You should read the following discussion and analysis of our financial condition and results of operations together with our consolidated financial statements as at and for each of the years ended 31 December 2006, 2007 and 2008, and the six months ended 30 June 2008 and 2009, and the accompanying notes included in the accountants' report set out in Appendix I to this document. The accountants' report has been prepared in accordance with IFRS. Our consolidated financial information for the six months ended 30 June 2008 have not been audited. Potential investors should read the whole of the accountants' report set out in Appendix I to this document and not rely merely on the information contained in this section. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. For additional information regarding these risks and uncertainties, please refer to the section headed "Risk Factors" in this document.

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 were 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 were able to manufacture monocrystalline solar wafers with a thickness of approximately 170 microns in large scale, based on the 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 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 our respective sectors of the solar power industry value chain through mutual feedback on a wide range of subjects.

We have increased our production capacity steadily since 2004, when we first began producing solar products. Our annual production capacity increased to 55 MW by the end of 2007 from 9 MW at the end of 2006.

Our revenues for each of the three years ended 31 December 2008 were RMB135.4 million, RMB349.1 million and RMB762.1 million, respectively. Our net profit increased to RMB147.4 million for 2007 from RMB63.8 million for 2006, representing an increase of 131.0% from 2006 to 2007, and decreased to RMB131.5 million, representing a decrease of 10.8% from 2007 to 2008. Since the fourth quarter of 2008, our revenue and net profit has been materially and adversely affected by the recent global financial crisis and economic downturn, which led to a sudden and significant reduction in prices of all solar energy related products. In addition, as market demand for solar products decreased, a flight to quality ensued, which allowed us to enjoy increased sales volumes, albeit with lower average unit price. As a result, our revenue for the six months ended 30 June 2009 decreased by 44.4%, to RMB184.3 million from RMB331.2 million for the six months ended 30 June 2008. Despite the contraction in revenues, however, we were able to remain profitable and recorded a net profit of RMB4.4 million for the six months ended 30 June 2009, which represented a decrease of 96.6% compared to RMB128.4 million for the six months ended 30 June 2008. Further, we believe that our operating environment is improving as our sales volume and revenue continued to improve since the six months ended 30 June 2009. Our sales volume of our solar products for the two months ended 31 August 2009 was 11.6 MW, representing an average monthly sales volume of our solar products of 5.8 MW, which was approximately 34.9% higher than our average monthly sales volume of our solar products for the six months ended 30 June 2009. 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 for the six months ended 30 June 2009.

BASIS OF PRESENTATION OF FINANCIAL INFORMATION

The consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows include the results and cash flows of the companies and business comprising our Group have been prepared by using the principles of merger accounting as if the current group structure had been in existence throughout the Track Record Period or since their respective date of incorporation or establishment or up to 30 June 2008 (date of cessation of Comtec Ltd's operations) where this is a shorter period. The consolidated statements of financial position of our Group as at 31 December 2006, 31 December 2007, 31 December 2008 and 30 June 2009 have been prepared in accordance with the principles of merger accounting to present the assets and liabilities of the companies comprising our Group as if the current group structure had been in existence as at those dates.

Basis of consolidation

Our financial statements incorporate the financial information of our Company and entities controlled by our Company (its subsidiaries). Control is achieved where our Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the Track Record Period are included in the consolidated statements of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of our Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Merger accounting for business combinations under common control

The business combinations under common control are accounted for in accordance with merger accounting. In applying merger accounting, financial information incorporates the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination.

The statements of comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

FACTORS AFFECTING OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Our financial condition and results of operations have been and will continue to be affected by a number of factors, including those discussed below.

Supply and demand and pricing of our solar products and the recent financial crisis

The profitability of our business is principally affected by the prices of our solar products, the volatility of the prices for these products and the margin between the price of polysilicon and the prices of these products. In general, changes in the prices of our solar products are the result of the development of the solar power industry, as well as the price of polysilicon which comprises a significant portion of our cost of sales. Price adjustment arrangements with our suppliers and customers differ on a case-by-case basis and are generally determined based on market conditions. The average unit price of our solar wafers and solar ingots increased steadily from 2006 to the first three quarters of 2008, in line with demand. The average unit price of our solar wafers, per Watt, were RMB16.5, RMB17.5 and RMB18.0 for each of the two years ended 31 December 2007 and the six months ended 30 June 2008, respectively. The average unit price of our solar ingots, per Watt, were RMB9.6, RMB10.0 and RMB12.8 for each of the two years ended 31 December 2007 and the six months ended 30 June 2008, respectively.

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

According to Solarbuzz, prices of solar wafers were in the range of US$2.20 to US$2.30 per Watt during October 2008 and fell below US$2.00 per Watt in early 2009. According to PHOTON Consulting, *Solar Update 2/10/2009*, the prices of solar wafers in the beginning of January 2009 were between US$1.65 to US$1.70 per Watt and further fell to between US$1.06 to US$1.13 by the end of March 2009. Changing market conditions have resulted in our customers bargaining for lower prices with us and we, as a result, had to reduce the selling prices of our solar products since November 2008. The average unit selling price of our 125 mm by 125 mm solar wafer products decreased from RMB17.3 per Watt for the six months ended 30 June 2008, to RMB 15.9 per Watt for the six months ended 31 December 2008, representing a decrease of approximately 8.1%, and then to RMB6.8 per Watt for the six months ended 30 June 2009, representing a decrease of approximately 57.2%. The average unit selling price of our 156 mm by 156 mm solar wafer products decreased from RMB19.2 per Watt for the six months ended 30 June 2008, to RMB17.8 per Watt for the six months ended 31 December 2008, representing a decrease of approximately 7.3%, and then to RMB6.5 per Watt for the six months ended 30 June 2009, representing a decrease of approximately 66.1%. The average unit selling price of our solar ingot products decreased from RMB12.8 per Watt for the six months ended 30 June 2008 to RMB6.1 per Watt for the six months ended 30 June 2009. On the supply side, however, our raw material costs did not fall as dramatically as the fall in solar wafer prices as a result of changing market conditions. As a result, our gross profit margin and gross profit decreased for the six months ended 30 June 2009.

