividend Provision in Tax Treaties《關於執行稅收協定股息條款有關問題的通知》("Notice 81") promulgated on 20 February 2009, if a taxpayer seeks to enjoy the favorable tax under such tax treaties on dividend from the PRC company, it must hold the equity interest of the PRC company at the percentage required by the tax treaties at all times during 12 consecutive months prior to obtaining the dividend. According to 《非居民享受稅收協定待遇管理辦法》（試行）(Administrative Measures for Non-resident Enterprises to Enjoy Treatments under Tax Treaties, the "Administrative Measures") which came into force on October 1, 2009, where a non-resident enterprise(as defined under the PRC tax laws) that receives dividends from PRC resident enterprises needs to enjoy the favorable tax benefits under the tax treaties, it shall submit an application for approval to the competent tax authority. Accordingly, if the provisions of Notice 81 are satisfied and approvals under the Administrative Measures are obtained, the payments of dividends by the PRC subsidiaries to the Hong Kong subsidiaries shall be subject to a PRC withholding tax at the rate of 5% as stipulated in the Tax Arrangement. However, if the application for enjoying the favourable withholding tax under the Tax Arrangement is not approved, we may not enjoy the favorable withholding tax under the Tax Arrangement, what's more, according to Notice 81, if the primary purpose of our transactions or arrangements in relation to the reorganization of the PRC subsidiaries is deemed by the competent authorities as made in order to enjoy favorable tax treatment, such favorable withholding tax enjoyed by us may be adjusted by the competent authorities in the future. As we may receive dividends from Comtec Semi, Comtec Solar (Jiangxi) and Comtec Solar through our Hong Kong subsidiaries, we cannot assure you that the Hong Kong subsidiaries can enjoy the favourable withholding tax rate of 5% as the reorganisation of the PRC subsidiaries may be deemed to have been made in order to enjoy favourable tax treatment. This may reduce the amount of our future distribution of profits to our Shareholders.

Additionally, under the Income Tax Law, enterprises established in accordance with the law of foreign countries (regions) whose "de facto management bodies" are located within the PRC are considered resident enterprises and will normally be subject to enterprise income tax at the rate of 25% on its worldwide income. The term "de facto management bodies" includes bodies which exercise overall management and control over issues such as operations, personnel, finance and assets. Since the majority of our management team is located within the PRC, we can provide no assurance that our overseas companies will not be considered as resident enterprises under the Income Tax Law and be subject to the unified enterprise income tax at the rate of 25% on both PRC-sourced and overseas-sourced income.

If Comtec Semi, Comtec Solar (Jiangxi) or Comtec Solar are subject to withholding taxes in respect of their dividends or otherwise not entitled to the tax incentives that they currently enjoy, or our overseas companies are deemed resident enterprises under the Income Tax Law, our Company's profitability and cash flow may be adversely affected.

New labour laws in the PRC may adversely affect our results of operations.

As at the Latest Practicable Date, Comtec Solar, Comtec Solar (Jiangxi) and Comtec Semi employed 399, 1 and 233 employees in the PRC, respectively. On 29 June 2007, the PRC Government promulgated a new labour law, namely,《中華人民共和國勞動合同法》the Labour Contract Law of the PRC (the "New Labour Law") which became effective on 1 January 2008. The New Labour Law imposes greater liabilities on employers and adversely impacts the cost of an employer's decision to reduce its workforce. Further, it requires certain terminations to be based upon seniority and not merit. In the event we decide to significantly change or decrease our workforce in the PRC, the New Labour Law could adversely affect our ability to enact such changes in a manner that is most advantageous to our circumstances or in a timely and cost effective manner, which may adversely affect our results of operations, prospects and financial condition.

We may be adversely affected by the introduction of new environmental laws or regulations by the PRC Government to control the polysilicon manufacturing.

Polysilicon is the key component for the production of certain solar wafer products. It had been recently reported in the media that the polysilicon manufacturing process currently adopted by certain PRC enterprises aggravates pollution, adds to global energy consumption and involves the use of hazardous chemicals. Such media reports had drawn the attention of the PRC Government and there have been suggestions of government intervention by way of regulatory changes to control the polysilicon manufacturing industry in the PRC. As we mainly source our polysilicon from international suppliers, we do not believe that changes in laws and regulations by the PRC Government will adversely impact our ability to source polysilicon. However, to the extent that we choose to, or are forced to, source polysilicon from the PRC and such suppliers are affected by such changes in laws or regulations, they may pass on their additional compliance costs to us, which we may not be able to pass on to our customers. If we fail to pass on such additional costs to our customers, our financial condition, results of operation and prospects may be adversely affected.

The stringent environmental protection requirements under the New Water Pollution Law could affect our business.

According to《中華人民共和國水污染防治法》(The Law of the PRC on Prevention and Control of Water Pollution) (the "New Water Pollution Law") amended on 28 Feb 2008 and effective on 1 June 2008 and other relevant laws and regulations promulgated by the PRC Government and the Shanghai Municipal, any enterprise discharging waste water or pollutants into a water body is required to seek permits from the relevant environmental protection authorities, and any discharging of waste water or pollutants without prior permission is strictly prohibited. Under the New Water Pollution Law, a system of more stringent penalties is imposed against enterprises which violate environmental protection laws or standards.

