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OVERVIEW

We are a monocrystalline solar ingot and wafer manufacturer based in the PRC focusing on the design, development, manufacturing and marketing of high quality monocrystalline solar wafers. Solar wafers are the primary components of solar cells, which are devices capable of converting sunlight to electricity. The quality of the solar wafer used to produce a solar cell will largely determine the conversion efficiency rate of that solar cell. The quality of the solar cells used to produce a solar module will then determine the conversion efficiency rate of that solar module. Data from our customers which was obtained in 2009 indicates that the conversion efficiency rates of solar cells achieved in 2008 which were manufactured using our monocrystalline solar wafers were in the range of 17% to 18%. We believe we were one of the first solar wafer manufacturers in the PRC that are able to produce 156 mm by 156 mm monocrystalline solar wafers in large scale as well as one of the first solar wafer manufacturers in the PRC that are able to manufacture monocrystalline solar wafers with a thickness of approximately 170 microns in large scale, based on feedback from our top 10 cell-manufacturing customers. While we market most of our solar wafers to leading PRC-based solar cell manufacturers, we also market our solar products to customers in Germany, Taiwan, Thailand, Singapore, Canada, USA and India.

Our focus on monocrystalline solar wafers allows us to concentrate on the design, development, manufacturing and marketing of high quality monocrystalline solar wafers and not on other aspects of the solar products value chain. We are therefore able to fully exploit our origin as a manufacturer of semiconductor wafers and concentrate our resources on enhancing the quality of our solar products and developing new and innovative solar wafers. Our research and development capabilities, together with our semiconductor wafer manufacturing experience, have resulted in proprietary ingot growing and slicing processes and improved energy use. As we believe that long-term success in the solar power industry will depend largely on product quality and achieving superior manufacturing processes, we will dedicate significant resources to research and development.

We believe that our focus on solar wafer production also has allowed us to develop strong relationships with our customers (most of whom are manufacturers of solar cells) and polysilicon suppliers. That we pose virtually no conflict of interest to their businesses, we believe, has encouraged them to work closely with us to improve technology, and enhance our and their expertise in the respective sectors of the solar power industry value chain through mutual feedback on a wide range of subjects.

We currently manufacture monocrystalline solar wafers primarily using solar-grade virgin polysilicon. We currently procure our virgin polysilicon primarily from our overseas suppliers through long-term supply contracts and the spot market. In addition, a portion of our virgin polysilicon is sourced from certain of our customers who sell us polysilicon feedstock. In light of the fluctuation in polysilicon prices since the fourth quarter of 2008, we generally minimise our polysilicon inventory and would only stock up to take advantage of attractive offers for the purchase of polysilicon. Our strong relationships with various suppliers of high quality polysilicon feedstock have allowed us to manage our raw materials procurement effectively. Based on our actual and planned production capacity as well as our estimated shipment volume, we believe that our inventory of polysilicon, together with expected deliveries from committed supply contracts, are estimated to be sufficient for 88% of our estimated polysilicon requirements from the Latest Practicable Date until the end of 2009 and approximately 13% of our estimated requirements for 2010.

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We have increased our production capacity steadily since 2004, when we first began producing solar products. Our production capacity increased to 55 MW by the end of 2007 from 9 MW at the end of 2006, on an annualised basis. We have acquired land adjacent to one of our existing Nanhui plants for the expansion of our annual production capacity to 200 MW. The construction of the building for our production capacity expansion to 200 MW was substantially completed in December 2008 and installation of production equipment for the capacity expansion to 200 MW is expected to be completed by the end of November 2009. We plan to further expand our production capacity to 504 MW by the end of June 2010. The ramp-up for our production capacity expansion to 504 MW is expected to begin in March 2010. The increased capacity will be allocated to the production of solar wafers and solar ingots. The projected amount of capital expenditure to expand our annual production capacity to 200 MW and 504 MW are RMB260.0 million and RMB410.8 million, respectively. We will finance these expansions using our cash flows from operations, bank loans and proceeds from the [●]. We believe that by increasing our production capacity, we will be able to reduce unit production costs further and compete more effectively.

Our revenues for each of the three years ended 31 December 2008 and the six months ended 30 June 2009 were RMB135.4 million, RMB349.1 million, RMB762.1 million and RMB184.3 million, respectively. Our net profit increased by 131.0%, from RMB63.8 million for 2006 to RMB147.4 million for the year ended 31 December 2007. Due to the deteriorated market conditions following the financial crisis in the fourth quarter of 2008, our net profit decreased by 10.8%, from RMB147.4 million for the year ended 31 December 2007 to RMB131.5 million for the year ended 31 December 2008. Our net profit further decreased to RMB4.4 million for the six months ended 30 June 2009, compared to RMB128.4 million for the six months ended 30 June 2008.

Despite the impact of the global economic downturn on the solar power industry since the fourth quarter of 2008, we believe that our operating environment is improving as our sales volume and revenue continue to improve since the six months ended 30 June 2009. Our sales volume for the two months ended 31 August 2009 was 11.6 MW, representing an average monthly sales volume of 5.8 MW, which was approximately 34.9% higher than our average monthly sales volume of approximately 4.3 MW for the six months ended 30 June 2009. Based on our management accounts, which are not reviewed or audited by our reporting accountants, our unaudited revenue for the two months ended 31 August 2009 was RMB69.0 million, representing an average monthly unaudited revenue of RMB34.5 million, which was approximately 12.4% higher than our average monthly revenue of approximately RMB30.7 million for the six months ended 30 June 2009. In comparison, our average monthly sales volume for the two months ended 31 August 2008 was 30.0% higher than our average monthly sales volume for the six months ended 30 June 2008. The increase in our average monthly sales volume for the two months ended 31 August 2008 was attributable to the decrease in our utilisation rate during the six months ended 30 June 2008, however, the increase in our average monthly sales volume for the two months ended 31 August 2009 was attributable to an increase in our sales volume. Please refer to the section titled “Financial Information” of this document for more details. However we cannot assure you that such increases represent a trend which will continue in the future.

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OUR STRENGTHS

We believe that our key competitive strengths are:

One of the leaders in product quality and production technologies among monocrystalline solar wafer manufacturers in the PRC

We believe that enabling our customers to produce solar cells with high conversion efficiencies is a key differentiator relative to our competitors. We work closely with our customers to develop our solar wafer products which we believe are suited for high-end applications requiring high quality solar products. Our ability to manufacture high quality monocrystalline solar wafers in terms of industry metrics, including conversion efficiency, size and thickness of wafers, affords us many competitive advantages, including market differentiation and higher barriers to entry.

We believe that our origins as a manufacturer of semiconductor wafers and ingots since 1999 provides us with a strong technical background which we have been able to utilise to help us attain high quality standards in the production of monocrystalline solar wafers within a relatively short amount of time. The manufacture of solar wafers and semiconductor wafers is similar in many respects, including the processing involved in growing ingots and slicing wafers, which are generally understood in the industry as being some of the most critical aspects of both solar wafer and semiconductor wafer manufacturing. The production of semiconductor wafers and ingots and solar wafers and ingots is highly compatible in terms of equipment and machinery used. The main difference between the production of solar wafers and semiconductor wafers is that since solar wafers must be in a square shape whilst semiconductor wafers are in a round shape, only the production of solar wafers requires the use of a shaping machine. As the manufacture of semiconductor wafers requires greater technical precision than the manufacture of solar wafers, technical expertise gained from the manufacture of semiconductor wafers is easily transferable to the manufacture of solar wafers. Led by Mr. Shi Cheng Qi, our CTO, who has over 30 years of semiconductor, solar and materials expertise, our design and development capabilities and manufacturing process expertise allow us to produce products and develop processes that enable us to manufacture solar wafers with some of the highest quality metrics in the industry. In addition, our focus on monocrystalline solar wafers allows us to concentrate our resources on enhancing the quality of our solar products and developing new and innovative solar wafers. For example:

- Data from our customers which was obtained in 2009 indicates that the conversion efficiency rate of solar cells achieved in 2008 which were manufactured using our monocrystalline solar wafers were in the range of 17% to 18%.
- We believe we are one of the first PRC-based manufacturers producing 156 mm by 156 mm monocrystalline solar wafers in large scale. Since the effective area per wafer is larger for larger wafers, more electricity can be generated per wafer for larger wafers than smaller wafers. As wafers are priced in Watt, customers tend to purchase larger wafers at a higher price per wafer.
- We believe we are one of the first PRC-based solar wafer manufacturers producing monocrystalline solar wafers with a thickness of approximately 170 microns in large scale. Thinner wafers require less raw materials to produce and result in higher production yields. However, the thickness of wafers generally has no direct implication to the end users of solar products.

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- We have the technical capabilities and equipment that enable us to pull monocrystalline solar ingots with a uniform crystal structure that are up to 2.0 metres long for producing 125 mm by 125 mm wafers and up to 1.6 metres long for producing 156 mm by 156 mm wafers.
- We believe we are currently one of the few solar wafer manufacturers in the PRC using a Meyer Burger inner diameter cropping saw to cut ingots, which results in reduced kerf loss and higher production yield.
- We currently manufacture N-type solar ingots. The production of N-type ingots is more complicated than P-type ingots in that it is more difficult to control the resistivity range in N-type ingots. Solar products manufactured from N-type ingots can generate energy more efficiently than those manufactured from P-type ingots as the conversion efficiency rate of N-type ingots is higher than that of P-type ingots. During the Track Record Period, we sold our N-type solar ingots indirectly to a Japanese company through an intermediary. For each of the three years ended 31 December 2008 and the six months ended 30 June 2009, sales of our N-type solar ingots amounted to RMB11.5 million, RMB6.3 million, RMB22.2 million and nil, respectively and accounted for approximately 8.5%, 1.8%, 2.9% and nil of our total revenues during the relevant period, respectively. We currently sell a small quantity of wafers made from N-type solar ingots to a customer based in the PRC.

We seek to continually expand our technological advantages through research and development activities and continued efforts to refine our production expertise. We have established a strategic development relationship with Topsola to further expand our technical capabilities in designing, developing and manufacturing solar wafers. On 29 February 2008, we entered into a technical support services agreement with Topsola for a term of four years, commencing from 1 January 2007 and ending on 31 December 2010. The purpose of such technical support services agreement is to formalise the arrangement of the parties to cooperate and improve the conversion efficiency rate of wafers used in solar cell production. Topsola would provide us with feedback on product specifications and both parties have the obligation to keep all technical information obtained during the term of cooperation strictly confidential. We have not incurred and will not incur any specific development costs, and have not developed and will not develop any intellectual property rights, in connection with this cooperation arrangement. We completed the development of 210 mm by 210 mm monocrystalline solar wafer ready for large-scale commercial production in December 2008.

Cost-effective and efficient manufacturing model

We believe we are a cost-effective and efficient manufacturer of high quality monocrystalline solar wafers. Drawing on our in-house research and development capabilities and semiconductor wafer production expertise, we have been able to implement cost reduction measures and to develop proprietary processing technologies. We believe we achieve high production yields due to our proprietary expertise in the ingot pulling process, as well as the complete graphite thermal isolation structure called hot zone systems developed by us based on our experience in the semiconductor industry. We have also implemented specially designed harmonic-wave compensators to significantly reduce our power consumption during ingot production.

Additionally, we have implemented measures to manage polysilicon consumption which help further reduce costs and increase efficiency. For instance, we recycle polysilicon generated during the manufacturing process and utilise wire ingot squaring and wafer slicing machines, which has resulted in higher yields and

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significant savings through reduction of polysilicon wastage and kerf loss. We also use semi-automated wafer cleaning and sorting equipment, which improves sorting efficiency and reduces breakage, and employ semi-automated process control equipment and remote surveillance monitors in our operations. Our cost efficiency measures also include reducing the thickness of wafers and employing advanced semi-automated equipment from international and reputable vendors. We believe that these measures help our Group to keep our cost of sales low. Our Directors consider that these measures are effective and adequate as our weight per wafer had been decreasing from 2006 to 2008, indicating that our consumption of polysilicon per Watt has been reducing. On a sample basis, our weight per 125 mm by 125 mm wafer was approximately 8.2g, 7.5g, 6.2g and 6.5g for each of the three years ended 31 December 2008 and the six months ended 30 June 2009, respectively, and our weight per 156 mm by 156 mm wafer was approximately 11.5g, 10.3g and 10.3g in 2007, 2008 and the first half of 2009, respectively. Our weight per 125mm by 125mm wafer increased in the first half of 2009 because the market demand of our solar wafer products was temporarily affected as a result of the financial crisis in the end of 2008 and our customers took advantage of the sudden change in market conditions and demanded thicker wafers, which could lower the breakage during their manufacturing process. Although we were not under any pre-existing contractual obligation to supply thicker wafers to our customers, we agreed to do so in order to maintain good business relationships with them and to maintain our competitive position in the market. The cost of polysilicon is a major component of our cost of sales. Reducing the thickness of wafers will result in reducing the quantity of polysilicon required for production of wafers, and hence reduce our total cost of sales. We believe that after the stabilization of the prices of solar wafers and polysilicon as well as the market demand in the solar power industry in the long run, our customers will be willing to accept thinner wafers as a way to further improve their cost effectiveness of the manufacture of solar products. According to Solarbuzz, the average thickness of wafers has been reduced from 250 um in 2004 to 190 um in 2008, with silicon consumption reduced from 12g/Wp to 8.2g/Wp. Moreover, according to PHOTON Consulting, *Solar Annual 2008: Four Peaks*, Page 113, it is expected that wafer thickness will be in a decreasing trend in the future, which will decrease average polysilicon costs of solar cells.

All of our solar products are currently manufactured in two manufacturing facilities, which are located in Nanhui District, which is approximately 50 km to the southeast of the city centre of Shanghai in the PRC. One of the manufacturing facilities is located in the industrial zone of Nanhui. We utilise equipment from well-known and reliable solar equipment vendors including Meyer Burger, HCT Shaping and Ferrotec, with whom we began our business relationship since 2005, 2006 and 2006 respectively. While there are other suppliers of similar equipment in China, the quality and prices of their product offering are in most cases not comparable to those of these three suppliers. In addition, each of these three suppliers carries an outstanding reputation in the industry with respect to their products and services, which is also an important factor we consider when sourcing our equipment supplies other than price and quality. These equipment offer increased automation and production efficiencies. For example, we are able to load our pullers with a larger polysilicon charge, which allows us to enjoy greater manufacturing efficiency by decreasing the number of times that pullers must be stopped to be charged with polysilicon. On the other hand, our technical expertise has enabled us to achieve similar production yield in our squaring process by using squarers manufactured by suppliers based in the PRC, compared to squarers manufactured by the overseas solar equipment vendors as mentioned above. As such, we have sourced some squarers from certain local suppliers, which has allowed us to enjoy lower equipment procurement costs. We continue to look for suitable equipment suppliers based in the PRC to further reduce our equipment procurement costs.

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Strong relationships with suppliers and customers

We have established strong relationships with numerous suppliers of high quality virgin polysilicon feedstock. We have an average of approximately four years of relationships with our major suppliers. We have been able to rely on these relationships to provide us with a stable supply of polysilicon feedstock to meet our current production requirements. We did not experience any material shortage of polysilicon during the Track Record Period.

The strength of our relationships with long-term suppliers allows us to manage our raw materials procurement effectively and to mitigate our exposure to the significant price volatility of polysilicon. We have been able to negotiate a variety of long and short-term supply contracts as well as spot market agreements at discounted prices with our suppliers. Some of our customers also supply us with polysilicon feedstock. We have a strong relationship with Major International Supplier A of polysilicon, which has sold us polysilicon both through long-term contracts and through the spot market. We have also entered into a long-term virgin polysilicon supply contract with Major International Supplier B pursuant to which we expect to receive virgin polysilicon supply from 2009 through 2015, and were able to renegotiate and conclude certain amendments to the terms of this contract in response to the recent changes in market conditions. We also entered into two short-term virgin polysilicon supply agreements with Major International Supplier B in July 2009 (one of which was amended in August 2009), pursuant to which we have begun receiving virgin polysilicon to meet a part of our virgin polysilicon requirements for 2009. In light of the fluctuation in polysilicon prices since the fourth quarter of 2008, we generally minimise the level of our inventory of polysilicon and would only stock up to take advantage of attractive offers for the purchase of polysilicon. As at the Latest Practicable Date, based on our actual and planned production capacity as well as our estimated shipment volume, we have secured approximately 88% and 13% of our expected polysilicon requirements for 2009 and 2010, respectively.

We have also established a number of long-term relationships with key customers in the solar power industry. Our existing customer base includes major international solar power companies such as Suntech, Topsola, Jiangyin Jition, JA Solar and Sunergy. For each of the three years ended 31 December 2008 and the six months ended 30 June 2009, these customers contributed to approximately 44.3%, 71.7%, 47.7% and 26.3% of our Group's total sales. We believe our strong customer base will provide us with the critical support necessary for further expanding our business and ensure that we are well-positioned to capture future growth opportunities in the solar power industry. We have an average of approximately two to three years of relationships with our major customers. As part of our efforts to strengthen strategic partnerships with our customers, we also provide key customers with solar ingot and wafer processing services as ancillary services to them.

Experienced management team

Our management team led by Mr. Zhang, our founder, CEO and chairman, has a proven track record in the monocrystalline solar wafer and semiconductor wafer industries. Our core senior management members include Mr. Zhang, Mr. Shi Cheng Qi, our CTO, Mr. Chau Kwok Keung, our CFO, Mr. James J. Wang, our COO, and Ms. Jane Wu, our President of Global Operation. Mr. Zhang has over ten years of experience in the semiconductor and solar industries. Mr. Shi Cheng Qi has over 30 years of experience in semiconductor, solar and materials engineering. Mr. Chau Kwok Keung is a fellow member of the Hong Kong Institute of Certified Public Accountants and a Chartered Financial Analyst and has extensive experience working with publicly listed companies. Mr. James J. Wang has over 10 years of experience working in senior management positions at various companies, including solar cell and semiconductor

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manufacturers. Ms. Jane Wu, our President of Global Operation, has more than 15 years of experience in business development in the semiconductor industry. Members of our management team have successfully managed our rapid growth, including the rapid capacity expansion of our manufacturing operations from 9 MW in 2006 to 55 MW in 2007.