With the contraction in the solar power industry as a result from the recent global financial crisis and economic downturn, solar cell manufacturers began to demand for higher quality wafers at reduced prices. Our Directors believe that we were able to meet the quality requirements of solar cell manufacturers as our sales volume actually increased despite the financial downturn, although average unit price for our wafers decreased substantially during the same period. The sales volume of our solar products increased from 18.2 MW for the six months ended 30 June 2008 to 25.8 MW for the six months ended 30 June 2009.

Before the financial crisis and the global economic downturn started to impact our Group in October 2008, we strived to maintain our profit margins by increasing the prices of our solar products with the increase in polysilicon prices. We generally could not fully pass on our increased polysilicon procurement costs to our customers when such costs increased 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 that our customers are willing to pay. Further, end customers may use other sources of renewable power as substitutes for solar products to generate power. In addition, there is a maximum price that end customers are willing to pay. If they find the prices that the Company and our customers are too high, they may defer their orders or may even decide not to purchase the products from our customers and switch to alternative sources of power which the end customers considered more economical from their perspective. In particular, prices of polysilicon had risen at a higher rate than prices of our solar products from 2006 to the third quarter of 2008, which caused our gross profit margin to decrease over this period. Since the fourth quarter of 2008 when the financial crisis and the global economic downturn started to significantly impact us, the prices of our solar products fell at a faster rate than the decrease in the prices of polysilicon, which caused our gross profit margin to decrease significantly. However, as we believe that the prices of our solar products and polysilicon have since stabilised, we will strive to improve our gross profit margin by improving the quality of our solar products and production efficiency by enhancing our production technologies.

Supply and cost of polysilicon

Polysilicon is an essential raw material in our production of solar wafers and ingots. Historically, polysilicon production has not kept pace with the rapid growth in the solar power industry as the production of polysilicon requires significant capital investment, advanced technical expertise and the supply of metallurgical silicon, as well as significant lead time. Thus wafer manufacturers had competed for supply of polysilicon from a limited number of polysilicon suppliers. We have historically relied on our established network of relationships with a variety of foreign suppliers of high quality virgin polysilicon feedstock. Despite the historical industry-wide polysilicon shortage from 2006 to the third quarter of 2008, this network had provided us with a sufficient supply of polysilicon feedstock to meet our production requirements. The recent financial crisis and the deteriorated worldwide economic conditions since the fourth quarter of 2008 have significantly reduced the demand for polysilicon such that polysilicon is no longer in shortage. We however cannot assure you that such trend will continue or will not reverse in the future, in such case the shortage in polysilicon may recur.

Due to the historical shortage of polysilicon from 2006 to the third quarter of 2008, polysilicon prices increased from 2006 to the third quarter of 2008. For purchases from our long-term suppliers, we were able to negotiate for polysilicon at lower-than-market prices due to our good relationships with these suppliers. We however had limited bargaining power for our purchases of polysilicon from the spot market and were exposed to the rise in polysilicon price over time. Due to the recent financial crisis and global economic downturn as discussed above, market prices of polysilicon have fallen significantly since the fourth quarter of 2008. According to Solarbuzz, the average spot price of virgin polysilicon has decreased from the 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. With reference to such decline in the market prices of polysilicon, the contract price under our long-term contract with Major International Supplier A and the average contract price under our long-term and short-term contracts with Major International Supplier B for delivery of polysilicon in the year ending 31 December 2009 were still lower than the average market spot price for the week ended 2 October 2009, US$75/kg, according to PHOTON Consulting, Solar Updates 2/10/2009. However, if market prices of polysilicon continue to decrease and we cannot lower our contract prices with our suppliers, our trading position may be negatively affected.

The expansion of our production capacity from 9 MW to 55 MW have resulted in an increase in our requirements for polysilicon, and our further planned production capacity expansion to capitalise on the future growth in the demand for solar products will further increase our requirements for polysilicon in the future. In order to ensure a steady supply of polysilicon at preferred prices, we intend to continue adopting a strategic procurement approach by entering into a mix of long-term and short-term supply agreements with leading polysilicon suppliers. Our diversified procurement strategy is comprised of four parts: long-term contracts with strategic polysilicon suppliers, spot purchases with strategic polysilicon suppliers, spot purchases from the market and purchases from our wafer customers. Historically, our polysilicon procurement costs increased substantially from 2006 to 2008 due to the general increase in polysilicon prices as well as our expansion of production capacity which required us to purchase polysilicon from more expensive sources, while market prices of solar wafers had not been able to keep pace with increasing polysilicon prices. The average unit costs per kg of polysilicon procured by us were RMB414.9, RMB737.7 and RMB1,474.2 for the years ended 31 December 2006, 2007 and 2008, respectively. The increasing cost of polysilicon from 2006 to 2008 increased our cost of sales and, therefore, led to a decrease in our gross profit margin, from 49.6% for the year ended 31 December 2006 to 45.5% for the year ended 31 December 2007, and to 30.4% for the year ended 31 December 2008. Although the average unit cost per kg of polysilicon procured by us decreased by 55.9% from RMB1,474.2 for the year ended 31 December 2008 to RMB649.4 for the six months ended 30 June 2009, such decrease did not immediately result in a corresponding reduction in our cost of sales because, due to the historical lead time for the supply of polysilicon, we had committed to purchase polysilicon at higher prices before the sudden fall in the prices of polysilicon in October 2008 and such decrease was at a lower rate than the decrease in the average unit price of our solar products. In addition, following the financial crisis in the end of 2008 which temporarily affected the market demand of our solar wafer products, our customers took advantage of their increased bargaining power by demanding thicker wafers, which would minimise their breakage rate but increased our cost due to the additional raw materials for the production of such wafers. 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 upkeep our competitive position in the market. These factors led to a further decrease in our profit margin to 10.1% for the six months ended 30 June 2009 compared to 49.2% for the six months ended 30 June 2008. We believe that the prices of polysilicon and wafers have stabilised by the end of the second quarter of 2009. For more information about the risk associated with our procurement of polysilicon, please refer to the section headed "Risk Factors — Risks Relating to Our Business — If we are unable to obtain sufficient high quality polysilicon in a timely manner and at commercially reasonable prices, our business could be materially and adversely affected" in the document.