On 27 March 2007, the Environmental Protection Bureau of the Shanghai Municipal issued (Notice In Respect of the Renewal and Issuance of Pollutant Discharge Permits) (the "Notice") which provides that from 2007 onward, pollutant discharge permits will be issued in batches to enterprises within Shanghai. The Notice also stated that the specific scope and timing of such issuances will be announced separately. The Notice, however, indicated that if an enterprise has already completed a construction project and the environmental protection facilities on such project have already been accepted as qualified but has not yet received a pollutant discharge permit, such enterprise is not required to apply for a pollutant discharge licence until such enterprise receives a notice from an environmental protection authority that it must obtain such permit.

We can give you no assurance that we will be able to obtain the pollutant discharge permit if required to do so. If we are not able to obtain a pollutant discharge permit, we may become subject to fines and be forced to cease operations. In May 2009, Comtec Solar was fined by Shanghai Naihui Bureau of Environmental Protection for RMB40,000 for the over-discharging of polluted water.

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

A substantial majority of our executive officers and directors are residents of the PRC. Therefore, it may be difficult or impossible for you to effect service of process upon those persons in the PRC.

In addition, substantially all of our assets are located within the PRC. The PRC has not entered into any treaties providing for the reciprocal recognition and enforcement of judgments of courts with the U.S., the United Kingdom, Japan or most other western countries. Therefore, it may be difficult for you to enforce against us in the PRC any judgments you may obtain from non-PRC courts.

Dividends payable by us to our foreign investors and gain on the sale of our Shares may become subject to withholding taxes under the Income Tax Law.

Under the Income Tax Law, a PRC income tax at the rate of 10% is applicable to dividends payable to enterprise investors that are non-resident enterprises to the extent such dividends have their sources within the PRC. Similarly, any gain realised on the transfer of shares by such investors is also subject to a 10% PRC income tax if such gain is regarded as income derived from sources within the PRC. If we are considered a PRC resident enterprise by virtue of having our de facto management in the PRC, as described above, it is unclear whether the dividends we pay with respect to our Shares, or the gain you may realise from the sale of our Shares, would be treated as income derived from sources within the PRC and therefore become subject to the Income Tax Law. If we are required under the Income Tax Law to withhold PRC enterprise income tax on our dividends payable to our foreign Shareholders, or if you are required to pay PRC enterprise income tax on the transfer of your Shares, the value of your investment in our Shares may be materially and adversely affected.

If new SAFE regulations or interpretations are issued, our beneficial shareholder may be required to register with the local SAFE branches in respect of the capital financing activities overseas.

On 21 October 2005, SAFE issued a public notice,《關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》(The Notice of the SAFE on Issues Relating to Foreign Exchange Control on Fund Raisings by Domestic Residents Through Offshore Special Purpose Vehicles and Round-trip Investment (the "SAFE Notice"), which became effective on 1 November 2005. The SAFE Notice requires PRC domestic residents who are either domestic resident legal entities or domestic resident individuals to register with the local SAFE branches before setting up or controlling special purpose companies overseas.

As defined in the SAFE Notice, a domestic resident individual is a natural person who holds a resident identity card, a passport or other lawful identity certificates of the PRC, or a natural person who has no legal identity within the PRC but habitually resides inside the PRC due to reasons of economic interests. Our PRC legal advisers, Commerce & Finance Law Offices, have advised us that there are uncertainties as to the interpretation and implementation of such definition of "domestic resident individual", since the determination criteria implemented by different SAFE branches are different.

Though Mr. Zhang is a U.S. citizen, we cannot assure you that Mr. Zhang will not be considered as a domestic resident by the SAFE branch or will be exempted from registration with the local SAFE branch in respect of the financing activities overseas when new provisions or interpretations are announced by the SAFE. If Mr. Zhang is required to register with the local SAFE branch in respect of his financing activities overseas in the future and such registration fails, such failure may subject Mr. Zhang and the PRC subsidiaries to fines and legal sanctions, which may also adversely affect the business and financial operations of our Group.

Failure to comply with PRC regulations in respect of the registration of our PRC citizen employees' share options may subject such employees or us to fines and legal or administrative sanctions.

Pursuant to《個人外匯管理辦法實施細則》(the Implementation Rules of the Administration Measures for Individual Foreign Exchange, the "Individual Foreign Exchange Rules"), issued on 5 January 2007 by SAFE and《境內個人參與境外上市公司員工持股計劃和認股期權計劃等外匯管理操作規程》(the Operating Rules on the Foreign Exchange Administration of the Involvement of Domestic Individuals in the Employee Stock Ownership Plans and Share Option Schemes of Overseas Listed Companies (the "Operating Rules")) issued on 28 March 2007 by SAFE, PRC citizens who are granted shares or share options by an overseas listed company according to its employee share option scheme or employee stock ownership plan are required, through the PRC subsidiary of such overseas listed company or other qualified PRC agents, to obtain the approval from SAFE or its local branches and complete certain other procedures related to such plans.

In order to comply with the requirements of the Individual Foreign Exchange Rules and the Operating Rules, we will require our domestic employees to obtain approval from SAFE or its local branches when joining the Share Option Scheme. Foreign exchange income from the sale of shares or dividends distributed by the overseas listed company must be remitted into China. In addition, the overseas listed company or its

PRC subsidiary or other qualified PRC agent is required to appoint an asset manager or administrator and a custodian bank, as well as open foreign currency accounts to handle transactions relating to the share option or other share incentive plan. We and our PRC citizen employees who have been granted share options, will be subject to these rules upon the [●]. If we or our PRC option holders fail to comply with these rules, we or our PRC option holders may be required to rectify such non-compliance, and a maximum fine of RMB300,000 may be imposed, according to《外滙管理條例》(Foreign Exchange Administration Rules).