OUR STRATEGIES

Our objective is to maintain our market position as a leader in the design, development, manufacturing and marketing of high quality monocrystalline solar wafers. We believe we will be well-positioned to achieve this objective by implementing the following strategies:

Continued focus on manufacturing high quality monocrystalline solar wafers

One of our key strategies is to differentiate ourselves as one of the leading manufacturers of high quality monocrystalline solar wafers in the PRC. We believe the segment of the solar wafer industry that is focused on high quality will enjoy substantial growth and a higher degree of protection from new entrants due to higher barriers to entry. We anticipate significant demand for 156 mm by 156 mm solar wafers in the PRC market and therefore intend to focus on producing those products in the short-term, while continuing to develop even larger wafers, such as 210 mm by 210 mm wafers which we have completed the development phase in December 2008. We will rely on our strong research and development capabilities to continue to develop high quality and larger wafers, which, we believe, will help enhance our reputation in product innovation within the PRC market.

Expand our production capacity while maintaining a low cost production structure

In order to meet the anticipated growth in demand for our solar products, we plan to significantly expand our production capacity from 55 MW to 200 MW by the end of November 2009 and to 504 MW by the end of June 2010. We believe that it is important to keep pace with the general growth of the industry to be able to increase our market share and remain competitive. We believe that increased production scale will enable us to achieve greater economies of scale. For details on our capacity expansion plans, please refer to the paragraph headed “Business — Our Products — Production — Manufacturing facilities”.

We will strive to maintain our low cost structure by purchasing some of our manufacturing equipment from local suppliers in implementing our expansion plans. We have executed purchase agreements with Nissin, a PRC-based equipment manufacturer for the purchase of four squarers. Sourcing equipment from PRC-based equipment manufacturers, such as Nissin, provides us with the added benefit of having access to replacement parts and technical support services at both lower costs and with shorter lead times. We will also strive to increase the level of automation in our manufacturing process, which will reduce human error and result in increased production efficiencies, and contribute to maintaining a low cost structure.

We also plan to maintain our cost efficiency measures, including reducing the thickness of wafers and recycling the materials generated during the production process. Our Directors consider that these measures are effective and adequate as our thickness per wafer has been decreasing, indicating that our consumption of polysilicon per Watt has been reducing. The thickness of our 125 mm by 125 mm wafers ranged from 210 μm to 270 μm , 185 μm to 225 μm , 170 μm to 210 μm and 180 μm to 220 μm for each of the three years ended 31 December 2008 and the six months ended 30 June 2009 respectively. The thickness of our 156 mm by 156 mm wafers ranged from 185 μm to 225 μm , 180 μm to 220 μm and 180 μm to 220 μm in

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2007, 2008 and the six months ended 30 June 2009, respectively. Despite our technical capabilities in producing wafers thinner than those we produced during the six months ended 30 June 2009, thickness of our wafers increased during this period because our customers took advantage of their increased bargaining power in the deteriorated market conditions to demand thicker wafers.

Improve manufacturing efficiency through continuous process innovation

We plan to devote substantial resources to research and development in order to enhance our manufacturing processes, reduce our production costs, and improve our product quality and performance. We believe these efforts, combined with the industry experience of our management team, will enable us to continue to improve production efficiencies and enhance product quality. We intend to focus on the following priorities:

- improve production yields by researching new processes for slicing thinner solar wafers by using thinner wires to reduce kerf loss;
- improve production yields of the manufacture of square wafers;
- improve ingot pulling technology by using semiconductor processes to manufacture higher efficiency solar wafers;
- design an improved hot zone structure to further lower energy consumption during the ingot pulling process;
- design new ingot-holding fixtures for loading longer ingots to increase production efficiencies by reducing down-time between ingots;
- continue in-house customisation of manufacturing equipment to enhance their performance and tailor them to our customers’ requirements; and
- continue to invest in our research and development team by hiring talented personnel.

Procure sufficient supplies of quality polysilicon at favourable prices

In order to ensure steady supplies of quality polysilicon on favourable pricing terms, we intend to continue utilising a multi-strategy procurement approach that balances the pricing benefits offered by long-term supply agreements with the flexibility offered by spot purchases, short-term supply agreements and polysilicon purchases from our wafer customers. To ensure a successful implementation of this strategy, we will develop strategic alliances with key suppliers, continue to maintain existing relationships and expand our network of suppliers to include, among others, emerging PRC suppliers who are able to provide us with high quality polysilicon. For information on our supply agreements with raw materials suppliers, please refer to the paragraph headed “Business — Raw Materials and Consumables — Materials — Polysilicon”.

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Continue to grow our existing PRC customer base and develop new customer relationships both locally and abroad

The PRC has historically been our key target market due to the location of many leading solar cell and module manufacturers in the PRC. We plan to strengthen our existing customer relationships by continuing to deliver high quality monocrystalline solar wafers at competitive prices and in a timely manner. We also intend to expand our research and development collaborations with our customers to better understand and meet their technical requirements.

We believe it is also important to diversify our customer base to minimise revenue concentration in terms of the number of customers as well as the geographic focus of our sales. We have been able to gradually increase the number of customers we serve, as well as the geographic markets we reach, over the Track Record Period. Our solar products are currently sold to the PRC, Germany, Taiwan, Thailand, Singapore, Canada, USA and India. To further our diversification strategy, we will also seek new relationships with leading solar cell manufacturers, both locally and abroad. To assist in expanding our customer base, we will attend solar power trade shows and conferences to showcase our solar products. Our sales and marketing employees will make direct contact with potential customers to promote our expertise in wafer production and we will also make use of verbal referrals from our polysilicon suppliers to develop new customer relationships. In addition, we plan to further develop our customer base in USA in particular, through our President of Global Operations, Ms. Jane Wu. For more details of our efforts to strengthen our sales and marketing efforts in order to support our production capacity expansion plan, please refer to the paragraph headed “Sales and Marketing — Marketing”.

OUR PRODUCTS

We primarily design, develop, manufacture and market high quality monocrystalline solar wafers, as measured by key industry metrics of conversion efficiency, size and thickness of wafers. Solar wafers are the primary components of solar cells, which are devices capable of converting sunlight to electricity. We have focused on the production of solar products since 2004 and have accumulated extensive experience and expertise in monocrystalline technologies. We principally manufacture monocrystalline solar wafers in the 125 mm by 125 mm and 156 mm by 156 mm sizes. We believe we are one of the first PRC-based solar wafer manufacturers to produce 156 mm by 156 mm monocrystalline solar wafers in large scale, as well as one of the first solar wafer manufacturers in the PRC that are able to manufacture solar wafers with a thickness of approximately 170 microns in large scale. We completed the development of 210 mm by 210 mm monocrystalline solar wafers ready for large scale commercial production in December 2008.

The conversion efficiency rate of a solar module is determined by the quality of the solar cells used to produce that solar module. The conversion efficiency rate of a solar cell is largely determined by the quality of the solar wafer used to produce that solar cell. Data from our customers which was obtained in 2009 indicates that the conversion efficiency rate of solar cells achieved in 2008 which were manufactured using our monocrystalline solar wafers were in the range of 17% to 18%. A high conversion efficiency rate means that a lower number of solar cells is required to produce the same amount of electric power than would be required by solar cells made using less efficient solar wafers. This becomes increasingly important when there is limited space available for installation of solar modules and solar power systems, such as on roof tops.

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The thickness of a solar wafer is another important metric in solar wafer production, as thinner wafers offer higher production yields. As polysilicon is a major cost of manufacturing solar wafers which are used to make solar cells and modules for generating electricity, higher production yields and lower usage of raw materials ultimately result in solar power being a more competitive source of electric power, which we believe is a key in the continued success of the solar power industry.

We also manufacture and market monocrystalline solar ingots and semiconductor ingots and wafers on a limited basis. In addition, a small portion of our revenues is derived from our wafer and ingot processing business, when we primarily process ingots, provided by our customers, to produce solar wafers. Since 2009, we have started to reduce our involvement in these business areas as we focus on our solar wafer manufacturing business, and we expect to continue with such reduction.

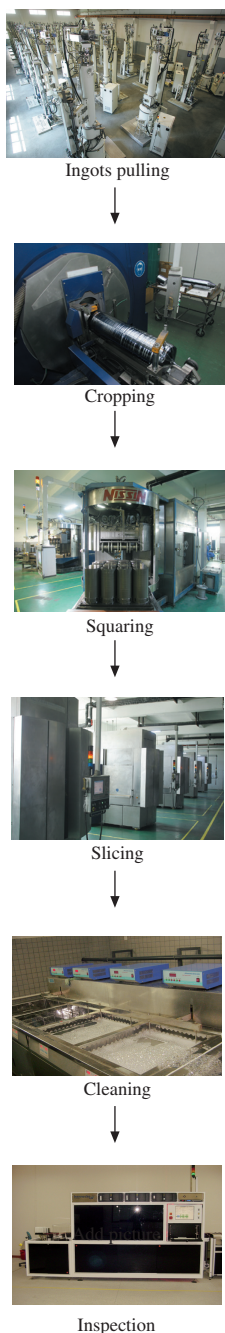
Production

Manufacturing process

The production of monocrystalline solar wafers begins with polysilicon feedstock, which is placed in crucibles to be melted and pulled by ingot pullers to produce cylindrical ingots. The ingots are squared and then sliced into wafers using high precision sawing techniques. The wafers are then washed and cleaned before packaging for delivery to customers. The total time between our receiving of an order and the delivery of the finished goods is approximately 84 hours, including approximately 82 hours of manufacturing time. We continuously strive to improve our production process in order to increase efficiencies and production yields. We carry out quality control and maintenance programs to ensure that our equipment and spare parts are in good working order. We believe that the increased economies of scale that we will achieve upon completion of our expansion to 200 MW by the end of November 2009 and further to 504 MW by the end of June 2010, combined with our proprietary technical expertise in the wafer manufacturing process, will further enhance our competitive advantage in the solar wafer industry.

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The following flowchart shows the manufacturing process of our solar wafers:



Ingot production

We place primarily solar-grade virgin polysilicon, and to a lesser extent, recyclable silicon materials, into a quartz crucible for melting in a furnace. The molten polysilicon forms a single solid crystal in the shape of a cylinder as it cools and is pulled from the crucible by a puller using a rotating upward motion in a vacuum chamber, which takes approximately 50 hours. The size of the ingot is determined by the size of the wafer that it will be used to produce, with 125 mm by 125 mm wafers being produced from ingots that are approximately 150 mm in diameter and 156 mm by 156 mm wafers being produced from ingots that are approximately 200 mm in diameter. Finished ingots are tested for resistivity, lifetime and other specifications before they are processed for wafering.

Wafer production

Each silicon ingot is cropped and squared using sophisticated cropping saws and squarers before they are sliced into wafers. The cropping, squaring and slicing processes take approximately one hour, 14 hours and 14 hours, respectively. We employ a grinding process to cut the corners of the ingots in the cropping and squaring stage. We have been successful in using 100 micron wires for slicing squared ingots into wafers with a thickness of approximately 170 microns to optimise our production yield. We are also capable of using 120 micron wires for slicing squared ingots into wafers with a thickness of approximately 180 microns, if requested by our customers.

Cleaning and inspection

Sliced wafers are cleaned and inspected by our quality assurance team before being packaged and shipped to customers. Cleaning, checking and packaging take approximately three hours in total.

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Manufacturing facilities

Current facilities

We currently operate two manufacturing facilities in Nanhui District, which are located approximately 50 km to the southeast of the city centre of Shanghai in the PRC. One of the manufacturing facilities is located in the industrial zone of Nanhui District. Our manufacturing facilities currently have an aggregate gross floor area of approximately 17,492 square metres, with approximately 4,180 square metres of which have been leased to us for a term of 20 years and will expire in 2023. We hold the land use right to the 12,564 square metres for a term of 50 years which will expire in 2056 and the 27,952 square metres for a term of 50 years which will expire in 2058.

As at the Latest Practicable Date, the equipment installed at our Nanhui facilities included the following:

- *88 ingot pullers:* 74 CZ ingot pullers for ingot production manufactured by Ferrotec, a well-known supplier of CZ ingot pullers that is based in Japan, and 14 pullers manufactured by various PRC and foreign manufacturers. Pullers are used to pull a single crystal ingot from a crucible which contains molten polysilicon. The Ferrotec CZ ingot pullers we use are semi-automated and require less manual control than most other pullers, which, we believe, reduces the chances for human error in the manufacturing process and increases manufacturing efficiencies and yields. We generally use our 14 non-Ferrotec pullers for the production of 125 mm by 125 mm wafers, as the manufacture of these types of wafers is less technically demanding.
- *4 cropping saws:* Two inner diameter cropping saw and two band saws to cut the ingots. We sourced our cropping saws from Meyer Burger, a leading supplier of high-precision machines for cutting hard and brittle materials such as silicon, sapphire or other crystals into wafers, prisms and other shapes. The use of an inner diameter cropping saw to cut ingots, as compared to certain other methods, reduces kerf loss and has contributed to higher production yields.
- *8 squarers:* One of the eight squarers is a wire squaring saw sourced from HCT Shaping, a developer, manufacturer and marketer of industrial wire sawing machines (wire saws) principally for the semiconductor and the photovoltaic wafer industries. Another four wire squaring saws were manufactured by Nissin, a PRC manufacturer. The other squarers are outer diameter saws, two of which were assembled by our Group using various parts purchased by our Group and one of which was manufactured by a PRC manufacturer. Squarers cut the cropped ingots into blocks to be sliced into wafers.
- *16 wire saws:* 16 wire saws sourced from Meyer Burger slice the ingot blocks into wafers. Wire saws use a matrix of wires to simultaneously cut a square ingot into wafers.

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As at the Latest Practicable Date, the average age of our Group's equipment and machinery is approximately 1.6 years. We maintain our equipment and manufacturing facilities in accordance with our internal maintenance policies in order to minimise the risk of equipment failure. We require our equipment and facilities to meet stringent safety standards. Most of our equipment inspection and maintenance staff graduated from technical schools, junior colleges or universities in related disciplines. Five of them have at least eighteen years of industry experience and four of them have at least four years of related industry experience. They perform periodic inspections and necessary repairs or part replacements on our equipment and facilities to ensure their safety, efficiency and working order. We also inspect the main parts of our machines, such as the air bearing of cropping machines and the pulling head of ingot pullers, on a monthly basis, and other frequently moving parts on a bi-monthly basis. Further, we inspect some frequently used mechanical parts of our machines, on a weekly basis. The heating and cooling section of the ingot pullers must be checked after every run of ingot pulling (approximately 50 hours) since this section is exposed to continuous temperature variation. We did not encounter any incident of material disruption in production due to equipment failures, equipment malfunctions or inspection procedures during the Track Record Period.

Planned expansion

A key part of our business strategy is to increase our production capacity by expanding our existing manufacturing facilities, which we believe will enable us to achieve greater economies of scale and increase our market share. Although our production capacity utilisation rates have experienced decreases during the Track Record Period, these decreases were primarily due to the ramp-up of newly installed capacity and additional maintenance time and were unrelated to the demand for our solar products. Therefore we will continue to expand our production capacity to capture the anticipated market opportunities of the solar market.

Our current plan is to expand our annual production capacity from 55 MW to 200 MW by the end of November 2009, and further expand our annual production capacity from 200 MW to 504 MW by the end of June 2010. On a weighted average basis and taking into account our anticipated annual production capacity expansion from 55 MW to 200 MW by the end of November 2009, our total production capacity for the year ending 31 December 2009 is 84.6 MW and as at 1 September 2009, our production capacity remaining for the year ending 31 December 2009 was approximately 47.9 MW. Our annualised production capacity as at the end of September 2009 was approximately 130 MW. Based on certain framework agreements between us and some of our customers indicating the quantity of products they expect to purchase from us and committed purchase orders, we expect that demand for our solar wafer products for the period from 1 September 2009 to 31 December 2009 will fully cover such remaining production capacity.

Our production capacity expansion plan from 55 MW to 200 MW, and to 504 MW is formulated to capitalise on the anticipated growth in the solar power industry, and in particular, in the demand for solar wafers and favourable government policies concerning the solar power industry. According to Solarbuzz, although it forecasted a decrease in the demand of solar market in 2009, which, however, was anticipated to be followed by an increase at a CAGR of approximately 29.3% during 2009 to 2013 and will reach approximately 14,792 MW by 2013 (based on their moderate forecast scenario, referred to as the Green World Scenario). In addition, according to Solarbuzz, China's solar market will double its size in 2009 and it is anticipated that the China's solar market could soon become one of the world's largest solar product markets. Our Directors believe that such growth is attributable to the rapid investment growth in China's solar market and favourable government policies, such as the Renewable Energy Law of the PRC, the 11th

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Five-Year Plan for the Development of Renewable Energy and the announcement made in July 2009 by the PRC Ministry of Finance and the PRC Ministry of Housing and Urban-Rural Development announced that subsidies would be granted to certain types of solar projects. Please refer to the section headed “Industry Overview” for more details.

Furthermore, according to Solarbuzz, global supply of polysilicon is no longer in shortage since the fourth quarter of 2008 and the total polysilicon production exceeded demand by approximately 2,529 tonnes in 2008 and contributed to the softening of polysilicon spot prices. Moreover, if all announced capacity expansion plans of polysilicon are materialized, the number of polysilicon production plants will increase from 57 at the end of 2008 to 186 by 2013, with total polysilicon capacity of 812,500 tonnes per annum. Given the current market conditions for the solar power industry and based on our communication with our major suppliers, we believe the additional raw materials and production equipment required for our production capacity expansion will be readily available to us. While we intend to expand our production beyond 504 MW in the future, we have no detailed plan for such expansion as at the Latest Practicable Date.

We have also strengthened our sales and marketing effort in order to support our production capacity expansion plan, including the recent establishment of our U.S. operation to explore market opportunities in the U.S. and to further diversify our customer base. We also plan to set up a liaison office in U.S. to strengthen our market presence. Moreover, we plan to recruit 12 additional sales staff to be based in Shanghai to further strengthen our sales and marketing capability. In order to attract new customers, we participated in 4 industry trade shows during 2009 up to the Latest Practicable Date and sent our product samples to some of our potential customers on various occasions. For further details of our sales and marketing activities related to our production capacity expansion, please refer to the section headed “Business — Sales and Marketing — Marketing” of this document.