Production capacity

A key part of our business strategy is to expand our production capacity of our manufacturing facilities. We believe that we must increase our production capacity to achieve greater economies of scale and to increase our market share. Over the Track Record Period, our production capacity expansion led to increased output and sales volume, particularly with respect to the sales volume of solar wafers as we had shifted our strategic focus to producing solar wafers to meet strong market demand. Our annualised production capacity increased to 55 MW by the end of 2007 from 9 MW at the end of 2006. We calculate utilisation of our production facilities by dividing actual production for the relevant period by production capacity during the same period. The capacity utilisation rate of our ingot production facilities was 93.4%, 74.7%, 89.5% and 90.6% for each of the three years ended 31 December 2008 and the six months ended 30 June 2009, respectively; and the capacity utilisation rate of our wafer production facilities was 67.3%, 91.2%, 75.1% and 79.4% for each of the three years ended 31 December 2008 and the six months ended 30 June 2009, respectively. The fluctuations in our capacity utilisation rates during the Track Record Period are primarily affected by changes in the demand for our solar products and our production capacities during the Track Record Period. Although our utilisation rates for the production of ingots and wafers were 90.6% and 79.4%, respectively, in the first half of 2009, we have planned to further expand our production capacity as we have expected the market demand for high quality solar wafers would continue to increase. Increase in our output and sales volume led to an increase in our production cost because we purchased more polysilicon to increase our output and the cost of polysilicon increased from 2006 to 2008.

We have acquired land adjacent to one of our existing Nanhui plants on which we plan to construct manufacturing facilities to expand our annual production capacity to 200 MW and expected to be completed by the end of November 2009. With respect to our capacity expansion to 200 MW, we have spent a total of RMB114.6 million on land use rights, construction and the purchase of equipment and have further budgeted approximately RMB145.4 million, to be expanded during the period from the third quarter of 2009 to the fourth quarter of 2010, of which approximately RMB21.0 million will be used for construction and approximately RMB124.4 million will be used for purchasing the pullers, cropping saws, squarers and wire saws required for such expansion. The construction of the building was substantially completed by the end of 2008 and installation of equipment for the expansion to 200 MW will be completed by the end of November 2009. We plan to further expand our annual production capacity from 200 MW to 504 MW and have budgeted approximately RMB410.8 million for such expansion from 200 MW to 504 MW, to be expanded during the period from the fourth quarter of 2009 to the second quarter of 2011. Approximately half of the total budget of RMB410.8 million is planned to be funded by the proceeds from the [●] and the remaining half to be funded by our cash flows from operations and/or bank loans. We believe that the increase in production capacity will achieve economies of scale and enhance our operating efficiencies and cost advantages. In addition, we believe that we must increase our production capacity to meet anticipated growth in demand for our solar products. However, as the construction of new manufacturing facilities requires significant capital expenditures, if future sales volume does not grow along with our growth in production capacity, we will not be able to recover the investment costs of these manufacturing facilities or other future expansion facilities and our business and financial condition will suffer. For more information about the risk associated with our expansion plans, please refer to the section headed "Risk Factors — Risks Relating to Our Business — Our future success depends on our ability to increase our production capacity. We may be unable to achieve our capacity expansion goals, which would limit our growth potential and impair our results of operations and financial condition" in this document. For more information regarding our expansion plans, please refer to the section headed "Business — Our Solar Products — Production — Manufacturing facilities" in this document.

Product mix

Our product mix affected our financial results during the Track Record Period. The change in our product mix during the Track Record Period led to increased revenue from 2006 to 2008, although it did not have significant impact on our gross profit margin, which decreased during the Track Record Period mainly because polysilicon prices rose at a higher rate than the prices of our solar wafer products before the economic downturn in the fourth quarter of 2008, and because polysilicon prices fell at a lower rate than the average unit selling price of our solar products since the beginning of the economic downturn.

We first developed and marketed 125 mm by 125 mm monocrystalline solar wafers in 2005 and then introduced 156 mm by 156 mm monocrystalline solar wafers in 2007. Our solar wafer products have a higher average unit selling price (in terms of RMB per Watt) than our ingots. Of our solar wafer products, 156 mm by 156 mm wafers have a slightly higher average unit selling price (in terms of RMB per Watt) than our 125 mm by 125 mm wafers, except during the first six months of 2009 when the average unit selling price of our

125 mm by 125 mm wafers was slightly higher than that of our 156 mm by 156 mm wafers due to a higher demand for 125 mm by 125 mm wafers than 156 mm by 156 mm wafers in the market as 125 mm by 125 mm wafers were in higher demand during the period. We believe that our ability to produce high quality monocrystalline solar wafers distinguishes us from other PRC-based solar wafer manufacturers.

The change in product mix however was not the primary driver for the changes in the average unit selling price of our solar products during the Track Record Period. Changes in the average unit selling prices of our solar products over the Track Record Period were mainly due to changes in the prices of polysilicon and market demand for the solar products. Changes in the average unit selling prices of our semiconductor products over the Track Record Period were mainly due to the market price of comparable products, customers' order pattern and our business strategy to focus on solar wafer products.

Development of solar power industry

The solar power market, in particular, the production of power using polysilicon-based solar panels, is in an early stage of development compared to that of the other sources of power, including coal, hydro and nuclear energy. As a result, the market for solar panel-based power and the consequent demand for our solar products may not develop in line with current and expected trends and expectations. The demand for our solar products will depend upon such factors as the cost-effectiveness, performance, reliability and availability of other sources of power compared to solar power-based energy, the availability and continued support and subsidies by various governments for clean-technology based energy sources, such as solar power.

The PRC Government encourages the development and utilisation of solar power through a series of policies which are beneficial to the advancement of the production of monocrystalline silicon wafers and thus are beneficial to our Group's business development. Policies such as the Renewable Energy Law of PRC and the 11th Five-Year Plan for the Development of Renewable Energy encourage the development of the solar power industry and the use of solar power. In addition, the NDRC issued the 11th Five-Year Plan for the Development of High Technology Industries in 2007 to encourage developments of highly condensed silicon materials used on solar energy cells. In July 2009, the PRC Ministry of Finance and the PRC Ministry of Housing and Urban-Rural Development announced that subsidies would be granted to qualified construction material-based and component based BIPV demonstration solar projects, rooftop-based solar projects and wall-based solar projects. All these policies promote the development of the solar power industry, leading to increased market demand for our solar products, increased operating scale and increased sales for our Group.

The growth of substantially all of the target markets for solar power applications depends on the availability and size of government subsidies and economic incentives as the cost of solar power substantially exceeds the cost of power furnished by the electric utility grid. As a result, governments of various countries, including the United States, Japan, Germany and the PRC, have provided subsidies in the form of cost reductions, tax write-offs and other incentives to end users, distributors, systems integrators and manufacturers of solar products to promote the use of solar power and to reduce dependence on other forms of power. These government subsidies and economic incentives have contributed to the recent increased demand for solar products, which has increased the demand for and per unit price for solar wafers. Therefore, a substantial reduction or elimination of government subsidies and economic incentives would likely reduce the size of these markets, result in decreased demand for solar products and result in increased price competition, which could cause our revenues to decline.

Despite the recent contraction in the solar power industry following the financial crisis and economic downturn, we believe our business will improve starting from the second half of 2009 as the solar power industry recovers, driven in part by favourable government policies and increased global demand for solar products which have, since the global financial crisis, become more affordable as a source of energy. In particular, we believe that demand for higher quality solar product such as our wafers will further work to improve our business and results of operations. As such, we have formulated our expansion plan based on the expected growth of the solar power market. If solar power technology is not viable for widespread adoption or sufficient demand for solar products does not develop or develops less than we anticipate, our revenues may suffer and we may be unable to sustain our profitability.

Competition

Competition in the solar power industry has become more acute as polysilicon prices have decreased and production capacity and demand have become more balanced. As competitive pressures increase, we believe the ability to compete on the basis of price and quality will be the key factors. Manufacturing efficiencies, including increased production yields, as well as a successful polysilicon procurement strategy are the keys to determining competitiveness on price. To be competitive on quality, one of our key strategies is to differentiate ourselves as one of the leading manufacturers of large monocrystalline solar wafers with high conversion ratios and consistent performance.

Our technology has enabled us to successfully manufacture high quality wafers on a commercial scale and we expect our expanding research and development efforts will allow us to continue to innovate and manufacture even larger wafers with greater efficiency to capitalise on the growth in demand in monocrystalline solar wafers. We must continue to invest in research and development to improve our manufacturing process to increase efficiencies, including increasing yield rates and reducing breakage rates. If we fail to keep pace with the evolving technologies, our manufacturing process will not be as efficient as our competitors and the quality of our wafers will not meet our customers' demands, which will adversely affect our operating results, make us uncompetitive and cause us to lose market share. Our Group's market share was not significant among PRC-based wafer manufacturers during the Track Record Period.

During the Track Record Period, our most direct competitors were monocrystalline solar wafer manufacturers based in the PRC, but we also competed, although to a lesser extent, with monocrystalline solar wafer manufacturers in other countries. Given the strong market demand for solar wafers and ingots from 2006 through the third quarter of 2008, the extent of competition from 2006 to the third quarter of 2008 was not significant and it did not have a material adverse effect on our results during this period. Competition has increased since the fourth quarter of 2008 when the market demand for solar wafers experienced a sudden and significant contraction, resulting in excess production capacity in the industry. Since then, we have been able to remain competitive in the market by offering solar wafers with higher conversion ratio and consistency, as reflected by the increase in the sales volume of our solar products from 18.2 MW for the six months ended 30 June 2008 to 25.8 MW for the six months ended 30 June 2009. Our competitive position is further enhanced by the market's increased preference for monocrystalline solar wafers over multicrystalline solar wafers as the price difference between the two has narrowed. Yet, 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. The prices that we are able to charge for our solar products and our operating margins might be negatively affected as our existing and potential new competitors aggressively pursue their business plans.

Level of income tax and preferential tax treatment

Our profit attributable to equity holders is affected by the level of income tax that we pay and the preferential tax treatment that we are entitled to. On 16 March 2007, the National People's Congress of the PRC promulgated 《中華人民共和國企業所得税法》(The Enterprise Income Tax Law of the PRC), which came into effect on 1 January 2008. The implementation of this tax law has an effect on the level of income tax that we pay and the preferential tax treatment that we are entitled to.

Under the Enterprise Income Tax Law of the PRC, if an enterprise incorporated outside the PRC has its "de facto management bodies" located within the PRC, such enterprise may be recognised as a PRC tax resident enterprise and be subject to the unified enterprise income tax rate of 25% for its worldwide income. We cannot rule out the possibility that members of our Group which are not incorporated in the PRC may in the future be recognised as PRC tax resident enterprises according to the Enterprise Income Tax Law of the PRC by the PRC taxation authorities. According to the Enterprise Income Tax Law of the PRC, dividends received by a qualified PRC tax resident from another PRC tax resident are exempted from enterprise income tax. However, given the short history of the Enterprise Income Tax Law of the PRC, it remains unclear as to the detailed qualification requirements for a PRC tax resident enterprise. If our overseas holding companies are recognized as PRC tax resident enterprises, the withholding tax imposed on dividends paid by the PRC subsidiaries will be exempted. However, we will subject our global income to the PRC enterprise income tax and our overseas holding companies might be required to withhold on dividend payments to us. For additional information, please refer to the section headed "Risk Factors — Risks relating to the PRC — Expiration of, or changes to, current PRC tax incentives that our business enjoys could have a material adverse effect on our results of operations" in this document.