Moreover, we entered into certain framework agreements with some of our customers indicating the quantity of products they expect to purchase from us should our production capacity expansion plan be implemented successfully as contemplated. As at the Latest Practicable Date, according to these framework agreements, our customers intended to purchase a minimum total of approximately 61.2 million pieces of solar wafers per year (of various sizes) in aggregate. Such minimum intended purchase amount represents approximately 154.8 MW to 248.5 MW of solar wafer products (depending on the sizes of the wafers to be ordered), and represents approximately 77.4% to 124.2%, of our expanded annual production capacity of 200 MW. We will continuously and closely communicate with our suppliers and customers on an on-going basis to ensure the successful execution of our production capacity expansion plan.

We expect to fund our capital requirements for these expansion projects with cash flows from operations, bank loans and proceeds from the [●]. As at the Latest Practicable Date, the amount of capital committed for these expansion plans was RMB1,448.1 million.

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Expansion from 55 MW to 200 MW

The total budget for the production capacity expansion to 200 MW is approximately RMB260.0 million, of which approximately RMB170.0 million for purchasing relevant production equipment, such as pullers, cropping saws, squarers and wire saws, approximately RMB78.9 million for construction and approximately RMB11.1 million for acquiring land use rights. We have already acquired a parcel of land adjacent to one of our existing Nanhui plants and the construction of the manufacturing facility for such production capacity expansion has been completed in December 2008. Due to the global economic downturn since the fourth quarter of 2008 and its impact on the solar power industry, we had suspended our expansion plans from January 2009 until June 2009. The installation of the manufacturing equipment for the production capacity expansion to 200 MW are expected to be completed by the end of November 2009. As at 30 June 2009, out of such total budget of RMB260.0 million, RMB114.6 million has been paid and the remainder of RMB145.4 million will be paid between the third quarter of 2009 to the end of 2010 and will be funded by cash flows from our operations and bank loans.

Expansion from 200 MW to 504 MW

The total budget for the production capacity expansion to 504 MW is approximately RMB410.8 million, of which approximately RMB316.6 million for purchasing equipment, approximately RMB74.2 million for construction and approximately RMB20.0 million for acquiring land use rights, which are to be spent during the period from the third quarter of 2009 to 2011. For the purpose of our production capacity expansion to 504 MW, we will commence the construction of the relevant production facilities, which, according to our experience from previous capacity expansions and as indicated by the constructor with reference to the expected scale of our production facilities, is expected to take approximately four months, by no later than December 2009. We will begin to source for equipment for such production capacity expansion by no later than November 2009 and begin installation and testing of the equipment in March 2010. The installation, commissioning and start-up of the manufacturing equipment for the production capacity expansion to 504 MW are expected to be completed by the end of June 2010. Further, as part of our production capacity expansion plan, we will commence our hiring of no fewer than 490 additional employees no later than January 2010. We will conduct training (including company orientation, safety training and job related training) for our new employees for two to four months, depending on the positions and experience of the new employees.

Approximately half of the total budget of RMB410.8 million is planned to be funded by the proceeds from the [●] and the remaining half is planned to be funded by our cash flows from operations and/or bank loans. As at the Latest Practicable Date, we have not entered into any contracts nor incurred any amount with respect to our planned production capacity expansion 200 MW to 504 MW. We believe our available cash resources and available credit facilities, together with the net proceeds from this [●], will be sufficient to meet our anticipated cash needs in 2009 and 2010.

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We have been exploring the suitability of implementing our production capacity expansion to 504 MW in the Nanchang Economy and Technological Development Zone, Jiangxi, PRC given its accessible location in central China, which we believe would offer us with well-equipped infrastructure and certain operation cost benefits. We therefore acquired Comtec Solar (Jiangxi) in May 2008 for the purpose of this possible expansion and entered into a non-binding framework agreement with the Nanchang Economy and Technological Development Zone Management Committee (the “Committee”) in May 2008 pursuant to which the Committee has agreed to assist in obtaining construction permits, as well as other regulatory approvals from applicable governmental authorities, in the event Comtec Solar (Jiangxi) is successful in acquiring a construction site there. The salient terms of this non-binding framework agreement are as follows.

- *Rights and Obligations of our Group.* Our Group will invest an aggregate of US\$200.0 million in the Nanchang Economy and Technological Development Zone for the establishment of an entity engaged in the production of monocrystalline wafers which will operate for a period of not less than 10 years, US\$80 million of which shall be invested for the first phase of the project and the remaining US\$120 million for the second phase of the project. These amounts reflect the initial estimated cost of the production facilities with the targeted production capacity at the time when the parties entered into the agreement. However, our budget for such projects has been subsequently reduced, as our estimated investment cost, such as prices for production equipment, have decreased since the non-binding framework agreement was entered into in May 2008. The first phase of the project will be completed within two years after the Group has executed the relevant land use right transfer agreement and the second phase of the project will be completed within two years after the completion of the first phase. We plan to finance such investment with our cash flows from operations and/or bank loans and proceeds from the [●]. We acquired Comtec Solar (Jiangxi) in May 2008 in fulfillment of such obligation, with the assistance of the Committee with respect to the obtaining of the necessary regulatory approvals. We also undertook to increase the registered capital of Comtec Solar (Jiangxi) to US\$30.0 million within two months of the acquisition and pay up 20% of the increased registered capital within two months of such increase, both of which had been fulfilled. Our Group will be entitled to acquire land in the Nanchang Economy and Technological Development Zone for the purpose of establishing the production facilities to be operated by Comtec Solar (Jiangxi). As our investment plan in Nanchang Economy and Technological Development Zone may span over a number of years, the timing of such expansion is not yet certain and construction has not yet commenced. As at the Latest Practicable Date, we have not identified a specific piece of land or executed any land use right transfer agreement relevant to such expansion in Nanchang Economy and Technological Development Zone, as we believe there is no shortage of land with the desired infrastructure for our purpose based on the information provided to us by the Committee and the informal discussion between our management and the Committee regarding our capacity expansion plan in the Nanchang Economy and Technological Development Zone. As such, our Directors believe that our Group is able to acquire a suitable land parcel within a short timeframe and without adversely affecting the timing of expanding our production capacity to 504 MW should we implement our production capacity expansion plan from 200 MW to 504 MW in Nanchang Economy and Technological Development Zone. Our current capital expenditure budget is generally in line with our expansion plan.

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- *Rights and Obligations of the Committee.* The Committee will facilitate our acquisition of a foreign invested enterprise in the Nanchang Economy and Technological Development Zone and assist our Group in obtaining the necessary approvals. We therefore acquired Comtec Solar (Jiangxi) with the assistance of the Committee in May 2008. The Committee will grant the use of approximately 500 mu (亩) of land to Comtec Solar (Jiangxi) for the construction and operation of its production facilities (the “Production Site”). The Committee will ensure that the infrastructure of the Production Site including electricity, water, drainage, communication and roads are ready and available and that the Production Site is properly leveled before it is granted to us.
- *Performance Target.* The Production Site will be constructed in two phases within four years after the relevant land use rights grant contract is signed. Upon completion of the first phase of construction, it is expected that Comtec Solar (Jiangxi) will have an annual production capacity of at least 200 MW according to the terms of the framework agreement. If we implement our production capacity expansion from 200 MW to 504 MW in Nanchang Economy and Technological Development Zone, our expectation is that Comtec Solar (Jiangxi) will have an annual production capacity of 304 MW by the end of such production capacity expansion. Upon completion of both phases of construction, it is expected that Comtec Solar (Jiangxi) will have an annual production capacity of 600 MW and will generate approximately RMB14.0 billion in revenue and RMB400.0 million in value added tax per annum.
- *Expiry and termination.* This agreement does not stipulate an expiry date, nor contain a termination clause.

Nanchang Economy and Technological Development Zone is one of the state-level development zones in the PRC, the function of which is to encourage economic development and technology innovation. The Committee is an Independent Third Party authorised by the competent provincial and municipal governmental authorities under the relevant PRC laws and regulation to govern the development zone.

Other than the abovementioned plan to implement our production capacity expansion from 200 MW to 504 MW in Nanchang Economy and Technological Development Zone, Jiangxi, PRC, we are also currently exploring the suitability of implementing such production capacity expansion plan in Nanhui, Shanghai, PRC, as an alternative as we have been informed that the Pudong Municipal Government is in the process of formulating certain new economic policies favouring businesses in the solar power industry. We plan to evaluate the benefits of implementing our production capacity expansion plan in Nanhui, Shanghai when the details of these policies are formally announced by the Pudong Municipal Government. We have also informed and discussed with the local government in Nanhui, Shanghai, one of the potential locations for our production capacity expansion to 504 MW, regarding our production capacity expansion plans and our expected increase in demand for electricity upon completion of such expansion. The local government in Nanhui, Shanghai indicated to us that they were ready to accommodate our anticipated electricity requirement for our expanded production capacity. As at the Latest Practicable Date, we have not signed any binding or non-binding agreement in relation to this potential production capacity expansion in Nanhui, Shanghai.

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We will decide whether we will implement our production capacity expansion from 200 MW to 504 MW in Nanhui, Shanghai by the end of November 2009. If we decide not to implement such production capacity expansion plan in Nanhui, Shanghai, we will then begin to implement our production capacity expansion plan in Nanchang Economy and Technological Development Zone, Jiangxi, PRC and Comtec Solar (Jiangxi) will commence its principal activity of the manufacturing of monocrystalline solar ingots and wafers.

We have adopted a multi-faceted approach to manage our rapid capacity expansion. For example, we have drawn on our strong technical expertise for the fast ramp-up of our production capacity. On the supply front, we intend to maintain the strong relationship established with our long-term suppliers as part of our plan to secure sufficient raw materials for our increased production capacity. On the customer front, we have continued to strengthen our relationship with a diversifying group of customers which has enabled us to obtain ideas from exchanges with them for the enhancement of our solar products. We also strive and will continue to maintain sufficient financial liquidity to facilitate our rapid expansion and future planned expansion. We will continue to employ these measures to manage our future capacity expansion. Based on our operating results during the Track Record Period, we believe that, with the increase in our production capacity, our production and sales volumes would increase, which would have a positive effect on our profit. However, our operations and growth prospects may be negatively affected if the recent global economic turmoil and credit crisis continue. Moreover, as our industry relies on government subsidies in the end-users market for solar power applications, the purchasing power of our customers may be negatively affected if government subsidies are reduced. For more details, please refer to the section headed “Risk Factors — 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” in this document. As at the Latest Practicable Date, we have not yet procured orders to utilise the additional production capacity we will have after our capacity expansion from 200 MW to 504 MW.

Production capacity and utilisation

The annualised production capacity of our manufacturing facility is limited by the production capacity of the equipment required to manufacture wafers. Accordingly, our production capacity cannot exceed the production capacity of any of the equipment necessary to manufacture wafers. Thus, if the production capacity of any of the equipment in the wafer manufacturing process is less than any of the other equipment in such process, we determine our annualised production capacity to be equal to the production capacity of that equipment which has the lowest production capacity. The production capacity of equipment currently in operation is calculated by reference to our historical data. The production capacity of equipment we intend to use for our expansion is calculated by reference to data we gathered during test runs of such equipment, if available, and such specifications of equipment after reference to our historical experience with similar types of equipment. In addition, we make certain assumptions about conversion efficiency rates, the number of wafers per kg of ingot that our current manufacturing processes generally yield, the ratio of our sales of ingots to wafers, in each case, based on our historical data. As at 31 December 2008, our production capacity was 55 MW, on an annualised basis. Based on the foregoing, we expect our production capacity, on an annualised basis, will be 200 MW by the end of November 2009 and 504 MW by the end of June 2010.

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The following table sets forth our production capacity for the products set forth therein.

Product	Annualised Production Capacity as at 31 December			Expected Annualised Production Capacity as at 31 December	
	2006	2007	2008	2009	2010
Wafers (MW)	9	55	55	200	504
Ingots (MW)	10	58	63	208	506

We calculate utilisation rate of our manufacturing facilities by dividing actual production for the relevant period by the averaged production capacity during the same period. The averaged production capacity for a given period is calculated by dividing the sum of the annualised production capacity as at the end of each month during such period by the number of months in the period.

For details on the calculation of our production capacity, please refer to the section headed “Glossary of Technical Terms — Assumptions about conversion efficiency, and production capacity and output” in this document. The following table sets forth our utilisation rate for the products set forth therein during the Track Record Period.

Product	Utilisation Rate (%)			
	for the year ended 31 December			for the six months ended 30 June
	2006	2007	2008	2009
Wafers	67.3	91.2	75.1	79.4
Ingots	93.4	74.7	89.5	90.6

The utilisation rate for our wafer production was 67.3% for 2006 as the wafer production line was installed in the second half of 2005 and some ramp up time was required in 2006, which reduced our utilisation rate. The utilisation rate for our wafer production increased to 91.2% for 2007, which reflected our increased focus on our wafer manufacturing business. The utilisation rate for our wafer production decreased to 75.1% for 2008 mainly due to the ramp-up of newly installed capacity and additional maintenance time in the first half of 2008. The utilisation rate for our wafer production increased to 79.4% for the six months ended 30 June 2009 mainly due to the increase in customer demand for our solar products as they sought to obtain stable supply of monocrystalline solar wafers.

The utilisation rate for our ingot production was 93.4% for 2006 and decreased to 74.7% for 2007 due to the ramp-up of newly installed capacity for our production capacity expansion to 55 MW and additional maintenance time during 2007. The utilisation rate for our ingot production increased to 89.5% for 2008 due to the increase in the demand for our solar products, despite the ramp-up of newly installed capacity. The utilisation rate for our ingot production further increased to 90.6% for the six months ended 30 June 2009 mainly driven by the increase in demand from our customers for our wafer products.

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Electricity shortages and suspension may interrupt our production process and adversely affect the utilisation of our manufacturing facilities. As a contingency plan against electricity shortages and suspension, we have installed backup power transformer substation at our site with an aggregate capacity of 500 KW. At our current production capacity level, the capacity of our backup transformer substation is sufficient to enable us to keep our pullers from cooling down at a rapid rate and being damaged. In order to meet the electricity need for our expansion plan, we have explored new areas for expansion where there would be sufficient electricity for our operations, such as Jiangxi and Shanghai, and on the other hand, we are continuously negotiating with our electricity supplier to minimise the instances of restricted electrical usage period each year.

RAW MATERIALS AND CONSUMABLES

The production of monocrystalline solar wafers requires a variety of raw materials and consumables, including polysilicon (which may be in the form of solar-grade virgin polysilicon and/or recyclable silicon), crucibles, graphite, slurry and other consumables. Our procurement policy requires us to source our raw materials and consumables from suppliers who comply with our quality standard and are able to supply us with raw materials and consumables on a timely basis. During the Track Record Period, we chose our suppliers based on the price and quality of their product offerings, reliability of procurement and their industry reputation. We also strive to maintain multiple suppliers for each raw material and consumable so as to minimise disruptions to our operations in the event one supplier is unable to timely fulfill its delivery obligations to us. We had a total of 17, 24, 50 and 53 suppliers for each of the three years ended 31 December 2008 and the six months ended 30 June 2009, respectively. We monitor each supplier’s performance on a periodic basis and may replace underperforming suppliers, if necessary.

Materials

During the Track Record Period, the materials used in the production of our monocrystalline solar wafers include:

- *Virgin polysilicon.* Virgin polysilicon is the principal raw material for the production of solar wafers. 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 respectively for each of the three years ended 31 December 2008 and the six months ended 30 June 2009. Since the fourth quarter of 2008, when polysilicon prices experienced a significant decrease, we generally minimise our polysilicon inventory but stocked up polysilicon to take advantage of attractive offers for purchase of polysilicon. The increase in our purchase of polysilicon as a percentage of our total purchase of raw materials and consumables for the six months ended 30 June 2009 was due to our purchase of polysilicon to take advantage of an attractive offer from Major International Supplier A. In the long run, we expect such percentage to decrease as polysilicon prices are now much lower than its historical levels. We source virgin polysilicon from various suppliers, including Major International Supplier A and Major International Supplier B. Please see the section headed “Materials — Polysilicon” for more details regarding our procurement of polysilicon;
- *Recyclable silicon.* We also use recyclable silicon from our own manufacturing process, as well as from a variety of other sources, including semiconductor remelts from semiconductor wafer manufacturing companies. Our purchases of recyclable silicon accounted for 11.3%, 5.6%, 5.3% and 0.5% of our total purchase of raw materials and consumables, respectively, for each of the three years ended 31 December 2008 and the six months ended 30 June 2009;

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- *Crucibles.* Crucibles are the container into which polysilicon raw materials are placed for melting and pulling. We source crucibles from a leading domestic crucible manufacturer. Our purchase of crucibles accounted for 6.3%, 2.6%, 3.4% and 3.8% of our total purchase of raw materials and consumables, respectively, for each of the three years ended 31 December 2008 and the six months ended 30 June 2009;
- *Graphite.* Graphite is the material used to create a hot zone into which the crucible is placed. We source graphite from multiple sources based in the PRC and Japan. Our purchase of graphite accounted for 5.4%, 8.1%, 2.7% and 1.0% of our purchase of raw materials and consumables, respectively, for each of the three years ended 31 December 2008 and the six months ended 30 June 2009;
- *Slurry.* Slurry is a fluid comprised of silicon carbide and polyethylene glycol which is used in the wire cutting process. We source our slurry from local PRC suppliers. Our purchase of slurry accounted for 18.0%, 16.9%, 7.6% and 7.5% of our total purchase of raw materials and consumables, respectively, for each of the three years ended 31 December 2008 and the six months ended 30 June 2009; and
- *Other consumables.* Other consumables mainly include wires and other miscellaneous consumables. Wires are used in the wire cutting process for slicing the ingots into wafers. Our purchase of other consumables accounted for 14.5%, 14.9%, 13.3% and 11.4% of our total purchase of raw materials and consumables respectively for each of the three years ended 31 December 2008 and the six months ended 30 June 2009.