The following table sets forth the preferential income tax treatment for our major subsidiaries:

Name	Preferential tax treatment
Comtec Solar	100% enterprise income tax exemption for years from 1 January 2006 to 31 December 2007 and 50% enterprise income tax exemption for years from 1 January 2008 to 31 December 2010
	Enterprise income tax rate of 15% from the year of 2011 so long as we continue to qualify to receive the High and New Technology Enterprise Certificate and fulfill application procedures with the tax authorities
Comtec Semi	100% enterprise income tax exemption for years from 1 January 2003 to 31 December 2004 and 50% enterprise income tax exemption for years from 1 January 2005 to 31 December 2007
	100% local income tax exemption for the year of 2007
Comtec Solar (Jiangxi)	100% enterprise income tax exemption for years from 1 January 2008 to 31 December 2009 and 50% enterprise income tax exemption for years from 1 January 2010 to 31 December 2012

Comtec Semi and Comtec Solar were registered as production-oriented enterprises in Shanghai Nanhui which is in the coastal open area of the PRC and where our Group's operations are substantially based for the three years ended 31 December 2008, and, therefore enjoyed preferential PRC Enterprise Income Tax treatment at a rate of 24% which was approved by the Shanghai Nanhui National Tax Bureau. The PRC legal advisers of the Company, Commerce & Finance Law Offices, have advised that pursuant to 《關於批轉<長江、珠江三角洲和閩南廈漳泉三角地區座談會紀要>的通知》 (The Meeting Notes regarding Changjiang, Zhujiang, and Min Nan Xia Zhang Quan Delta, dated 18 February 1985), Nanhui District in Shanghai, where the Comtec Solar and Comtec Semi are based in, is regarded as one of the Coastal Economic Open Zones. According to 《中華人民共和國外商投資企業和外國企業所得稅法》 (The Foreign Invested Enterprises and Foreign Enterprises Income Tax Law of the PRC) and《中華人民共和國外商投資企業和外國企業所得稅法實施細則》(The Implementation Rules for Foreign Invested Enterprises and Foreign Enterprises Income Tax Law of the PRC) promulgated on 30 June 1991 and became effective on 1 July 1991, (1) the income tax imposed on foreign invested enterprises of a production nature established in Coastal Economic Open Zones shall be levied at the reduced rate of 24%; (2) any foreign invested enterprise of a production nature scheduled to operate for a period of no less than 10 years shall, be exempted from income tax for two years beginning from the first profit making year and allowed a 50% reduction in the third to fifth years. Therefore, Comtec Semi and Comtec Solar were subject to the 24% enterprise income tax rate (prior to the introduction of the Enterprise Income Tax Law) and were entitled to 100% enterprise income tax exemption for two years commencing from the first profit making year, followed by 50% enterprise tax exemption for the subsequent three years. Commerce & Finance Law Offices have also advised that pursuant to《中華人民共和國外商投資企業和外國企業所得稅法實施細則》(The Implementation Rules for Foreign Invested Enterprises and Foreign Enterprises Income Tax Law of the PRC) and the confirmation letter issued by the Shanghai Nanhui National Tax Bureau in July 2009, Shanghai Nanhui National Tax Bureau is the competent local tax authority to grant such preferential tax treatment to Comtec Semi and Comtec Solar. Effective from 1 January 2008, the enterprise income tax rate of Comtec Semi and Comtec Solar changed to 25% upon the introduction of 《中華人民共和國企業所得稅法》(The Enterprise Income Tax Law of the PRC) and 《中華人民共和國企業所得稅法實施條例》(The Implementation Regulation of Enterprise Income Tax of the PRC) (collectively the "Income Tax Law"). Under the Income Tax Law, Comtec Solar will continue to be entitled to the treatment of 100% tax exemption for two years, followed by 50% enterprise tax exemption for the subsequent three years until the expiration of such time period.

Comtec Solar was recognised as a high and new technology enterprise in 2008. As provided by the Income Tax Law and 《高新技術企業認定管理辦法》(The Measures for the Administration of Designation of High and New Technology Enterprises) a high and new technology enterprise can enjoy a preferential PRC enterprise income tax treatment at a rate of 15% upon application with the competent tax bureaus. Therefore from the year of 2011 onwards, after fulfilling the relevant application requirements with Shanghai Local Tax Bureau and Shanghai National Tax Bureau, Comtec Solar can enjoy the preferential PRC enterprise income tax treatment accordingly so long as it continues to qualify to be recognised as a high and new technology enterprise.

Under the Income Tax Law, the applicable statutory income tax rate of Comtec Solar (Jiangxi) is also 25%. Comtec Solar (Jiangxi) (formerly known as HK Truecolor Technologyical Industry Limited (Nanchang)), was registered as foreign invested production-oriented enterprise in Nanchang Economy and Technological Development Zone, Jiangxi. Pursuant to The Foreign Invested Enterprises and Foreign Enterprises Income Tax Law of the PRC and The Implementation Rules for Foreign Invested Enterprises and Foreign Enterprises Income Tax Law of the PRC as discussed above, Comtec Solar (Jiangxi) had been entitled to 100% enterprise income tax exemption for two years commencing from the year it made profits, followed by 50% enterprise tax exemption for the subsequent three years. Pursuant to the Income Tax Law, foreign invested enterprises that were incorporated before 16 March 2007, and then entitled to exemptions or reductions of the income tax for a fixed term, such as those enjoyed by Comtec Solar (Jiangxi), would continue to enjoy such treatment until the fixed terms expires, but not beyond 2012. Since Comtec Solar (Jiangxi) has not made any profit before 1 January 2008, it is entitled to 100% enterprise income tax exemption from 1 January 2008 to 31 December 2009 and 50% enterprise income tax exemption from 1 January 2010 to 31 December 2012 pursuant to the Income Tax Law. In addition, a confirmation letter issued by Tax Bureau of Nanchang Economy and Technological Development Zone on 21 July 2009 confirmed the aforementioned tax preferential treatment of Comtec Solar (Jiangxi).