Purchases from our five largest suppliers together accounted for approximately 77.4%, 69.8%, 62.4% and 82.2% of raw materials and consumables purchased in each of the three years ended 31 December 2008 and the six months ended 30 June 2009, respectively. Our five largest suppliers, who are suppliers of polysilicon and consumables, supplied polysilicon, wires and slurry to us. For each of the three years ended 31 December 2008 and the six months ended 30 June 2009, purchases from our largest supplier, who supplied polysilicon to us, amounted to approximately RMB12.3 million, RMB42.9 million, RMB99.3 million and RMB121.8 million, respectively, representing approximately 26.4%, 34.0%, 22.0% and 69.7% of our total purchases of raw materials and consumables for the relevant periods. Our total purchase of polysilicon from our largest polysilicon supplier as a percentage of our total purchase of raw materials and consumables decreased from 2006 to 2008 due to our efforts to diversify our supplier base. Our total purchase of polysilicon from our largest polysilicon supplier as a percentage of our total purchase of raw materials and consumables increased for the six months ended 30 June 2009 as compared to the six months ended 30 June 2008 because we purchased a sizable quantity from our largest supplier to take advantage of an attractive offer from them to reduce our average polysilicon procurement cost. Three of our five largest suppliers in 2008 were reputable major international polysilicon suppliers that sold us polysilicon feedstock. The other two local PRC suppliers supplied us with wires, polysilicon and slurry. Although our business relationships with our top five suppliers have been stable, as a contingency plan in case our top five suppliers terminate their business relationships with us, we will source our raw materials and consumables from other existing suppliers. In addition, other than the existing relationship with our suppliers, by making new contacts with suppliers in the industry and attending industry exhibitions, we will continue to explore and identify new suppliers with whom it might be rewarding to build for us a long-term relationship.

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None of our Directors or any person who owned 5% or more of the issued share capital of our Company as at the Latest Practicable Date or any of their respective associates had any interest in any of our five largest suppliers during the Track Record Period.

To the best of our Directors' knowledge, none of our major suppliers is subject to any legal proceedings that may have material impact on our operations and financial condition.

Polysilicon

The principal raw material we use in the production of our monocrystalline solar wafers is virgin polysilicon. We also use recyclable silicon that we derive from our manufacturing process, as well as those sourced from companies in the semiconductor industry. Until we began purchasing virgin polysilicon from Major International Supplier A pursuant to our long-term supply agreement in 2008, substantially all of our virgin polysilicon requirements were sourced through short-term contracts and spot purchases. We entered into two short-term virgin polysilicon supply agreements with Major International Supplier B in July 2009 pursuant to which we have begun receiving virgin polysilicon since the second half of 2009. During the same period, we continue to receive deliveries of virgin polysilicon from Major International Supplier B pursuant to our long-term supply agreement with them. We also purchase recyclable silicon, to smaller extent, from the spot market.

As at the Latest Practicable Date, our inventory of polysilicon, together with expected deliveries from committed supply contracts were estimated, based our actual and planned production capacity as well as our estimated shipment volume, to be sufficient for 88% of our estimated remaining requirements of polysilicon from the Latest Practicable Date until the end of 2009 and approximately 13% of our estimated requirements of polysilicon for 2010. Published reports of new production capacity of polysilicon coming online within the next few years suggest that current polysilicon supply levels will continue to improve in the medium term. Since the industry-wide shortage of polysilicon has ended and is not expected to recur in the near future, we have continued to limit our long-term commitments for polysilicon. As a result, we expect a substantial amount of our total anticipated polysilicon needs for 2009 and 2010 will be purchased through spot or short-term supply contracts. We believe that our procurement strategy of pursuing a strategic mix of long-term and short-term supply sources for polysilicon will allow us to take advantage of lower market prices for polysilicon when polysilicon prices decrease in the future. Our diversified procurement strategy also involves purchases from multiple suppliers to minimise disruptions to our operation in the event one supplier is unable to fulfill all of our order requirements on a timely basis, despite such supplier may offer polysilicon at a more competitive unit price than that of other suppliers in the market. Our Directors believe that our Group has the flexibility in sourcing polysilicon from various suppliers as well as the allocation of such sourcing among these suppliers as the number of our polysilicon suppliers has increased substantially recently. During the Track Record Period, the number of our polysilicon suppliers was 4, 8, 22 and 10 for each of the three years ended 31 December 2008 and the six months ended 30 June 2009, respectively. We can give no assurance, however, that our procurement strategy will be successful or that we will be able to procure the necessary polysilicon that we will require on the spot market at commercially reasonable prices, or at all. Moreover, the PRC Government has recently stated that the polysilicon industry in the PRC is showing signs of redundant production capacity and not making sufficient progress in terms of efficiency and quality to support the overall economic growth of the country. As such, the PRC Government has indicated

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that it will formulate new policies to control the further expansion of polysilicon manufacturing capacity in the PRC to permit the necessary structural adjustments in the industry which the PRC Government considers desirable, such as heightening environmental protection standards and increased energy consumption efficiency in the production of polysilicon in the PRC, to occur. However, we believe that the abovementioned intention of the PRC Government will not have an immediate, direct or material adverse impact to our business operations as we have historically sourced over 90% of our polysilicon from overseas suppliers, including Major International Supplier A, during the six months ended 30 June 2009. If the supply of polysilicon in the PRC market continues to be less favourable to us in terms of price, quality and availability compared with offers from our overseas suppliers, we plan to maintain such sourcing strategy in the future. Nevertheless, in the event that the PRC Government promulgates additional policies to restrain the import of polysilicon for whatever reason in the future or we choose to, or are forced to, procure polysilicon from PRC sources, our ability to, and the price at which we will be able to, source sufficient quality polysilicon from PRC suppliers will be affected by such new policies, which may potentially impact our business operations, results of operations, financial condition and prospects. Please refer to the section headed “Risk Factors — Risks Relating to Our Business” in this document for details of the risk in relation to our procurement of polysilicon mentioned above.

The recent financial crisis and deteriorated economic conditions have adversely impacted the solar power industry sentiment and led to increased volatility of market prices of polysilicon. According to Solarbuzz, the average spot price of virgin polysilicon has decreased 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, the average market spot price of polysilicon for the week ended 2 October 2009 was approximately US\$75 per kg, *Solar Updates 2/10/2009*.

Our average unit cost for polysilicon decreased in early 2009 and started to stabilise since June 2009. Our average unit cost for polysilicon decreased by 60.0% from RMB1,188.7 per kg for January 2009 to RMB475.3 per kg for May 2009. Since then, our average unit cost for polysilicon started to stabilise between approximately RMB400 per kg to approximately RMB580 per kg from June 2009 to August 2009 and slightly increased by 2.5% to RMB487.1 per kg for August 2009 compared to May 2009.

For the two years ended 31 December 2007, we purchased polysilicon only from the spot market. Except for the binding long-term contracts and short-term contracts which we entered into during 2008 and 2009, we did not have any other binding supply contracts. In addition, we also purchase polysilicon from our customers during the Track Record Period.

Long-term supply contracts

We are currently a party to two long-term supply agreements:

I. Long-term supply contract with Major International Supplier A

We have purchased polysilicon from this supplier, an Independent Third Party, since 2000, although these purchases were pursuant to spot contracts. Our purchases of polysilicon from this supplier were made at prices generally more favourable than our average purchase price from our other suppliers for polysilicon of comparable quality. Our total purchases of polysilicon from this supplier, including spot purchases and purchases under the long-term supply contract with them, accounted for approximately 28.6%, 59.1%, 27.8% and 91.2% of our Group’s total polysilicon purchases by value for each of the three years ended 31 December 2008 and the six months ended 30 June 2009, respectively. We entered into an eight-year supply contract with

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this supplier in 2006 for the supply of polysilicon from 2008 to 2015 and received our first shipment of polysilicon from this supplier in January 2008 in accordance with the terms of the supply contract. As a general industry practice, long-term supply contracts for virgin polysilicon, such as this long-term supply contract with Major International Supplier A, are typically entered into significantly in advance of the date of the first shipment in order to accommodate the capacity planning of the supplier. The salient terms of the eight-year supply contract with this supplier are set out below:

- *Effective period.* The contract took effect on 1 January 2007 and will expire on 31 December 2015.
- *Rights and obligations.* The supplier is required to supply, and we have committed to purchase, a fixed quantity of virgin polysilicon in each calendar year beginning in 2008. Such quantities were determined by arm’s length negotiation between the parties, taking into account our requirements for raw materials and the international major supplier’s production capacity during the relevant period. If we are unable to fulfill the minimum purchase commitment in any calendar year, the amount of advance payment in respect of that particular calendar year will be forfeited to the supplier. The long-term supply agreement with Major International Supplier A does not expressly stipulate that our Group will be subject to any other liabilities should our Group fail to meet the minimum purchase commitment. We rely on our contractual rights under the long-term supply contract to ensure that the supplier will honour its commitments under the contract.
- *Advance payment.* We are required to make two advance payments, the amounts of which were determined after arm’s length negotiation between the parties based on the total purchase price and generally represent a certain fixed percentage of the total purchase price for the minimum quantity of purchases over the contract period. These two advance payments were made in 2006 and 2007, respectively, and we have not suffered any material loss of such advance payments.
- *Pricing and settlement terms.* The virgin polysilicon will be sold at various fixed prices. Such prices are subject to adjustments by a certain fixed amount in accordance with changes in an energy price index. Despite the decrease of market prices of polysilicon, the parties agreed not to adjust the contracted prices to maintain our good commercial relationship. Further, the prices we paid for our purchases of polysilicon under this long-term supply contract were below the prevailing market spot prices for polysilicon during 2008 and the six months ended 30 June 2009 but higher than the market average for long-term contract prices for polysilicon for 2008 and 2009, according to Solarbuzz. We are invoiced for each delivery and each invoice amount is reduced by the advance payments we made on a pro-rata basis. The credit period for our purchases with this supplier is 30 days.
- *Goods return policy.* We may return our purchases of the virgin polysilicon within 5 days of receipt if the shipment does not conform to the quantity ordered or the agreed specifications.
- *Security Interest.* Pursuant to the long term supply contract with this Major International Supplier, our Group granted to Major International Supplier A a continuing security interest in the virgin polysilicon supplied by Major International Supplier A and in the proceeds of sale or insurance of such virgin polysilicon until the entire purchase of such virgin polysilicon and if applicable, all late payments, interest and expenses necessary to enforce such security interest, are paid. Major International Supplier A has the right to take all necessary measures to create, perfect, preserve and enforce the security interest.

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- *Termination and renewal.* The contract does not contain any renewal clause, and does not stipulate the circumstance of when the advance payments made can be refunded. It terminates at the end of the contractual period. Other than the forfeiture of any advance payments in accordance with the terms of the contract, the contract does not stipulate any specific compensation or penalty for early termination.
- *Confidentiality.* We are subject to confidentiality obligations under the contract and may not publicly disclose details of the contract without the prior consent of Major International Supplier A. For this reason, we are unable to disclose certain commercially sensitive information, such as the amount and percentage of our total purchases from Major International Supplier A and our annual minimum purchase commitment under the contract, in this document.

None of our Group, our shareholders and our Directors and/or any of their respective associates have any relationship, past or present, or have entered into any supplemental or side agreement(s) with this Major International Supplier, its shareholders and/or any of their respective associates.

II. *Long-term supply contract with Major International Supplier B*

In April 2008, we entered into a seven-year supply contract, with Major International Supplier B, a company primarily engaged in the manufacturing and distribution of polysilicon as well as various types of chemicals and an Independent Third Party, for the supply of polysilicon from 2009 to 2015 and have received our first shipment of polysilicon from this supplier in January 2009. Major International Supplier B is a global supplier of chemical materials with operations in Asia, North America, South America and Europe. We began our business relationship with Major International Supplier B in 2008 and our purchases of polysilicon from Major International Supplier B accounted for approximately 9.0% of our Group's total polysilicon purchases during that year in terms of quantity. To the best knowledge of our Group, our business relationship with Major International Supplier B has not been affected by the adverse development in the global economy that began in the second half of 2008. Further, nothing in the course of our dealings with Major International Supplier B nor its public announcements made so far has led us to believe that Major International Supplier B would be unable to honour its obligations under its long-term supply contract with us.

The salient terms of the seven-year supply contract with Major International Supplier B (as amended in July 2009) are set out below:

- *Effective period.* The contract took effect on 2 April 2008 and will expire on 31 December 2015.
- *Rights and obligations.* Major International Supplier B is required to supply, and we have committed to purchase, fixed quantity of virgin polysilicon starting from 2009. Such quantities were determined by arm's length negotiation between the parties, taking into account our requirements for the raw materials and Major International Supplier B's production capacity during the relevant period. Major International Supplier B has the sole and absolute discretion to require us to increase or decrease our annual purchase quantity by a percentage of no greater than 3% by providing us with three months written notice. If we failed to accept deliveries for a certain number of times in any calendar year, our payment obligations for our minimum purchase

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commitment in that calendar year may be accelerated. We rely on our contractual rights under the long-term supply contract to ensure that Major International Supplier B will honour its commitments under the contract. The long-term supply agreement with Major International Supplier B does not stipulate nor preclude other legal remedies should we fail to meet the minimum purchase commitment.

- *Advance payment.* We were required to make two advance payments in 2008. Further, we are required to make one advance payment in 2009 and another one by 30 September 2010 in accordance with an agreed schedule, which were determined after arm’s length negotiation between the parties based on the total purchase price and generally represent a certain fixed percentage of the total purchase price of our purchases of virgin polysilicon over the contract period. The outstanding balance of advance payments 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. We have made the advance payments in accordance with the said schedule, and we have not suffered any material loss with respect to such advance payments made.
- *Pricing and settlement terms.* The virgin polysilicon are sold to us at various fixed prices. Such prices are subject to adjustments with reference to an agreed formula taking into account of Major International Supplier B’s average purchase prices of metallurgical silicon and electricity and changes in the exchange rate of the Korean Won (the purchase price will only be adjusted upward if the Korean Won appreciates against the U.S. dollar), and generally track the production cost of Major International Supplier B. Despite the decrease of market prices of polysilicon, no such adjustment to the contracted prices has been made since the commencement of the contractual period as mutually agreed between us and Major International Supplier B. Pursuant to an amendment agreement that we entered into with Major International Supplier B, Major International Supplier B however agreed to lower the prices of virgin polysilicon sold to us under the long-term supply contract. We and Major International Supplier B did not rely on the originally agreed formula to lower the contracted prices, primarily due to the preference of both parties to apply a meaningful approach to price adjustment to reflect changes in the prevailing market conditions for polysilicon as a result of the global financial crisis. The originally agreed formula, however, remains to be a binding term of the long-term supply contract. Based on our communication with Major International Supplier B, we believe it is likely that any future adjustment to the contract prices will be based on mutual negotiation between us and Major International Supplier B. We are invoiced 14 days before each delivery and are expected to pay within seven days before the date of delivery. Each invoice amount will be reduced by the advance payments we made on a pro-rata basis.
- *Goods return policy.* We may return our purchases of the virgin polysilicon within 45 days of receipt if the shipment does not conform to the agreed specifications.

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- *Termination and renewal.* Pursuant to the long-term supply contract, the contract may be terminated (i) by mutual agreement; (ii) for breach of the terms and conditions therein; (iii) due to bankruptcy or insolvency in either party; (iv) if, having exerted commercially reasonable efforts, Major International Supplier B believes that it is unable to deliver the products; (v) by Major International Supplier B at its sole discretion if our Group produces polysilicon or acquires a producer of polysilicon; or (vi) if our Group undergoes a change of control. The contract does not expressly stipulate any compensation or penalty specifically for early termination of the contract by any party, except as mentioned above. Nonetheless, except when the contract is terminated due to Major International Supplier B’s inability to deliver the products, the expiry or termination of the contract does not relieve the parties of any obligations accruing prior to such termination.
- *Confidentiality.* We are subject to confidentiality obligations under the contract and may not publicly disclose details of the contract without the prior consent of Major International Supplier B. For this reason, we are unable to disclose certain commercially sensitive information, such as the amount and percentage of our total purchases from Major International Supplier B and our annual minimum purchase commitment under the contract, in this document.

We are advised by our Korean legal advisers, Lee International IP & Law Group (formerly known as Wool Law Group), that the seven-year supply contract with Major International Supplier B has been duly executed and delivered by us and constitutes valid and legally binding obligations of our Company, enforceable against our Company in accordance with its terms.

We have been able to fulfill the minimum purchase requirements under the long-term supply contract with Major International Supplier A since the contract had become effective due to our rapid expansion strategies and the increase in our sales orders. We experienced an increase in our sales volume of our solar products from approximately 7.8 MW in 2006 to approximately 44.3 MW in 2008 and from approximately 18.2 MW for the six months ended 30 June 2008 to approximately 25.8 MW for 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 from 2012 to 2015. We have purchased approximately 24,000 kg polysilicon, amounted to RMB12.9 million in 2009 up to the Latest Practicable Date. Despite the recent economic turmoil, our Directors believe that we will be able to meet the minimum purchase requirements in the future, including the year ended 31 December 2009 based on our current production capacity because our production volume has not been materially affected by the recent economic turmoil and our rapid expansion plan. As at the Latest Practicable Date, the quantity of polysilicon yet to be purchased under our long-term supply contracts for 2009 was less than one fourth of our estimated polysilicon requirement for the remaining period of 2009 and the purchase of a vast majority of such quantity has been scheduled for 2009. Further, our purchases of polysilicon for the year ended 31 December 2008 and the six months ended 30 June 2009 were approximately 223,608 kg and 205,681 kg, respectively, and we plan to expand our production capacity from 55 MW at the end of 2008, to 200 MW by the end of November 2009 and 504 MW by the end of June 2010. Since our Group’s requirements for polysilicon will generally increase in proportion to our capacity expansion, the aggregate minimum purchase commitments as mentioned above are expected to be lower than our Group’s requirements for polysilicon in each year.

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The aggregate advance payments required to be made by our Group under all of our long-term supply agreements are approximately RMB45.3 million in 2006, RMB44.7 million in 2007, RMB128.7 million in 2008, RMB13.6 million in 2009 and RMB18.6 million in 2010. No additional amount of advance payment is required to be made by our Group under all of our existing long-term supply agreements beyond 2010. We have made such required advance payments for the three years ended 31 December 2008, with our cash flow from operations and bank loans and the required advance payments for the two years ending 2010 are yet to be made as at the Latest Practicable Date.

We rely on our contractual rights pursuant to the above long-term supply agreements and have no other specific mechanism to ensure that Major International Supplier A and Major International Supplier B will honour their commitments under the long-term supply contracts, and to assist us in recovering any unutilised advances, if necessary. Nonetheless, we believe that Major International Supplier A and Major International Supplier B, both being listed companies, will honour their contractual obligations based on the history of our dealings with them and their respective reputation in the industry.

Short-term supply contracts

We entered into two short-term virgin polysilicon supply contracts with Major International Supplier B, a company primarily engaged in the manufacturing and distribution of polysilicon as well as various types of chemicals and an Independent Third Party, on 7 July 2009 for the purchase of fixed quantities of polysilicon from Major International Supplier B to be delivered during July 2009 to December 2009 and during August 2009 to October 2009, at various fixed prices, which were determined by arm's length negotiation with reference to the prevailing market price for polysilicon.