Historical financial results of the Relevant Business and tax related liabilities

The historical financial results of the Relevant Business were combined with those of our Group for the Track Record Period. As a result, the tax payable arisen from profits derived from the Relevant Business during the Track Record Period are reflected in our consolidated financial statements. In addition, our consolidated financial statements had also accounted for the estimated interests and late payment charges resulted in unpaid United States federal tax and California state tax of the Relevant Business. Such estimated interests and late payment charges might be payable by Mr. Zhang in relation to his late reporting of certain income associated with the Relevant Business, and such income had now been included in his U.S. individual income tax returns filed with the Internal Revenue Service of the United States Department of Treasury (the "IRS"). Please refer to the section headed "History and Corporate Structure — (j) Business previously carried on by Mr. Zhang under the trade name of Comtec Ltd" in this document for more details regarding the extent of our Group's assumption of such tax liabilities.

The profits derived from the Relevant Business during the Track Record Period fall within the definition of "gross income" under section 61 of the U.S. Internal Revenue Code, and hence had been included in the computation of Mr. Zhang's individual taxable income in his relevant U.S. individual income tax returns filed with the IRS. As at the Latest Practicable Date, we are not aware that the IRS has disputed over the filing of Mr. Zhang's U.S. individual income tax returns. During the Track Record Period, Mr. Zhang's taxable income was subject to U.S. federal income tax calculated in accordance with a progressive tax table sets out in the U.S. Internal Revenue Code, with the applicable tax rates of up to 35%. As the profits of the Relevant Business were derived when Mr. Zhang was in California, Mr. Zhang's taxable income was also subject to a California state income tax calculated in accordance with a progressive tax table sets out in the California Revenue and Taxation Code, with the applicable tax rates of approximately 9%. In addition, Mr. Zhang's taxable income was also subject to a U.S. federal self-employment income tax and a California mental health tax.

The taxable income of the Relevant Business for the year ended 31 December 2007 and the six months ended 30 June 2008 included a significant amount of accounts payable due from Comtec Ltd to Comtec Solar, which is considered as deemed dividend income and is subject to income tax in the United States under Section 956 of the U.S. Internal Revenue Code. As a result of the deemed income inclusion under Section 956 of the U.S. Internal Revenue Code, the taxable income relating to Comtec Ltd's activities are greater than its accounting profits for the year ended 31 December 2007 and the six months ended 30 June 2008. The tax charges of Comtec Ltd, which were calculated based on its taxable income, were also greater than its net profit during the periods.

As Comtec Solar (HK) succeeded to all of the sourcing and trading functions of Comtec Ltd in June 2008, we do not expect to incur any further liabilities for United States tax in the future and our Group's overall tax exposure is expected to slightly narrow as the tax rates in Hong Kong, applicable to the profits derived from Comtec Solar (HK), are generally lower than those in the United States.

Our Directors confirm that our Group has made all the required tax filings and paid all outstanding tax liabilities with the relevant tax authorities in the respective jurisdictions, and that our Group is currently not subject to any dispute with the tax authorities.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Critical accounting policies and estimates are those that require our management to exercise judgment and to make estimates that would yield materially different results if our management applied different assumptions or made different estimates. Our significant accounting policies are set forth in note 3 to our financial statements included in Appendix I to this document. The preparation of our financial statements pursuant to IFRS requires our management to adopt accounting policies and make estimates and assumptions that affect the amount reported in our financial statements. During the Track Record Period, there was no frequent revision on nor material derivation from the estimates or assumptions made. In the opinion of our Directors, the estimates or assumptions made are not expected to change materially in the future. These estimates and assumptions are however periodically re-evaluated by management and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from those estimates and assumptions. We have identified the following accounting policies as critical to an understanding of our financial condition and results of operations.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services rendered in the normal course of business, net of related sales taxes.

Revenues from sales of goods is recognised when goods are delivered and titles to the goods have been passed.

Revenue from processing services is recognised when the services are provided.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Property, plant and equipment

Our management determines the residual value, useful lives and related depreciation charges for our property, plant and equipment. This estimate is based on the historical experience of the actual residual value and useful lives of plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and keen completions from competitors. The useful life of an asset and its residual value, if any, are reviewed annually. Management will adjust the depreciation expense for future periods if there are significant changes from previous estimates by increasing the depreciation charge where residual value or useful lives are less than previously estimated or making write-off or write-down technically obsolete assets.

Property, plant and equipment including buildings held for use in the production or supply of goods and services, or administrative purposes (other than construction in progress) are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account of their estimated residual values, using the straight-line method.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated statements of comprehensive income in the year in which the item is derecognised.

Impairment losses

At the end of each reporting period, we review the carrying amounts of our assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition.

Market price of goods is generally determined by reference to the selling price of similar items transacted in the market. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in technique and competitor actions in response to adverse industry cycles. We review our inventory levels with these estimates in order to identify slow-moving and obsolete inventories. When we identify items of inventories which have a market price that is lower than the carrying amount or are slow-moving and obsolete, we write down of inventories in that period.

From 2006 to the first half of 2008, the average unit selling price of the Group's products increased steadily due to the increasing market demand. Due to the historical shortage of polysilicon from 2006 to the third quarter of 2008, polysilicon prices (the Group's major material costs) had been increasing from 2006 to the third quarter of 2008. Due to the changes in market conditions in the solar power industry resulting from the global economic downturn and financial crisis in the fourth quarter of 2008, the selling prices of the Group's products and the material costs of the polysilicon have dropped significantly. The average unit selling price of our 125 mm by 125 mm solar wafers decreased by approximately 8.1%, from RMB17.3 per Watt for the six months ended 30 June 2008 to RMB15.9 per Watt for six months ended 31 December 2008 and decreased by approximately 57.2% from RMB15.9 per Watt for the six months ended 31 December 2008 to RMB6.8 per Watt for the six months ended 30 June 2009. The average unit selling price of our 156 mm by 156 mm solar wafers also decreased by approximately 11.5%, from RMB19.2 per Watt for the six months ended 30 June 2008 to RMB17.0 per Watt for the six months ended 31 December 2008 and decreased by 61.8% from RMB17.0 per Watt for the six months ended 31 December 2008 to RMB6.5 per Watt for the six months ended 30 June 2009. The average unit cost per kg of polysilicon procured by the Group were RMB1,180.2 for the six months ended 30 June 2008 and RMB 1,703.10 for the six months ended 31 December 2008 and RMB649.4 for the six months ended 30 June 2009. Due to the historical lead time of supply for polysilicon, the average cost of polysilicon materials continued to increase from the six months ended 30 June 2008 to the six months ended 31 December 2008. However, the average unit costs per kg of polysilicon procured by the Group decreased by RMB1,053.70 from the six months ended 31 December 2008 to the six months ended 30 June 2009, representing a decrease of 61.9%.

As certain materials were purchased when market price were high and final products produced from these materials could not be sold to the market at a price to cover such costs (since the fall in the Group's products' selling prices is to a larger extent as compared to that in the Group's material costs), it resulted in a write-down of inventories during the year ended 31 December 2008. Accordingly, we recognised write-down of inventories of RMB43,412,000 for the year ended 31 December 2008, representing raw materials, work-in-progress and finished goods of RMB 11,138,000, RMB 12,153,000 and RMB 20,121,000, respectively. No write-down of our inventories was recognised for the years ended 31 December 2006 and 2007 or the six months ended 30 June 2009.

For the six months ended 30 June 2009, both the prices of our solar products and polysilicon have been stabilised. Having compared the carrying value of our inventories with their net realisable values by making reference to the subsequent sales and usage of such inventories. As at the Latest Practicable Date, 90.8% of our polysilicon inventory as at 30 June 2009 has been subsequently utilised for the production of our solar products and 99.4% of our finished goods as at 30 June 2009 has been subsequently sold. Taking into account the market prices of polysilicon and our wafer products, we were satisfied that adequate allowances for write-down of inventories relating to obsolete and slow moving inventories had been provided for the six months ended 30 June 2009 and thus no additional provision in this regard had been made.

Advances to suppliers and provision for onerous contracts

Pursuant to our long-term and short-term purchase agreements, we make non-refundable advance payments to our raw material suppliers which are to be offset against future purchases or as damages in the event we breach our obligations under such agreements. We do not require collateral or other security against our advance to suppliers. We perform ongoing credit evaluation of the financial condition of our suppliers and the expected settlement of the advances. In addition, we assess unavoidable costs of meeting our obligations under our long-term and short-term purchase agreements with our raw material suppliers and the economic benefits expected to be received from these agreements to determine whether any advance to suppliers is impaired. When a supplier to whom an advance payment has been paid fails to deliver goods or the economic benefits of these agreements are expected to be less than the unavoidable costs of meeting our contractual obligations under such agreements, we would record an impairment of advance to suppliers and make necessary provision for our present obligation under the relevant agreements. Any increase or decrease in the above impairment losses would affect the profit in future years. For the year ended 31 December 2008, a provision of approximately RMB9.0 million for impairment of advances to suppliers was made as a result of the significant decrease in the expected economic benefits of our spot purchases of polysilicon from Major International Supplier A for which certain advances had been made by us due to the impact of the global economic downturn and financial crisis in the fourth quarter of 2008 on the solar power industry. There has been no impairment of any advance to suppliers for the years ended 31 December 2006 and 2007 or the six months ended 30 June 2009. For the six months ended 30 June 2009, based on our analysis of the economic benefits expected to be received from our future products with the anticipated weighted average costs of our inventories, taking into account the contracted costs of the polysilicon to be procured under our purchase agreements with our suppliers over the supply period as specified in the relevant agreements and the expected spot purchases costs and the financial conditions of our suppliers, we were satisfied that there no impairment of advance to suppliers for the six months ended 30 June 2009 was necessary.

At the end of each reporting period, our Directors estimate the amount of advances that is expected to be settled by the offset of the purchases of the agreed contract quantity in the next twelve months from the end of the respective reporting period and it is reclassified as current assets at the end of the respective reporting period.

Share options and restricted shares granted

The fair values of services received in exchange for share option awards is determined by reference to the grant-date fair value of those share options and recognised as expense over the vesting period on a straight-line basis with a corresponding increase in share options reserve. Restricted shares issued are recognised at fair value of those restricted shares granted at the grant date and is recognised as share capital and share premium with a corresponding increase in restricted shares reserve. The fair value of services received in exchange for awards of restricted shares is recognised as expense over the vesting period on a straight-line basis with a corresponding reduction in the previously recognised restricted shares reserve.

At the end of each reporting period, our Group revises its estimates of the number of share options and restricted shares that are expected to ultimately vest. The impact of the revision of the estimates of the number of share option and restricted shares, if any, is recognised in profit or loss, with a corresponding adjustment to share options reserve (for share options) and restricted shares reserve (for restricted shares). When restricted shares are forfeited, lapsed and cancelled before the vesting, share capital, share premium, remaining restricted share reserve (if any) and previously charged expenses (if any) are reversed.

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount of share options previously recognised in share options reserve will be transferred to retained profits.

At the time when the share options or restricted shares were cancelled during the vesting period, we account for the cancellation as an acceleration of vesting, and recognise immediately the amount that otherwise would have been recognised for services received over the remainder of the vesting period. The amount previously recognised in share options reserve or restricted shares reserve will continue to be transferred to retained profits.