The salient terms of these short-term supply contracts (one of which was amended in August 2009) with Major International Supplier B, for the supply of polysilicon from July 2009 to December 2009 and from August 2009 to October 2009, are set out below:

- *Effective period.* The contract took effect on 7 July 2009 and 29 July 2009, and will expire on 31 December 2009 and 31 October 2009, respectively.
- *Rights and obligations.* Major International Supplier B is required to supply, and we have committed to purchase, fixed quantities of virgin polysilicon in the period from 7 July 2009 to 31 December 2009. We also rely on our contractual rights under these short-term supply contracts to ensure that Major International Supplier B will honour its commitments under the contracts on the other hand. Either party can turn to arbitration institutions for remedies.
- *Advance payment.* We are required to pay for every delivery under these short-term supply contracts in full at least seven days prior to the date of delivery.
- *Pricing and settlement terms.* The virgin polysilicon will be sold at various fixed prices which are lower than the market prices of virgin polysilicon as at the date of these short-term supply contracts. We entered into an amendment agreement to one of these short-term supply contracts in August 2009, which lowered the contracted price for some of the virgin polysilicon that will be delivered to us. The adjusted contract price was lower than the then prevailing market price for polysilicon. Delivery will be made upon payment by us.

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- *Goods return policy.* We are responsible to inspect the goods upon delivery by Major International Supplier B. If the quality of the goods delivered does not conform to the specifications under these short-term supply contracts, we shall notify Major International Supplier B within thirty days of the delivery of the goods and Major International Supplier B shall be responsible for the defective goods.
- *Termination and renewal.* The contracts do not contain any renewal or termination clause.

The long-term and short-term contracts provide us with fixed quantities of polysilicon from a committed source, which will ensure a stable supply of polysilicon for a portion of our current production and future expansion plans. In terms of the contract prices of polysilicon, if the prevailing market prices of polysilicon are above the applicable contract prices, these contracts will have a positive impact on our profitability. However, if the prevailing market prices for polysilicon fall below the applicable contract prices, these contracts will have a negative impact on our profitability.

Spot purchases

We have historically relied on spot purchases to satisfy all of our polysilicon requirements. A significant portion of our spot purchases during the Track Record Period were from Major International Supplier A, who is, and has been, an Independent Third Party. Historically, our spot purchases from this supplier have been at prices lower than the then prevailing spot prices, in part due to our excellent long-standing relationship with this supplier. In addition, we also made certain spot purchases from Major International Supplier B in the second half of 2009, which have been at prices lower than the then prevailing spot prices. Our ability to procure materials at a low cost allows us to achieve a desirable level of profit margins. However, we can give no assurance that we will be able to continue to make spot purchases from this supplier at below-market prices. Our purchases of polysilicon from Major International Supplier A, which included spot purchases and purchases under the long-term supply contract with them, accounted for approximately 28.6%, 59.1%, 27.8% and 91.2% of our total polysilicon purchases by value in 2006, 2007, 2008 and the six months ended 30 June 2009, respectively. The significant increase in the percentage of our total polysilicon purchases from this supplier in the six months ended 30 June 2009 was due to our purchase of a sizeable quantity of polysilicon from this supplier to take advantage of an attractive offer from them for the purchase of polysilicon.

Purchases from our customers

We have sourced a portion of our polysilicon requirement from our wafer and ingot customers, who, according to our best knowledge, do not possess the necessary capabilities to produce solar wafers with polysilicon. These wafer and ingot customers include Suntech, a PRC company engaged in the production and sales of solar cells and modules, and a Japanese trading company, by taking advantage of their access to polysilicon supply sources. Such purchases of polysilicon from our customers are not directly connected with the sales of our solar products to such customers. The purchases of polysilicon from our customers and the sale of our solar products to them are not “back-to-back” arrangements, which means the terms and conditions of our purchases from and sales to such customers are made independent of and without reference to each other. These purchases as well as the sales of our solar products to such customers, respectively, have been made at prices determined by arm’s length negotiation, taking into account the prevailing market

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conditions and our business relationship with the respective party. For purchases of polysilicon from our customers, we are generally required to settle the payment before delivery of the polysilicon. For sales to our customers from whom we source polysilicon, we either offer credit periods of no longer than 30 days on a case by case basis or request our customers to pay before delivery of our solar products. For each of the three years ended 31 December 2008 and the six months ended 30 June 2009, polysilicon purchased from our wafer and ingot customers amounted to approximately RMB6.2 million, RMB19.0 million, RMB177.6 million and RMB3.8 million, representing 23.9%, 26.2%, 53.9% and 2.8% of our total polysilicon purchases for such periods, respectively. Our purchase of polysilicon from our customers as a percentage of our total polysilicon purchase increased for 2008 compared to 2007 because there was a shortage of polysilicon in the market during the first three quarters of 2008 and some of our customers were willing to supply more polysilicon to us in this period for our production. For each of the three years ended 31 December 2008 and the six months ended 30 June 2009, our revenues derived from those customers, whom we also purchased polysilicon from, amounted to approximately RMB11.5 million, RMB240.7 million, RMB378.2 million and RMB5.3 million, representing 8.5%, 69.0%, 49.6% and 2.9% of our total revenue for such periods, respectively. It was a common practice in the industry to purchase polysilicon from customers. Due to the historical shortage of polysilicon, our customers often sourced their own polysilicon materials and sold them to wafer manufacturers in the industry in order to obtain more supply of wafers from those wafer manufacturers. We are not required to and we do not set aside polysilicon purchased from our customers for production of wafers for any specific customers. Sourcing polysilicon from our customers was a way for us to expand and diversify our supplier base. As polysilicon has not been in shortage since the end of 2008, we do not expect that we will need to purchase polysilicon from our customers in the foreseeable future.

Recyclable silicon

We also source polysilicon by purchasing recyclable silicon from various sources, pursuant to spot purchases, in the event that there is a temporary industrial shortage of polysilicon. For each of the three years ended 31 December 2008 and the six months ended 30 June 2009, approximately 11.3%, 5.6%, 5.3% and 0.5%, respectively, of our polysilicon feedstock purchases was recyclable silicon. The decrease in our purchase of recyclable silicon during the Track Record Period was mainly due to polysilicon no longer be in shortage since the fourth quarter of 2008. We do not use any scrapped patterned wafers. The recyclable silicon that we purchase from third parties are semiconductor remelts, which, compared to scrapped patterned wafers, are of higher quality and less contaminated, and thus are relatively easy to be recycled and can produce wafers of relatively high conversion efficiencies. The third party suppliers of semiconductor remelts are Independent Third Parties which include a Japanese company and some of our PRC customers. We did not enter into any formal contracts with these third party suppliers and our transactions with them were mainly based on purchase orders or invoices which set out the price, quantity and delivery terms. The price for the spot recyclable silicon is generally higher than virgin polysilicon purchased under our long-term contracts. We are required to prepay for our purchases with the recyclable silicon suppliers before delivery. We generally do not receive any warranties or other forms of guarantees for these products. In addition, we recycle the polysilicon scrap generated from our manufacturing process.

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Major customers

We had a total of 44, 38, 31 and 49 customers for each of the three years ended 31 December 2008 and the six months ended 30 June 2009, respectively. Our five largest customers, most of which were based in the PRC, together accounted for approximately 69.5%, 84.4%, 66.1% and 62.8% of our total revenues for each of the three years ended 31 December 2008 and the six months ended 30 June 2009, respectively. Our largest customer for the six months ended 30 June 2009, who is a photovoltaic cell manufacturer and an Independent Third Party, accounted for approximately 26.8% of our total revenues during the six months ended 30 June 2009. We began our business relationship with this customer in 2007. Suntech, our largest customer for each of the three years ended 31 December 2008, accounted for approximately 34.8%, 53.8%, 21.6% and 18.3% of our total revenues for each of the three years ended 31 December 2008 and the six months ended 30 June 2009, respectively. Our percentage of sales to Suntech decreased since 2008 due to our efforts to diversify our customer base. Four of our five largest customers in 2008 were PRC-based companies engaged in the business of manufacturing solar cells. The significant increase in sales to our top five customers and single largest customer from 2006 to 2007 was due to a shift in the focus of our selling efforts to build up long-term strategic relationships with these customers. Since 2008, our sales to our top five customers and our single largest customer decreased, however, as a result of our effort to expand our customer base and increase our sales to other existing customers as a contingency plan in case our top five customers terminate their business relationships with us. Further, through our marketing activities such as attending industry exhibitions, we will continue to explore and identify new customers with whom it might be rewarding for us to build a long-term relationship.

We did not encounter any incident of decrease or cancellation in purchase orders or material delays in the acceptance of our solar products during the Track Record Period. In order to control such risks, we have adopted a periodic customer appraisal program to review the payment and credit history of each customer on a monthly basis and to determine whether we should continue to transact with each customer.

None of our Directors or any person who owned 5% or more of the issued share capital of our Company as at the Latest Practicable Date or any of their respective associates has any interest in any of our five largest customers during the Track Record Period.

For each of the three years ended 31 December 2008 and the six months ended 30 June 2009, our sales to Sunergy accounted for approximately 0.6%, nil, 11.0% and 2.9%, respectively, of our total revenue. The increase in sales in 2008 was primarily due to our decision to strengthen our business relationship with Sunergy, who is a leading manufacturer of solar cell products, based on our favourable evaluation of Sunergy's production technology and thus its business prospect according to our communication with Sunergy. We understand that a class action was commenced in the U.S. District Court for the Southern District of New York on behalf of a class consisting of all persons who purchased the common stock of Sunergy pursuant and/or traceable to Sunergy's initial public offering on or about 17 May 2007. The plaintiffs in the said action are alleging that Sunergy made false and misleading statements in their registration statement and prospectus in connection with their initial public offering in May 2007 and are

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seeking to pursue remedies under the U.S. Securities Act. As advised by our U.S. legal advisers, Orrick Herrington & Sutcliffe, none of the companies in our Group is named as a defendant in this class action, and given that Sunergy has not cancelled or reduced any of its orders with us and has settled all payments with us without any material delay, we believe that such class action will not result in any material adverse impact on our Group, both financially and operationally. There was no trade receivables from Sunergy as at 31 December 2006 and 2007. As at 31 December 2008 and 30 June 2009, the trade receivables from Sunergy were RMB15.9 million and RMB2.7 million, respectively. The decrease in our trade receivables with Sunergy is primarily due to the decrease in our sales to Sunergy, as a result of our decision to diversify our customer base in order to further spread our exposure to credit risks. Such trade receivables from Sunergy had been fully settled as at the Latest Practicable Date. However, we will continue to monitor the development of such class action as part of our periodic customer appraisal program. To the best of our Directors' knowledge, none of our major customers is subject to any legal proceedings that may have material impact on our operations and financial condition.

Monocrystalline solar wafers

We currently sell substantially all of our monocrystalline solar wafers to a number of the industry leaders in solar cell production, including Suntech, Topsola, Jiangyin Jetion, JA Solar and Sunergy.

Historically, a large portion of our sales were to solar cell and module manufacturers located in the PRC, which comprised 89.3%, 95.2%, 86.6% and 86.6% of total revenues for each of the three years ended 31 December 2008 and the six months ended 30 June 2009, respectively. Although we will continue to focus on our PRC-based customers, as our capacity expansion from 55 MW to 200 MW will be completed by the end of November 2009, we will endeavour to expand our customer base to include leading solar cell manufacturers in other parts of the world in order to increase our worldwide market share and diversify our customer base.

Long-term sales contract with Suntech

We currently have one five-year framework agreement with Suntech, an Independent Third Party. We began to supply solar wafers pursuant to such agreement in 2007. Our business relationship with Suntech began in 2006. Although the contracted quantity and price for 2007 were fixed, quantities and prices for subsequent years are subject to further discussions and written agreement between us and Suntech. Suntech had prepaid a portion of the purchase price for some of the solar wafers to be delivered by us pursuant to this agreement. The amount of prepayment made pursuant to the long-term sales agreement was determined by arm's length negotiation and as a percentage of the agreed amount of sales in 2007. However, all of such prepayment had either been applied towards payment of purchases of wafers or refunded as at the Latest Practicable Date pursuant to a supplemental agreement between the parties to reflect the change in market practice. Suntech is not required to make any prepayment under the framework agreement during the remaining contractual period.

The salient terms of the five-year framework agreement with Suntech are set out below:

- *Effective period.* The contract took effect on 10 November 2006 and will expire on 31 December 2011.

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- *Rights and obligations.* We are required to supply, and Suntech has committed to purchase, a fixed quantity of solar wafers at a fixed price in 2007. The quantities and prices for the subsequent years are subject to further agreement between us and Suntech on an order-by-order basis, but in any event the amount purchased each year shall increase by not be less than 10% of the total quantity purchased in the preceding year. If Suntech fails to settle the purchase price on time, it will be liable to pay us a penalty of 5% per month on the outstanding balance. On the other hand, if we fail to supply the agreed quantity of solar wafers on time, we will be liable to pay Suntech a penalty of 5% per month on the price of the outstanding quantity of solar wafers. If the penalty reaches a certain level, the non-defaulting party may also terminate the agreement. Further, Suntech is also liable for any loss of expected gain or otherwise that can reasonably be foreseen should it fail to meet its purchase commitment and our Group is also liable for any loss of expected gain or otherwise that can reasonably be foreseen should we fail to meet the purchase order by Suntech. For the two years ended 31 December 2008 and the six months ended 30 June 2009, we were unable to fulfill our annual sales commitment to Suntech, and therefore breached our sales obligations under the contract.

Suntech is also required to supply an agreed quantity of polysilicon to our Group for the year ended 31 December 2007 under the contract. This is an independent obligation and not conditional upon their purchase of solar wafers from our Group. On the other hand, we are also not obliged to source polysilicon from Suntech under the contract. For the year ended 31 December 2007, Suntech was unable to provide the agreed quantity of polysilicon to our Group and therefore breached their supply obligation under the contract. Although it is not a back-to-back arrangement under the contract and Suntech is not obligated to supply any quantity of polysilicon to us under the agreement except for the year ended 31 December 2007, it was the commercial understanding between our Group and Suntech at the time when the parties entered into the agreement that we would not be able fulfill our sales commitment in any given year unless Suntech supplies sufficient quantity of polysilicon to us for any given year. In view of such prior understanding and the benefits to both parties to continue to strengthen their relationship in the difficult economic climate during the global financial crisis, we and Suntech mutually agreed to waive any and all claims and/or rights of action against each other arising out of or in connection with any breach of the contract during the Track Record Period, including the aforementioned breaches by Suntech and us. Nonetheless, as polysilicon is no longer in shortage, we do not expect that we will need to purchase polysilicon from Suntech in the foreseeable future. In addition, we expect that we will be able to fulfill our sales obligations under the five-year framework agreement going forward given our planned production capacity expansion and the fact that polysilicon is no longer in shortage. Any of our failure to meet our sales obligations in the future will constitute a breach of contract by our Group and we will be liable to pay Suntech the abovementioned penalty.

- *Pricing and settlement terms.* The solar wafers were sold at a fixed price in 2007 and the prices and settlement terms for the subsequent years are subject to further agreement by arm's length negotiation between Suntech and us on an order-by-order basis. In 2008, we agreed to sell solar wafers to Suntech with a credit period of up to seven days. Suntech is not required to make further prepayment each year over the contractual period.

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- *Goods return policy.* Suntech is responsible to inspect the goods within 7 days of delivery by us. If Suntech is not satisfied with the quality of the goods delivered, Suntech shall notify us within 30 day of delivery of such dissatisfaction. Upon confirmation by us that the delivered goods do not conform to the agreed specifications, we shall replace such defective goods within 7 days. Whether the delivered goods conform to the agreed specifications is determined by a set of standard tests agreed to by both parties. The long-term sales contract does not have other goods return provision.
- *Termination and renewal.* The agreement will be automatically renewed for one year, unless either party gives written notice to the other to terminate the agreement prior to 30 days before the expiry of the relevant term of the agreement.

The framework agreement with Suntech provides us with a significant volume of sales for a period of five years, which is in line with our plans for production capacity expansion. According to the annual report published by Suntech for the year 2008, Suntech was the world's third largest manufacturer of photovoltaic cells as measured by production output, and its photovoltaic cell manufacturing capacity as of 31 December 2008 was 1,000 MW per annum. Our Directors believe that Suntech will be able to honour its purchase commitment as our volume of sales to Suntech, which was approximately 11 MW for the year 2007, represents a small portion of its current scale of operation. Our Directors also believe that we will be able to meet our obligation to supply the minimum quantity of solar wafers to Suntech in accordance with the terms of the long-term sales contract given the expected expansion in our production capacity to 504 MW by the end of June 2010 and the fact that polysilicon is no longer in shortage, which would be sufficient to fulfil our annual supply obligation during the term of the framework agreement. For the above reasons, our Directors believe that neither party will default under the current market situation, and nothing in the course of our dealings with Suntech nor its public announcements made so far has led our Directors to believe otherwise. As our sales to Suntech, accounted for approximately 34.8%, 53.8%, 21.6% and 18.3% of our total revenues for each of the three years ended 31 December 2008 and the six months ended 30 June 2009, respectively, and our annual sales percentage to Suntech going forward is expected to be generally similar to such sales percentage for the six months ended 30 June 2009, any decrease in purchase orders from Suntech will likely have a material impact on our future growth and profitability if we are unable to source replacement orders from other customers.

Short-term sales contracts

Our short-term contracts for sales of our solar wafers are generally for fixed quantities, at prevailing market prices.

Monocrystalline Solar Ingots

Sales of monocrystalline solar ingots, as a percentage of total revenues, decreased substantially over the Track Record Period and accounted for 9.1%, 7.3%, 22.7% and 9.9% of total revenues for each of the three years ended 31 December 2008 and the six months ended 30 June 2009, respectively. We shifted our focus beginning in 2006 from sales of ingots to sales of wafers by increasing our wafer slicing capacity to meet customer demands and to be able to better control the quality of wafers manufactured using our ingots. We do not have plans to expand this business in the foreseeable future. The increase in sales of solar ingots as a percentage of total revenues in the year ended 31 December 2008 was mainly due to our expansion of

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capacity. In addition, some of our major customers increased their purchase of ingots from us during a period of ingot shortage during 2008. Sales of ingots as a percentage of total sale for the six months end 30 June 2009 decreased because there was no longer such shortage and we continued to place greater emphasis on the production of solar wafers.

Semiconductor products

We manufacture ingots and wafers for use in the semiconductor industry. Sales of semiconductor products accounted for 7.3%, 7.8%, 4.2% and 4.9% of our total revenues for each of the three years ended 31 December 2008 and the six months ended 30 June 2009, respectively. We have no current plans to expand this business.

Processing services

We provide wafer processing services for certain solar cell manufacturers in order to maintain good relationship with these customers. Revenues from processing services are classified under "Other Income" on our financial statements. Our processing services customers provide us with ingots for the production of solar wafers, in accordance with their specifications, which are separate from our inventory of raw materials and unrelated to our purchase of polysilicon from our customers. We have no current plans to expand this business.

Pricing

The prices of our solar wafers are determined by various factors, including:

- global supply and demand for solar wafers;
- prices of solar cells and modules;
- raw materials prices, including in particular market prices of polysilicon;
- terms of specific contract, for example, quantity and type of solar wafers involved; and
- historical relationship with and strategic value of a specific customer.

High quality monocrystalline solar wafers, in particular in the larger 156 mm by 156 mm size, generally command a higher price than lower efficiency solar wafers in the smaller 125 mm by 125 mm size, although the average selling price of our 156 mm by 156 mm solar wafers was lower than that of our 125 mm by 125 mm solar wafers for the six months ended 30 June 2009 due to deteriorated market conditions and 156 mm by 156 mm solar wafers being less commonly used during the period. A high efficiency solar wafer can be priced higher than a low efficiency solar wafer because the high efficiency solar wafer can be used to produce a solar cell with high conversion efficiency rates and solar cells are priced based on the number of watts of electricity they can generate. As a PRC-based manufacturer of solar wafers that can be used to produce solar cells with conversion efficiency rates in the range of 17% to 18%, we believe we enjoy a competitive advantage over some of our PRC-based competitors.

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We generally do not fix prices for longer than one year so that we may be positioned to take advantage of any increase in solar wafer prices in the near term. Although prices of monocrystalline solar wafers have enjoyed a generally increasing trend over the past few years, due in part to increasing polysilicon prices and the general increase in demand for solar products, the recent financial crisis and the deteriorated worldwide economic conditions have resulted in a significant fall in prices of monocrystalline solar wafers and we can give no assurance that such trend will not continue in the future. Please refer to “Risk Factors — Risks Relating to Our Industry — Prices for solar wafers may fluctuate, subject to future demand for solar products and competitive factors” for more information about the fluctuation of solar wafer prices.

In order to mitigate the adverse impact of weakening product prices on our Group’s results of operations and financial condition in light of the global economic crisis, we have taken and plan to take further measures to improve the quality of our solar products and to reduce our production costs. We also aim to improve the conversion efficiency of our solar products, further improve the efficiency on materials utilisation and better control our production costs.

We expect that there will be an industry-wide expansion to increase the overall solar wafer production capacity over the next few years and we therefore may have limited power to pass on any increases in our raw material costs, whether due to the increase in market prices for our raw materials, our customers demanding thicker wafers or otherwise, to our customers.

Prior to the fourth quarter of 2008, prices of polysilicon have been rising at a higher rate than prices for our solar products. The average unit price per kg of polysilicon procured by us increased by 77.8% from 2006 to 2007, 99.8% from 2007 to 2008. The average unit price of our solar wafers, in RMB per Watt, increased by 6.1% from 2006 to 2007, and decreased by 2.3% from 2007 to 2008. We experienced a general decrease in our gross profit margin during the Track Record Period, as the prices of polysilicon increased at a higher rate than the prices of our solar products from 2006 to the third quarter of 2008 and as the prices of our solar products fell at a faster rate than prices of polysilicon since the fourth quarter of 2008 when the financial crisis and the global economic downturn started to significantly impact us. Due to the recent financial crisis and the deteriorated worldwide economic conditions, our customers have bargained for lower prices with us and we have had to reduce the selling prices of our solar products since November 2008. As a result, the average unit selling price of our 125 mm by 125 mm solar wafer products 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, and the average unit selling price 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.

Nonetheless, our average unit selling price decreased in early 2009 and have started to stabilise since April 2009. The average unit selling price of our 125 mm by 125 mm solar wafers decreased by approximately 41.9% from RMB23.6 per piece in January 2009 to RMB13.7 per piece in April 2009, but remained stable at approximately RMB14.0 per piece from May to August 2009. Similarly, the average unit selling price of our 156 mm by 156 mm solar wafers decreased by approximately 34.6% from RMB40.2 per piece in January 2009 to RMB26.3 per piece in April 2009, but only decreased by approximately 15.2% to RMB22.3 per piece in June 2009 compared to April 2009 and experienced a slight increase of 7.6% to RMB24.0 in August 2009 compared to June 2009. The average unit selling price of our ingot products decreased by 46.4% from RMB1,211.4 per kg in January 2009 to RMB649.3 per kg in April 2009, but only

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decreased by 2.1% to RMB635.8 per kg in June 2009 compared to April 2009. We increased the average unit selling price of our ingot products by approximately 26.3% to RMB803.3 per kg in August 2009 compared to June 2009 to bring down demand from customers for our ingots due to our strategy to focus on the sales of wafers.

We generally cannot fully pass on our increased procurement costs of polysilicon to our customers during the Track Record Period as the prevailing range of market prices of similar products sold in the market are known by our customers and such market prices serve as benchmark prices our customers are willing to pay. In addition, following the financial crisis, our customers had taken advantage of their increased bargaining power by demanding thicker wafers, which would minimise their breakage rates, but not agreeing to bear the cost of the increased polysilicon required to manufacture thicker wafers. Further, they may use other sources of renewable power as substitutes for our solar products to generate power. We believe our pricing power of solar products is similar to our industry peers as the pricing of solar wafers is primarily determined by product quality, supply and demand of solar wafers and the prevailing feedstock cost, and is ultimately constrained by prices of alternative sources of renewable energy. If prices of our solar products continue to decrease at a higher rate than the prices of polysilicon, or if in the future prices of polysilicon increases at a higher rate than the prices of our solar products, it is likely that our gross profit margin will further decrease.

We believe prices of polysilicon and wafers may still fluctuate in the near future due to the downward pressure on prices of solar wafers, the recent financial crisis and deteriorated worldwide economic conditions mentioned above. We will continue to adopt cost efficiency measures to maintain or improve our gross profit margins.

We generally charge a fixed fee for our processing services, which is based on the type and quality of raw material supplied to us by our customers and the number and type of solar wafers requested to be manufactured. Prices for our processing services are fixed on a per wafer basis and depend on prior dealings with the customer, specifications of the product to be produced, sales volume and prevailing market conditions.

Prices for our semiconductor ingots are generally determined on a customer by customer basis, based on factors such as prior dealings with the customer, specifications of the product to be produced, volume of sale and prevailing market conditions.

Payment terms

From 2006 until the third quarter of 2008, we generally require full payment from our customers before delivery. Since the fourth quarter of 2008 we generally offer credit periods of 30 days to our long-term and reputable customers and require our other customers to pay in advance the full purchase price for our solar products. For customers from whom we require payment in advance, there is no specific term which states how many days prior to delivery such payment must be received by our Group. Normally, once the customer has paid in full, our Group will arrange for delivery of the products. In addition, based on business negotiations with our customers, we may accept bills with a term of three to six months as payment on a

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case-by-case basis from customers who meet criteria such as strong credit standing, proven settlement record, good business relationship with our Group and satisfactory business track record. We adopted and will continue to implement a customer appraisal program in which we review our customers’ payment records each month as an internal control measure to monitor our trade receivables and assess each customer’s credibility.

Marketing

We have historically focused our marketing efforts on PRC-based solar cell and module manufacturers. However, as we seek to diversify our customer base to minimise geographic concentration, we will seek to add leading international solar cell makers who are based outside of the PRC as our customers. To that end, we will select a small group of potential customers who we believe will be leaders in the solar cell industry. To assist in identifying this group of target customers and showcase our high quality solar products, we will attend solar power trade shows and conferences. We will continue to develop our relationships with leading solar cell manufacturers based in the PRC, including Suntech and Sunergy, and intend to expand our network of international customers outside of the PRC. Our marketing department was able to effectively manage and build up our customer base and in July 2009, we appointed Ms. Jane Wu as our President of Global Operation to assist our Group to further develop our customer base in markets outside of the PRC, particularly in USA. We selected USA as a market to develop our customer base as we believe USA is one of the major markets for solar products and would provide us with a significant potential for growth in our sales. Our Directors believe that the USA market for solar products is competitive based on industry forecast and management knowledge and experience of the USA market. Nonetheless based on recently announced government incentive programs in USA, such as the stimulus to the renewable energy sector under the American Recovery and Reinvestment Act, we believe that the market for solar products in USA will continue to grow significantly in the foreseeable future. Please refer to the paragraph headed “Government Policy — B. United States” in the section headed “Industry Overview” in this document for more information about the government policies that promote the development of solar industry in the USA market. We also believe that Ms. Jane Wu, who has more than 15 years experience in business development in the semiconductor industry, will bring along her industry experience and knowledge to us and be able to help us grow our business in USA in a meaningful way. Please refer to the section headed “Directors, Senior Management and Employees” in this document for the details of the qualifications and experience of Ms. Jane Wu. Our plan for our global operation includes establishing strategic alliances with international solar cell manufacturers, identifying potential market opportunities, developing sales channels, establishing product branding for the Group and participating in international conferences. In response to the deteriorated market conditions triggered by the recent financial crisis since October 2008, we have increased our sales personnel and their compensation package with a view to maximise our sales to mitigate the impact of the changes in the market conditions on us. We also intensified our sales effort to our existing customers with relatively high production capacities with an aim to increase our sales volume to them. We believe that our sales efforts have been successfully enhanced as a result, as evidenced by the increase in our sales volume for the six months ended 30 June 2009 as compared to the same period last year in a market where demand had contracted significantly.

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We have strengthened our sales and marketing effort in order to support our production capacity expansion plan by:

1. the recent establishment of our Global operation to explore market opportunities in the U.S. to further diversify our customer base;
2. our plan to set up a liaison office in U.S. to strengthen our market presence; and
3. our plan to recruit 12 additional sales staff to be based in Shanghai to further strengthen our sales and marketing capability and to solicit more sales orders from our existing and potential customers.

In order to attract new customers, we have carried out or planned to carry out the following sales and market activities:

1. our participation in two industry trade shows in Germany and the U.S. in May 2009 and July 2009, respectively to increase our exposure in the international market;
2. our participation in two industry trade shows in the PRC and Taiwan in May 2009 and October 2009, respectively to increase our exposure in the Asia market; and
3. having sent our product samples to more than 10 potential customers during 2009 as at the Latest Practicable Date in an effort to attract new customers by impressing such potential customers with the quality of our solar products.

QUALITY ASSURANCE

Each stage of our manufacturing process is subject to a strict quality assurance system to ensure that the monocrystalline solar wafers we manufacture are able to achieve some of the highest conversion efficiency rates in the industry in the PRC. We believe we have been able to leverage our experience from the semiconductor industry, which generally requires stricter quality assurance systems than the solar power industry, to establish and maintain a strict quality assurance system. Our quality assurance team comprises over 40 staff, of which ten of them have an average of ten years of related industry experience and graduated from technical schools, junior colleges or universities in related disciplines. The quality assurance team is a significant contributor to our ability to manufacture one of the highest efficiency solar wafers in the industry in the PRC.

We routinely inspect polysilicon raw materials, in particular the recyclable raw materials we source from third parties, as well as the crucibles, slurry and wires, for purity and other relevant characteristics. The quality assurance team conducts systematic tests at each stage of the manufacturing process such as pre-cutting tests, round-ingot tests, square-ingot tests and wafer tests to ensure conformity with internal benchmarks, including resistivity and life time, and customer specification requirements. During the pre-cutting tests, round-ingot tests, square-ingot tests and wafer tests, we test our solar products in terms of their appearance, size and type. In particular, during the round-ingot tests, we also conduct sample tests on oxygen and carbon content, and during the wafer tests, we also conduct sample tests on resistivity. In order

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to test the different aspects of our solar products, we have adopted methodologies such as, testing the appearance by conducting visual measurements and testing the size, type, resistivity and dislocation by utilising measuring tapes, polarity pens, resistivity instruments and microscopes respectively. We conduct a final inspection of our solar products prior to shipment to our customers. We have experienced a limited level of quality-related product returns from our customers in the past. We will continue to work with our customers to address all quality-related issues quickly and efficiently. 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 have received numerous certificates and qualifications including the following:

Year of grant	Awards/recognition	Awarding body	Group company being awarded
2005	Our solar power monocrystalline silicon and monocrystalline silicon wafers were certified as a new and high technological achievement transformation project in the Shanghai municipality (上海市高新技術成果轉化項目) ^{Note 1}	The Shanghai Municipal Certification Centre for Projects of Transformation of New and High-Tech Achievements (上海市高新技術成果轉化項目認定辦公室)	Comtec Solar
2005	ISO9001:2000 certificate of registration for monocrystalline silicon and silicon wafer production, and polycrystalline silicon processing ^{Note 2}	China Certification Center, Inc.	Comtec Semi
2006	Our solar power monocrystalline silicon and monocrystalline silicon wafers were certified as a new and high technological achievement transformation project in the Shanghai municipality (上海市高新技術成果轉化項目“百佳”) ^{Note 3}	The Shanghai Municipal Certification Centre for Projects of Transformation of New and High-Tech Achievements (上海市高新技術成果轉化項目認定辦公室)	Comtec Solar
2006	ISO9001:2000 quality management system certificate for the production of silicon wafers for solar grade battery ^{Note 4}	China Certification Center, Inc.	Comtec Solar
2005 and 2007 . .	Certificate for High and New Technology Enterprise (高新技術企業認定證書) ^{Note 5}	The Science and Technology Commission of Shanghai Municipality (上海市科學技術委員會)	Comtec Semi
2005, 2006, 2007 and 2008	Certificate for Foreign-Funded Enterprises with Advanced Technology (外商投資先進技術企業證書) ^{Note 6}	The Shanghai Foreign Investment Commission and The Shanghai Foreign Economic Relation & Trade Commission (上海市外國投資工作委員會/上海市對外經濟貿易委員會)	Comtec Semi

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Year of grant	Awards/recognition	Awarding body	Group company being awarded
2008.	Certificate for High and New Technology Enterprise (高新技術企業證書) ^{Note 7}	The Science and Technology Commission of Shanghai Municipality (上海市科學技術委員會), Shanghai State Tax Bureau (上海市國家稅務局), Shanghai Local Tax Bureau (上海市地方稅務局), Shanghai Finance Bureau (上海市財政局)	Comtec Solar

Note:

- The accreditation for high and new technological achievement transformation project of solar power monocrystalline silicon and monocrystalline silicon wafers is granted on a long-term basis and is subject to review every six months. This accreditation is granted to individuals or enterprises who are able to put their high and new technology achievements into practice in their production process. With this certification, our Group can be entitled to the benefits under 《上海促進高新技術成果轉化的若干規定》(Provisions of the Shanghai Municipality on Promoting the Transformation of High and New Technology). The benefits include subsidies from the government to develop the technological achievement, income tax deduction based on the level of expenditures related to the technological development, exemption from transaction fee and land use right registration fee for transactions related to the technological achievement transformation project, and financing guarantee by the Shanghai Municipality. The Shanghai Municipal Certification Centre for Projects of Transformation of New and High-Tech Achievements has the right to monitor the technological achievement transformation project and determine whether the project remains eligible for such benefits.
- The ISO 9001:2000 certificate of registration for monocrystalline silicon and silicon wafer production, and polycrystalline silicon processing is valid from 12 December 2005 to 11 December 2008. The significance of this certificate is to certify that the quality of management of Comtec Semi with regards to monocrystalline silicon and silicon wafer production, and polycrystalline silicon processing is in line with the requirements of ISO 9001:2000. We shall apply for renewal of the certificate before 11 December 2008. China Certification Center, Inc. was the first certification institution in the PRC to be approved by China Accreditation Committee for Environmental Management System Certification Bodies (CACEB) and one of the first in South East Asia to be approved by United Kingdom Accreditation Service (UKAS). It is authorised to issue various certification such as ISO9001 and ISO14001.
- Please refer to Note 1. The certificate is renewed in 2007 and 2008.
- The ISO 9001:2000 certificate for the production of silicon wafers for solar grade battery is valid from 20 December 2006 to 19 December 2009. The significance of this certificate is to certify that the quality of management of Comtec Solar with regards to the production of silicon wafers for solar grade battery is in line with the requirements of ISO 9001:2000. We shall apply for renewal of the certificate before 19 December 2009. China Certification Center, Inc. was the first certification institution in the PRC to be approved by China Accreditation Committee for Environmental Management System Certification Bodies (CACEB) and one of the first in South East Asia to be approved by United Kingdom Accreditation Service (UKAS). It is authorised to issue various certification such as ISO9001 and ISO14001.
- The certificate for High and New Technology Enterprise of 2005 is granted for a term of two year and that of 2007 is granted for a term of one year. The enterprises satisfying certain requirements under 《上海市高新技術企業認定辦法》 Shanghai Municipal Measures for Recognition of High and New Technology Enterprise issued in 2001 will be recognised as a high and new technology enterprise.
- The certificate for Foreign-Funded Enterprise with Advanced Technology is granted for a term of one year and shall be reviewed annually based on the enterprise performance during the previous year. The certificate is granted to foreign invested enterprises with high and new technology achievements. Foreign invested enterprises with this certificate are entitled to the benefits under 《國務院關於鼓勵外商投資企業的規定》(Rules to Encourage Foreign Investment, issued by the State Council). The benefits include tax reductions for exporting and technological enterprises and priority in financing. We will file the renewal application in the due course. The Shanghai Foreign Investment Commission and the Shanghai Foreign Economic Relation & Trade Commission both implement guidelines, policies, laws and regulations related to foreign trade and attracting foreign investments. They also draft and enforce Shanghai’s development strategy and guide Shanghai’s foreign trade activities and foreign exchange control.

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7. The certificate was issued on 31 December 2008 with an effective period of three years and subject to review upon expiry pursuant to 《高新技術企業認定管理辦法》 (Measures for Recognition of High and New Technology Enterprises) effective on 1 January 2008. High and new technology enterprises will be granted with a preferential enterprise income tax rate of 15% upon application with the relevant tax bureau. In order to be recognized as a high and new technology enterprise, the enterprise shall be engaged in one of the high and new technology fields supported by the PRC Government. The enterprise shall continuously research, develop and transform its technological achievement to become its main intellectual property, as its basic development operating activities.

RESEARCH AND DEVELOPMENT

Our research and development activities are focused on improving our manufacturing processes to increase conversion efficiency rates and improve production yields and manufacturing efficiencies. As at the Latest Practicable Date, our research and development team was comprised of Mr. Shi Cheng Qi, our CTO, who has more than 30 years of experience in silicon and material engineering, and over 10 production managers and assistant managers who have, on average, over 12 years of relevant industry experience and graduated from technical schools, junior colleges or universities in related disciplines. Most members of our research and development team worked at other departments of our Group and had technical responsibilities, such as pulling ingots and cutting wires, prior to joining the research and development team. Mr. Hu Ru Quan and Mr. Cheng Yu Wei, our senior management members, are members of our research and development team and both of them have approximately 15 years of related industry experience. We hold monthly management meetings to discuss and monitor the progress of research and development projects and costs. Our past achievements include:

- leveraging our experience in the semiconductor industry to improve ingot pulling processes;
- designing a new hot zone structure to lower energy consumption during the ingot pulling process;
- developing slicing processes using thinner wires to reduce kerf loss and improve production yield;
- designing new ingot-holding fixtures to allow the loading of longer ingots to increase manufacturing efficiencies;
- developing square wafers;
- developing a 24 square inch hot zone for pulling 210 mm by 210 mm ingots; and
- developing 210 mm by 210 mm wafers ready for large-scale commercial production.

Our current research and development projects include:

- reducing thickness of wafer to 160 μm by December 2009;
- increasing average conversion efficiency rates of solar cells manufactured using our solar wafers to above 18% by the end of December 2010; and
- improving the manufacturing process of 210 mm by 210 mm wafers and square wafers.

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In addition, we have established a strategic development relationship with Topsola, a photovoltaic modules and photovoltaic power generation system manufacturer, pursuant to a technical support services agreement between our Group and Topsola dated 29 February 2008 to further expand our technical capabilities in designing, developing and manufacturing solar wafers. Topsola is a solar cell manufacturer in the PRC which is well known as a technology leader in the solar power industry in the PRC due to its strong technical background supported by Shanghai Jiao Tong University, one of its indirect shareholders, and its extensive research and development capabilities. Our agreement with Topsola is to formalise our relationship for a term of four years commencing from 1 January 2007 and ending on 31 December 2010. The purpose of the agreement is for the parties to cooperate and improve the conversion efficiency rate of the wafers used in solar cell production. We provide product specifications to Topsola and Topsola would in turn provide us with feedback on the specifications. There are no tangible rewards payable to Topsola. From our cooperation, Topsola is able to research on wafers to improve their conversion rate and we are able to upgrade our solar products. Both parties have the obligation to keep all technical information obtained during the term of cooperation strictly confidential. We have not incurred and will not incur any specific development costs, and have not developed and will not develop any intellectual property rights, in connection with this cooperation arrangement. For example, we are currently developing a specialty wafer using high purity virgin polysilicon.

One illustration of our achievements in research and development is that we manufacture N-type monocrystalline silicon ingots, which we indirectly supply to a Japanese company for their production of high efficiency N-type solar cells. The production of N-type ingots is more complicated than P-type ingots because it is more difficult to control the resistivity range in N-type ingots.

The amount of our research and development expenses was insignificant during the two years ended 31 December 2007 and the first half of 2008 as research and development activities were mainly performed by our staff by utilising our existing fixed assets, and therefore, we did not record research and development expenses as a separate item until July 2008. Since July 2008, we started to record our research and development expenses as a separate item. For the year ended 31 December 2008 and the six months ended 30 June 2009, our research and development expenses were RMB1,079,000 and RMB1,683,000, respectively.

INTELLECTUAL PROPERTY

We have developed various proprietary technologies relating to the production of solar wafers. As at the Latest Practicable Date, we have received five patent certificates issued by the PRC patent authorities, of which one was an invention patent and four were utility model patents. The invention patent relates to a pulling method and the utility model patents relate primarily to cutting methods and a tool to hold square-shaped tubes.

We rely on employment and non-competition agreements with our directors, officers and employees to protect our intellectual property. These agreements prohibit our directors, officers and employees from misappropriating our intellectual property, competing with us after termination of employment or claiming ownership to inventions, designs and other technology developed during their employment with us. Although these agreements are valid and enforceable, whether these agreements will provide the protection to our Group as intended is subject to the risks related to the PRC legal environment. Our PRC legal advisers, Commerce & Finance Law Office, confirm that these employment and non-competition agreements are valid and enforceable under the applicable PRC laws and regulations. During the Track Record Period, we have

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not experienced any breach of the employment and non-competition agreements by our employees. Please refer to the section headed “Risk Factors — The PRC legal system is not fully developed so the legal protections available to you may not be as comprehensive as those offered in other jurisdictions” in this document for a more detailed discussion on such risks.

Comtec Solar filed a registered trademark application on 7 March 2008 which was accepted by the Trademark Bureau of State Administration of Industry and Commerce on 19 March 2008. However, we will not enjoy any proprietary rights over such trademark until the registration is completed. As confirmed by our PRC legal advisers, Commerce & Finance Law Offices, we have filed the trademark application according to PRC laws and regulations and there is no legal impediment to our registration of the trademark if the requirements under the relevant laws are satisfied. However, we will not be able to enjoy any proprietary right over the trademark should such application for registration be unsuccessful. Please refer to the section headed “Appendix VI — Intellectual Property Rights to the Group” to this document for further details of the Group’s intellectual properties.

As at the Latest Practicable Date, we have not experienced any infringement of our intellectual property rights by third parties, nor have we infringed any intellectual property rights owned by third parties.

COMPETITION

The solar wafer industry is evolving and may become increasingly competitive, particularly if the current worldwide shortage of polysilicon is addressed by increasing supply. We believe that the principal competitive factors for our industry include:

- product quality;
- production technology and efficiency;
- relationship with suppliers;
- cost competitiveness and price; and
- sales and marketing network.

We believe our success depends in part on our ability to efficiently manufacture high quality monocrystalline solar wafers at a competitive price, utilising advanced production technology. Additional factors which drive competition in attracting customers include the quality and reliability of our solar wafers and our ability to meet production schedules in a timely manner, which will, in part, depend on our ability to procure polysilicon at commercially reasonable prices in a timely manner.

We believe our most direct competitors are monocrystalline solar wafer manufacturers based in the PRC but we also compete, although to a lesser extent, with monocrystalline solar wafer manufacturers in other countries. In addition, as global production of solar wafers increases, we expect the production of multicrystalline solar wafers to become an increasing competitive factor.

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We expect increased competition resulting from existing competitors’ expanding capacity, as well as new entrants. Although solar power demand and solar wafer demand are expected to increase in the near term, no assurance can be given that increases in the global solar wafer production capacity will not outpace demand. Increased competition could reduce our operating margins due to price competition and loss of market share. Many of our competitors have vertically integrated business models that enable them to enjoy a stable supply of raw materials or distribution channels for sales of their products. We also expect existing and potential new competitors to pursue their business plans aggressively, which is likely to have a negative impact on the prices we are able to charge for our solar products. Our inability to adequately address these and other competitive pressures by successfully implementing our strategies will likely have a negative impact on the prices we are able to charge for our solar products, as well as increase the costs and expenses associated with our production process, which is likely to have a material adverse effect on our business, prospects, financial condition and results of operations. Please refer to the section headed “Risk Factors — Risks Relating to Our Business — We may not be able to compete effectively against manufacturers who may have greater resources and more advanced technologies than we do”.

EMPLOYEES

We had 165, 387, 455 and 496 full-time employees as at 31 December 2006, 2007, 2008 and 30 June 2009, respectively. As at the Latest Practicable Date, we had 636 full-time employees, of which 15 employees were in managerial positions, 490 employees held positions relating to production and other technical disciplines, 61 employees were in positions relating to administration and support, 56 employees were in positions relating to quality assurance, 7 employees were in positions relating to finance and accounting, and 7 employees were in positions relating to sales and marketing. As at the Latest Practicable Date, our research and development team comprised our CTO, Mr. Shi Cheng Qi, and 10 managers or assistant managers in our production team, who on average have over 12 years of relevant industry experience.

As part of our expansion plan, we plan to hire approximately 200 employees from July 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.

Set forth below is our recruitment plan:

Function	Approximate Number of Employees		Required Qualifications
	in 2009	in 2010	
Managerial positions	1	—	At least a junior college degree or above depending on the position and five years of working experience in the relevant industry
Production and other technical disciplines	173	462	Secondary school education qualification or above depending on position and two years of relevant industry experience for certain technical positions

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Function	Approximate Number of Employees		Required Qualifications
	in 2009	in 2010	
Administration and support staff . . .	9	9	Tertiary or secondary school education or above depending on the position and at least two years of work experience
Finance and accounting	2	2	Tertiary or secondary school education or above depending on the position and at least two years of work experience
Sales and marketing staff	5	12	Tertiary or secondary school education or above depending on the position and at least two years of work experience
Future senior position	10	10	Electronics, machinery or materials related junior college degree or above

In order to achieve our recruitment goals, we will approach employment agencies, set up online recruitment advertisements and consider referrals from our staff or industry peers. We have budgeted a total of approximately RMB260,000 for the purpose of recruitment and most of the funds will be used as payment to employment agencies.

We generally estimate a training period of approximately three months for manufacturing related personnel. Virgin polysilicon does not need to be cleaned or otherwise treated before it is placed into a crucible. Scrap polysilicon and most other types of recyclable silicon however, must be cleaned and treated by processes which are labour intensive before such materials may be used for manufacturing. As a result, we require fewer employees, and our manufacturing process is significantly less labour intensive, than our competitors who rely primarily on scrap polysilicon as their raw material.

According to 《中華人民共和國勞動合同法》(The Labor Contract Law of the PRC) (the “New Labour Law”) effective as of 1 January 2008, greater duties are imposed on employers which 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. If our Group decides 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, thus our results of operations could be adversely affected. Our Group has updated our labour contracts according to the New Labour Law, and there is no immediate impact on the operation and financial condition of our Group following the implementation of the New Labour Law.

As required by PRC regulations, we participate in statutory retirement plans organised by the respective PRC local governments. We currently contribute 22% of the statutory benchmark salary amounts to such funds. Our contributions to the statutory retirement plans are charged to the consolidated profit and loss account as and when incurred. We also provide our employees with medical insurance and unemployment insurance as required by PRC laws and regulations. As confirmed by our Directors, our Group has complied with the relevant national and local labour and social welfare laws and regulations, and the relevant contributions have been made by our Group in accordance with these laws and regulations.

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We have not experienced difficulties in hiring or retaining employees in general. Our staff turnover rates for each of the three years ended 31 December 2008 and the six months ended 30 June 2009 were 6.7%, 6.5%, 14.8% and 8.6%, respectively. We enter into employment agreements with all of our directors and officers. We consider our relationship with our employees to be good.

ENVIRONMENTAL MATTERS

We generate chemical waste, waste water and other industrial waste during the production of our monocrystalline solar wafers. We are subject to periodic inspections from the local environmental protection bureau. PRC national and local environmental laws and regulations impose fees for the discharge of certain waste materials, impose fines and other penalties for serious violations and provide that production of offending companies may be temporarily suspended or permanently terminated in certain circumstances.

We have instituted various measures to comply with applicable laws and regulations, including measures to monitor and control waste water and waste chemicals. We currently have in-house waste water treatment facilities and external waste chemicals processing facilities. Our facility maintenance team oversees our compliance with environmental and waste treatment laws and regulations. Since 2000, Mr. Shi Cheng Qi, our executive Director and CTO and Ms. Wu Yao Fen, our manager for material preparation, have been responsible for the formulation and implementation of specific measures taken by us to comply with applicable environmental protection laws. Our research and development efforts to reduce the impact of our production process on the environment are mainly focused on modifications of our existing equipment. One of the sources of pollution in the solar power industry is the cleaning process which creates waste water. We have therefore modified our cleaning tanks by installing a system to filter debris, which include silicon, metal, diamond sand, and other dirt, to minimise the direct flow of waste water into the water treatment facilities. The leftover debris will be sent to waste processing companies once they have accumulated to a certain level. This effort has significantly reduced the amount of waste water dumped into the waste water treatment facilities. Our existing facilities are examined and maintained periodically to ensure that they function properly. Our Group outsources waste chemical treatment to an external waste chemical processing facility. The amount of fee payable to the external waste chemical processing facility is approximately RMB20,000 per month for waste chemical treatment services. In order to support our capacity expansion and to ensure compliance with the applicable environmental protection laws, we plan to construct an additional in-house waste treatment facility. We have substantially completed the construction of such in-house waste water treatment facility in July 2009. The cost incurred for the construction of such facility is approximately RMB1.5 million, which is funded from our cash flow from 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. We settled the fine on 25 May 2009 and we have proper procedures in place for the discharging of polluted water to ensure compliance with the relevant laws and regulations and have instructed our production personnel of these procedures in order to avoid over-discharging of polluted water in the future.

BUSINESS

Save as disclosed above, during the Track Record Period and as at the Latest Practicable Date, we had not encountered any non-compliance or any complaints from our customers or the public in respect of environmental protection issues relating to the use of our solar products, or any incidents arising from our production activities. The amount of hazardous chemicals used by our subsidiaries is insignificant and the containers of such hazardous chemicals have passed the inspection of the relevant department of work safety supervision and administration. Our cost of compliance with applicable environmental protection laws and regulations was approximately RMB42,000, RMB562,000, RMB430,000 and RMB100,000 for each of the three years ended 31 December 2008 and the six months ended 30 June 2009, respectively. We expect the compliance costs for environmental protection of the Group will be approximately RMB500,000 in 2009.

We believe that there are no environmental protection laws and regulations which may adversely affect our production in any material respect, and we are currently in compliance in all material aspects with all applicable environmental laws and regulations. However, 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 February 2008 and effective on 1 June 2008 and other relevant laws and regulations of the PRC and the Shanghai Municipal, any enterprise discharging waste water or pollutants into waters is required to seek approval from the relevant environmental protection authorities, and any discharging of waste water or pollutants without prior approval 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 Shanghai Municipal issued a Notice in Respect Of the Renewal and Issuance of Pollutant Discharge Permits (《關於排污許可證換發問題的公告》) (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 permit until such enterprise receives a notice from an environmental protection authority that it must obtain such permit.

In 2009, we received confirmation letters issued by the local environmental bureau which confirmed that save as disclosed above we have complied with all environmental protection laws and regulations in the PRC. Our PRC legal advisers, Commerce & Finance Law Offices, have confirmed that (i) there will be no legal impediment for our subsidiaries to obtain such pollutant discharge permits in the event that we are required by the relevant authorities to obtain such licences in the future, and (ii) Comtec Solar, Comtec Semi and Comtec Solar (Jiangxi) are not required to apply for special permits or licences in order to comply with all environmental protection laws and regulations in the PRC, other than such pollutant discharge permits as mentioned above, if required.

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LABOUR AND SAFETY MATTERS

We are subject to various labour and safety laws and regulations in the PRC including 《中華人民共和國勞動法》 (The Labour Law of the PRC), 《中華人民共和國勞動合同法》 (The Labour Contract Law of the PRC), 《中華人民共和國安全生產法》 (The PRC Production Safety Law), 《工傷保險條例》 (The Regulations on Occupational Injury Insurance), 《失業保險條例》 (The Unemployment Insurance Regulation), 《企業職工生育保險試行辦法》 (The Interim Measures concerning the Maternity Insurance for Enterprise Employees), 《社會保險登記管理暫行辦法》 (The Interim Measures concerning the Management of the Registration of Social Insurance), 《社會保險費徵繳暫行條例》 (The Interim Regulations concerning the Levy of Social Insurance), 《住房公積金管理條例》 (The Regulations concerning the Administration of Housing Fund) and other related regulations, rules and provisions issued by the relevant governmental authorities from time to time for our operations in the PRC.

According to the Labour Law of the PRC and the Labour Contract Law of the PRC, labour contracts shall be concluded in writing if labour relationships are to be established between us and our employees. We must provide wages to our employees which are no lower than prevailing local minimum wage standards. We are required to establish a system for labour safety and sanitation, strictly abide by applicable rules and standards and provide relevant education to our employees. We are also required to provide our employees with safe and sanitary labour conditions that meet applicable rules and standards and carry out regular health examinations of our employees engaged in hazardous occupations.

The PRC Production Safety Law requires us to maintain safe production conditions as provided in the PRC Production Safety Law and other relevant laws, administrative regulations, national standards and industrial standards. According to this law:

- we must be sufficiently equipped to ensure safe production in order to engage in production and business operation activities;
- we are required to offer education and training programs to our employees regarding production safety;
- the design, manufacture, installation, use, checking, maintenance, repair and disposal of our safety equipment are required to conform with applicable national or industrial standards; and
- we are required to provide our employees with labour protection equipment that meet applicable standards, to educate them to wear or use such equipment according to the prescribed rules and to supervise them to ensure that they are using such equipment.

The Regulations on Occupational Injury Insurance (《工傷保險條例》), the Interim Measures concerning the Maternity Insurance for Enterprise Employees (《企業職工生育保險試行辦法》), the Interim Measures concerning the Levy of Social Insurance (《社會保險費徵繳暫行條例》) and the Interim Measures concerning the Administration of the Registration of Social Insurance (《社會保險登記管理暫行辦法》), and the Regulations concerning the Administration of Housing Fund (《住房公積金管理條例》) require us to provide our employees in the PRC with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, occupational injury insurance, medical insurance as well as housing fund.

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Pursuant to 《上海市城鎮職工社會保險費徵繳若干規定》 (Provisions on the Levy of Social Insurance for Town Residents of Shanghai) 《上海市外來從業人員綜合保險暫行辦法》 (Interim Measures of Shanghai on Comprehensive Insurance for Non-residents of Shanghai), 《上海市小城鎮社會保險暫行辦法》 (Interim Measures on Social Insurance for Small Town Residents of Shanghai) and 《上海市住房公職金管理若干規定》 (Provisions on Housing Funds Management of Shanghai), we have to contribute fees relating to pension insurance, unemployment insurance, maternity insurance, occupational injury insurance, medical insurance and housing funds for our employees who are registered permanent residents of Shanghai Municipal, contribute comprehensive insurance fees for those employees who are not permanent residents of Shanghai Municipal and contribute small town insurance fees for employees who are residents of Shanghai suburban districts.

We make continuous efforts to provide a safe working environment for our employees. We implement safety guidelines and operating procedures for our production processes and provide employees with occupational safety education and training to enhance their awareness of safety issues. We provide and require our employees to wear suitable protective devices to ensure their safety. We have formulated an internal safety guidebook, which describes measures taken by our Group to ensure that we have complied with the applicable laws and regulations in relation to social responsibility, and in particular, in respect of health, safety and accidents matters. Our internal safety guidebook covers topics such as manufacturing processes, staff training, hazardous goods management and occupational disease prevention. We are also committed to conduct regular and irregular safety inspections, where our dedicated safety inspection team is required to keep records of details of and to summarise the results of each inspection. Our annual cost of compliance with labour and safety matters amounted to approximately RMB80,000, RMB200,000, RMB300,000 and RMB150,000 for each of the three years ended 31 December 2008 and the six months ended 30 June 2009 respectively, which represented only approximately 0.4%, 0.5%, 0.4% and 0.4% of our Group’s total overhead expenses of the corresponding period. We expect that for the full year of 2009, our cost of compliance with labour and safety matters will amount to approximately RMB400,000, which is calculated based on historical compliance costs with various assumptions on direct and indirect labour costs, as well as related material costs.

During the Track Record Period, we complied with all local rules on labour and safety in all material respects, and strictly implemented internal safety guidelines and operating procedures. Since the commencement of our business, none of our employees have been involved in any major accident in the course of their employment and we have never been subject to disciplinary actions with respect to the labour protection issues.

PROPERTIES

Owned properties

As at the Latest Practicable Date, we owned the following two parcels of land:

- The land located at Xuanqiao Town, Nanhui District, Shanghai, with an aggregate site area of 12,564 square metres, on which a factory and a warehouse are situated, with a total construction area of 13,312.26 square metres. We have obtained legal title to the land and buildings comprising this property.

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- The land located at Xuanqiao Town, Nanhui District, Shanghai, with an aggregate site area of 27,952 square metres, on which a factory, a power station, a pump room, a security guardroom, an exhibition hall and other ancillary facilities with a development scale of approximately 27,521 square metres is under construction. We have obtained legal title to the land comprising this property.

Further details of our owned properties are disclosed in the property valuation report set out in Appendix IV to this document.

Leased properties

As at the Latest Practicable Date, Comtec Semi leased a factory, dining hall, security guard room and office building located at Huinan County, Nanhui District, Shanghai with a total gross floor area of approximately 4,180 square metres. The expiry date of the tenancy for these properties is 31 January 2023.

Details of these properties are disclosed in the property valuation report set out in Appendix IV to this document.

Our current leased properties located in Huinan County have not been filed and registered by the lessor with the relevant PRC governmental authority, despite our Directors have made their best endeavours to request the landlord of the properties to register our lease agreement together with us. Our Directors confirm that the landlord is currently not in the process of registering our lease agreement together with us. Under the relevant laws and regulations of the PRC, the lessor shall register the lease agreement together with the lessee. Pursuant to the Interpretation of the Supreme People’s Court on Several Issues on the Application of Laws for the Trial of Cases concerning Housing Lease Agreement Disputes (《最高人民法院關於審理城鎮房屋租賃合同糾紛案件具體應用法律若干問題的解釋》) effective as of September 1, 2009, where a lessor enters into several valid leases with different lessees with respect to one house and the different lessees all claim tenancy rights, the people’s court shall determine the lessee who may use the house in the following order: (1) the one who has legally occupied the house; (2) the one who has completed the lease registration; (3) the one who first enters into the lease agreement. On such basis, as we have already legally occupied the leased properties referred to above, our rights to use these leased properties will not be subject to challenge by third parties even though the relevant lease agreement has not been registered with the relevant PRC governmental authority.

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, year ended 31 December 2008 and the six months ended 30 June 2009. The revenues and profits contribution from our Group’s leased properties during the Track Record Period were generally in proportion to their production capacity contribution. We have transferred the majority of our operations to our owned property since October 2007. As at the Latest Practicable Date, we are not aware that we are being sued by any parties on our rights to occupy the leased properties. In the event that our occupancy of these properties during the lease term is challenged and we are required to evacuate from these premises, we plan to relocate such operations and move our equipment in such leased properties to our owned

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property in Xuanqiao County or to our new facilities adjacent to this property, and such relocation would be completed within a week. The relocation is expected to incur loss of ingot production capacity of approximately 0.2 MW during the period of relocation. The estimation of the loss of profits and relocation costs would require various assumptions to be made in relation to expected utilisation rates and expected profit margins, which would be based on historical figures and the actual figures may vary over time. Based on the best estimation of our Directors and certain assumptions, the potential relocation would incur loss of profits of approximately RMB0.8 million. Furthermore, it would be difficult to predict whether the time of relocation would fall in a production peak season, when the loss of profits would be greater than that relocation during a production non-peak season. We do not expect that the costs and the loss of profits due to such relocation have any material adverse effect on the overall financial conditions and operations of our Group. Our Controlling Shareholders have agreed to indemnify us in respect of all losses and damages arising from the defects in title for our leased properties. Going forward, we plan to carry out our expansion plans only on our owned properties. Considering the foregoing, our Directors do not consider that our leased properties are crucial to our business and operations. Furthermore, nothing has come to the attention of the [●] that our leased properties are crucial to our business and operations.

Our PRC legal advisers, Commerce & Finance Law Offices, have confirmed that (i) our leased properties located at Huinan County are legally owned by Shanghai Xiwote Industry Company (上海西沃特實業公司), who had confirmed the validity of the lease agreement entered into between our Group and the lessor, and (ii) the lease agreement is valid and given that the leased properties are legally occupied by us, our rights to use these leased properties are in priority to any third parties who have also entered into lease agreements with the same lessor, no matter whether these lease agreements are registered or not.

Borrowed properties

As at the Latest Practicable Date, Comtec Solar (Jiangxi) borrowed two offices located at Nanchang Economy and Technological Development Zone, Jiangxi, from 南昌經濟技術開發區招商局 (the Investment Promotion Bureau of Nanchang Economy and Technological Development Zone), covering a total gross floor area of approximately 50 square metres, through a borrowing agreement dated 11 November 2008. No consideration shall be paid for such borrowing. The borrowing agreement will expire on 31 May 2010 and can be renewed upon two months prior written notice from Comtec Solar (Jiangxi). We entered into a borrowing instead of a leasing arrangement for the two offices because we are not required to pay for such borrowing, as opposed to leasing, and we did not require large office premises at Jiangxi as the expansion in Jiangxi was in its initial stages.

Under the borrowing agreement, Comtec Solar (Jiangxi) shall pay the water and electricity expenses incurred by itself and use the properties reasonably according to the agreed use, except as otherwise agreed by the Investment Promotion Bureau of Nanchang Economic and Technological Development Zone. Comtec Solar (Jiangxi) cannot lend or lease the properties to others, or change the structure of the properties, except as otherwise agreed by the Investment Promotion Bureau of Nanchang Economic and Technological Development Zone. We are required to return the properties to the Investment Promotion Bureau of Nanchang Economic and Technological Development Zone when the borrowing agreement expires. We are however unable to ascertain whether the Investment Promotion Bureau of Nanchang Economic and Technological Development Zone is the legal owner of the properties as the land use right certificate and the building ownership certificate of the properties have not been provided to us.

BUSINESS

Details of these properties are disclosed in the property valuation report set out in Appendix IV to this document.

Our PRC legal advisers, Commerce & Finance Law Offices, have advised that (i) our borrowing of two offices located at Nanchang Economy and Technological Development Zone, Jiangxi, is legal and valid under PRC law provided that those two offices are legally owned by the Investment Promotion Bureau of Nanchang Economy and Technological Development Zone and the offices are not constructed on the allocated lands, and (ii) as at the Latest Practicable Date, the Investment Promotion Bureau of Nanchang Economy and Technological Development has not provided the relevant housing ownership certificate and if the Investment Promotion Bureau of Nanchang Economy and Technological Development Zone is not the legal owner of such properties or the two offices are constructed on the allocated lands, then the legality and validity of the borrowing agreement are uncertain and may be challenged by the actual owner or the authority at a higher level and Comtec Solar (Jiangxi) may be required to vacate the borrowed office. However, Commerce & Finance Law Offices also confirmed that in such event (i) our Group would not be punished by the competent governmental authority, and (ii) we are entitled to sue the Investment Promotion Bureau of Nanchang Economic and Technological Development Zone to recover any losses or damages that we may suffer as a result under PRC law. As confirmed by our Directors, should Comtec Solar (Jiangxi) be required to vacate the borrowed properties, the impact on our Group’s operations would be minor and there would be no obstacles for Comtec Solar (Jiangxi) to borrow or lease other properties for office use. Our Controlling Shareholders, however, have agreed to indemnify our Group for any potential losses in the event that Comtec Solar (Jiangxi) is required to vacate the borrowed properties. Our Directors are of the view that the borrowed properties are not crucial to our Group’s operation. Nothing has come to the attention of the [●] that the abovementioned borrowed properties are crucial to our business and operations.

INSURANCE

Our insurance coverage includes employee social insurance and property insurance. We have made contributions in relation to the retirement of our employees in accordance with applicable laws and regulations of the PRC, which require contribution by both our employees and us at a fixed percentage of the salaries of our employees.

We are not required under PRC laws to maintain, and we did not and will not maintain, general product liability insurance for any of our solar products during the Track Record Period and after the [●] respectively. During the Track Record Period, we did not receive any material claim from any customer or consumer relating to any alleged liability arising out of or relating to the use of our solar products. Our Directors believe that our insurance coverage is in line with the general practice in the industry and is adequate for our operations.

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INTERNAL CONTROL

In order to maintain the integrity of our Group’s business and financial operations and to safeguard against business risks which may result from inadequate internal processes and systems, we have adopted and have been implementing a series of internal controls, some of which are as follows:

- *Board committees.* Audit, remuneration and nomination committees had been set up. All of these committees have at least two-thirds of its members being independent non-executive Directors, who are able to draw on their experience with respect, to the compliance with applicable legal, regulatory, accounting and financing requirements. Our audit committee will oversee our internal control procedures and review our financial reporting processes.
- *Code of conduct.* An employee manual has been adopted to ensure that our staff are in compliance with ethical standards and to maintain our Group’s best practices for staff integrity in protecting the commercial interests of our Group. The employee manual sets forth the ethical standards and code of conduct that our employees are required to follow, including areas such as the protection of trade secrets and confidential information, conflict of interests, guidelines on work safety and the appropriate means of communications among our employees and our Group. In addition, it details our personnel management system, including our recruitment process and our policies and procedures regarding training, salaries and benefits, and handling of employees’ complaints. Each employee is required to understand the content of the employee manual and agree to comply with the rules and guidelines set forth therein. We have adopted stringent internal policies for our employees in relation to possible infringement of labour discipline. Warning letters would be issued to employees who have violated our guidelines. For repeated violations or more serious violations, our Group has the right to terminate its employment relationship with such employees. During the Track Record Period, our Group has not terminated the employment of any employee for repeated or more serious violations. The employees may be required to pay for any damages that they have caused as a result of their violation of the guidelines. We will also regularly review the employee manual and update it as appropriate from time to time to ensure that changes to our Group’s human resources policies and procedures are properly communicated to our employees.
- *Delegation of authority.* Our senior management is comprised of heads of various business units, which are in charge of the actual implementation of corporate strategies, business development and the daily operation of business. Various business units provide support to our senior management for the overall management and performance of our Group. Our CEO and CFO approved and adopted a set of guidelines to delegate roles and responsibilities to each senior manager, who in turn report directly to our CEO. These guidelines will also ensure that business decisions are made and executed with proper approval.

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- *Centralised planning and approval process.* The production plans of all the manufacturing facilities of our Group are made and approved centrally by our senior management and the managers of each production facility are responsible for the execution of these production plans. We strive to utilise our resources and optimise operating efficiency by implementing a centralised coordination of the capacities and production schedules of our manufacturing facilities. In addition, our centralised approval process strengthens our control over the operations of our manufacturing facilities and streamlines our production processes. Our CEO, Mr. Zhang, and our CFO, Mr. Chau Kwok Keung, are responsible for supervising our approval process. The head of our manufacturing department, Mr. Wu Cheng Xian, who is a member of the senior management of our Group, also has the authority to approve production plans of our manufacturing facilities.
- *Human capital management.* We have guidelines for our human resources department, which include guidelines on employee recruitment and termination procedures.
- *Financial control.* We have established a set of policies to govern various financial reporting systems with appropriate segregation of duties, which includes accounting policies, inventory stock-take policies, cash and treasury management policies and production costing policies. We adopted and will continue to implement a customer appraisal program in which we review our customers’ payment records each month as an internal control measure to monitor our trade receivables and assess each customer’s credibility. In addition, our accounting and finance department comprising professionals in the areas of accounting and finance, which is headed by our CFO, will be responsible for preparing tax filings for our Group in the relevant jurisdictions and engaging tax professionals as necessary to ensure compliance with the relevant tax laws and regulations. Mr. James J. Wang, our COO, is responsible for the proper implementation of the customer appraisal program.
- *Information security.* In order to ensure the secure flow of information in our office network, we will continue to enhance the security of our information systems by setting up a firewall and renewing our anti-virus software, and perform on-going risk assessment on information security related matters. Our CEO and CFO are responsible for supervising the on-going risk assessment process.
- *Fixed assets policies.* We have implemented a series of policies to monitor our fixed assets, including policies and procedures relating to additions and disposals of fixed assets, stock-taking, maintenance of fixed assets and determining whether a fixed asset is obsolete. In general, additions of fixed assets need to be approved by our CEO and disposals of fixed assets need to be approved by both our CEO and CFO. Newly acquired fixed assets and facilities must pass our inspection procedures prior to operation. Our management determines the residual value, useful lives and related depreciation charges for our property, plant and equipment. Obsolete fixed assets must be inspected and approved prior to being written off. Prior to disposal or sale, the fixed assets must be examined and the amounts for the assets must be settled to ensure the accuracy of the residual values. Upon stock-taking, the estimated value and useful lives of the fixed assets should be recorded on our book records. Our CFO is responsible for the implementation of our stock-taking policies and procedures. Fixed assets count and fixed assets impairment analysis are performed annually.

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Our Directors are of the view that the above internal control measures are adequate as they have provided dedicated resources, direct communication channels and a control mechanism for our senior management to monitor, detect and act on internal control issues in a timely and systematic manner. Our Directors are also of the view that our internal control measure are effective, based on the financial results of our Group, our record of regulatory and legal compliance, our relationships with our suppliers and customers, and feedbacks from our senior management. No material costs are expected for the implementation of such internal controls. We expect that all of the above internal control practices will be in place before the [●].

To prevent any future non-compliance with our internal control measures and to continuously enhance the strength and effectiveness of our internal control system:

- (i) we will continue to review and strengthen our internal control system measures and ensure that they will continue to be adequate and effective in light of our business expansion, and provide a stronger basis for detecting potential breaches in the future;
- (ii) we will also regularly review our legal compliance and identify potential areas where improvement can be made to improve the risk awareness of our employees and their understanding of internal control issues;
- (iii) in order to continue to enhance our corporate governance and keep abreast of development and changes in the applicable legal, regulatory, accounting and financing requirements, we have engaged and will continue to engage external professionals from time to time, including our compliance adviser, external legal counsel, auditors, internal control consultants and other advisers as necessary, who will report directly to our Board on the status of compliance matters of our Group and any specific compliance related issues; and
- (iv) all our Directors had attended the training sessions conducted by our legal advisers on the on-going obligations and duties of a director of a company whose [●], and they will continue to ensure that they are kept current with developments in applicable legal and regulatory requirements which are relevant to their responsibilities as directors of a [●] and attend on-going training sessions if necessary.

LEGAL COMPLIANCE AND PROCEEDINGS

As at the Latest Practicable Date, we were not engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim is known to our Directors to be pending or threatened by or against us that would have a material adverse effect on our operation results or financial conditions if judgment were to be rendered against us.

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The SAFE Notice requires PRC domestic residents who can either be 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 certificate of the PRC, or a natural person who has no legal identity within the PRC but habitually resides inside the PRC due to economic interests. As confirmed by Mr. Zhang, he has no permanent residence within the PRC, does not hold any domestic interest of enterprises established within the PRC, since Comtec Solar, Comtec Semi and Comtec Electronics are incorporated as wholly foreign-owned companies, and became a U.S. national before investing in the PRC. Therefore, our PRC legal advisers, Commerce & Finance Law Offices, advise that the SAFE Notice does not apply to the holding of interests by Mr. Zhang in our subsidiaries established outside of the PRC.

However, 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 the financing activities overseas in the future and such registration fails, such failure will subject Mr. Zhang and the PRC subsidiaries to fines and legal sanctions, which may also adversely affect the business and financial operations.

In 2005, Comtec Semi was required by Shanghai Bureau of Taxation to pay an additional RMB0.3 million of enterprise income tax due to certain omission in its initial tax filing for the period from 1 January 2005 to 31 March 2005, and a fine of approximately RMB600 was imposed on Comtec Semi for such tax filing omission. During the Track Record Period, our Group has also been fined for under-payment of stamp duty and value added tax, which resulted in payments and penalties of approximately RMB5,000 in aggregate.

Our PRC legal advisers, Commerce & Finance Law Offices, have confirmed that we have complied with the relevant laws and regulations in the PRC in all material aspects during the Track Record Period, including laws and regulations relating to environmental protection, safety, labour and social security, and have obtained all compulsive licences, approvals and permits from appropriate regulatory authorities for our business operations in the PRC, except as otherwise disclosed in this section and the sections headed “Business — Properties — Leased properties” and “Business — Environmental Matters” in this document.

In order to ensure on-going compliance with relevant laws and regulations, our Group has established and implemented internal control procedures to ensure that business decisions are made and executed with proper approvals. For further details of our internal control procedures, please refer to the preceding paragraph headed “Internal Controls”. We will also engage legal advisers and a compliance advisor to assist us in our on-going compliance with all the relevant laws and regulations. We will, with the assistance of our legal advisers, review our internal control procedures regularly and consult our legal advisers as appropriate to ensure the continued effectiveness of such procedures.