For the year ended 31 December 2008, we recorded share-based payments expense of RMB[41.9] million, representing mainly the fair values of share options granted by the Company on 2 June 2008. These share options were originally scheduled to vest over several years but were subsequently cancelled before any of the options were exercised due to changes in market conditions. These share options were cancelled in the fourth quarter of 2008 because the terms on which they were originally granted were no longer commercially meaningful to the Company and the grantees due to the changes in market conditions resulting from the global economic downturn and financial crisis in the fourth quarter of 2008. As a result of the cancellation of these share options, the expenses associated with the granting of these share options have been accelerated in accordance with IFRS and reported as an expense for the year ended 31 December 2008. For details on the cancellation of these share options, please refer to the section headed "[●] Share Option Scheme" in Appendix VI to this document.

Research and development

We recognise expenditure on research activities as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred. Subsequent to initial recognition, internally-generated intangible asset is reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Our future research and development efforts will be undertaken primarily to improve our manufacturing processes, reduce manufacturing costs and enhance product performance by improving the facilities for producing 210mm by 210mm wafers for large-scale commercial production and increasing average conversion efficiency rates of solar cells manufactured using our solar wafers to above 18%. Research and development expenses primarily relate to equipment and raw materials used in our research and development activities, research and development personnel costs, and other costs related to the design, development, testing and enhancement of our solar products and processes. Expenditure would be recognised as an internally-generated intangible asset only when we consider that the expenditure can be recovered through future commercial activities. During the Track Record Period, our Group did not have any internally-generated intangible asset arising from development expenditure that could be reliably quantified. Prior to July 2008, we did not recognised any specific development costs in relation to these projects. Since July 2008, we started to recognise development costs related to our research and development projects under administrative and general expenses, which were comprised of payroll for our staff who worked on these projects.

RESULTS OF OPERATIONS

Consolidated statements of comprehensive income

The table below sets forth the major components of our profit and loss as a percentage of revenues for the periods indicated.

	Year ended 31 December						Six months ended 30 June			
	2006		2007		2008		2008		2009	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000 (unaudited)	%	RMB'000	%
Revenue	135,416	100.0	349,064	100.0	762,103	100.0	331,184	100.0	184,253	100.0
Cost of sales	(68,243)	(50.4)	(190,166)	(54.5)	(530,802)	(69.6)	(168,114)	(50.8)	(165,653)	(89.9)
Gross profit	67,173	49.6	158,898	45.5	231,301	30.4	163,070	49.2	18,600	10.1
Other income[1]	12,484	9.2	15,874	4.5	47,133	6.2	23,436	7.1	4,052	2.2
Other expenses[2]	—	—	—	—	(80,285)	(10.6)	(14,578)	(4.4)	(1,468)	(0.8)
Distribution and selling expenses	(532)	(0.4)	(635)	(0.2)	(1,401)	(0.2)	(708)	(0.2)	(1,155)	(0.6)
Administrative and general expenses	(5,172)	(3.8)	(11,181)	(3.2)	(23,888)	(3.1)	(12,379)	(3.7)	(9,417)	(5.1)
Interest expense	(356)	(0.3)	(808)	(0.2)	(6,295)	(0.8)	(795)	(0.3)	(4,232)	(2.3)
Profit before taxation	73,597	54.3	162,148	46.4	166,565	21.9	158,046	47.7	6,380	3.5
Taxation	(9,762)	(7.2)	(14,797)	(4.2)	(35,086)	(4.6)	(29,638)	(8.9)	(1,950)	(1.1)
Profit for the year attributable to the owners of our Company	63,835	47.1	147,351	42.2	131,479	17.3	128,408	38.8	4,430	2.4
	RMB cents		RMB cents		RMB cents		RMB cents		RMB cent	
Earnings per share - Basic	18.14	—	27.06	—	23.54	—	30.30	—	0.62	—
- Diluted	N/A	—	N/A	—	23.54	—	30.30	—	N/A	—

1. Primarily includes processing services fees, interest income and net foreign exchange gains. Processing services fees represent amounts received and receivable for wafer processing services provided to external customers. Foreign exchange gains primarily represent net foreign exchange gains as a result of transactions, such as collection of trade receivables, advance payments from a major customers and purchase of materials, denominated in US$ or Euro, and the appreciation of RMB. For the year ended 31 December 2007, the net foreign exchange gains mainly arose from the settlement of acquisition of Comtec Semi and Comtec Solar in US$ by issuance of promissory notes by Comtec Semi (HK) and Comtec Solar (HK).
2. Our other expenses primarily include impairment of advances to suppliers, share-based payment expenses and legal and professional fees.

The following table sets forth the aggregate amount of our sales of solar wafers and ingots and their average unit price during the Track Record Period.

Solar Products[1]

	For the year ended 31 December			For the six months ended 30 June	
	2006	2007	2008	2008	2009
				(unaudited)	
Aggregate Sales (in MW)					
Monocrystalline wafers					
156 mm by 156 mm	—	7.4	12.8	4.7	9.8
125 mm by 125 mm[2]	6.5	9.4	19.6	9.1	13.0
Total for wafers	6.5	16.8	32.4	13.8	22.8
Monocrystalline ingots	1.3	2.6	11.9	4.4	3.0
Total	7.8	19.4	44.3	18.2	25.8
Average Unit Price (in RMB/Watt)					
Monocrystalline wafers					
156 mm by 156 mm	—	17.8	17.8	19.2	6.5
125 mm by 125 mm[2]	16.5	17.3	16.6	17.3	6.8
Average for wafers	16.5	17.5	17.1	18.0	6.7
Monocrystalline ingots	9.6	10.0	14.6	12.8	6.1

1. Excludes sales under processing services.
2. Includes sales of 103 mm by 103 mm wafers in 2006.

The following table sets forth the aggregate amount of our sales of semiconductor wafers and ingots and their average unit price during the Track Record Period.

Semiconductor Products

	For the year ended 31 December			For the six months ended 30 June	
	2006	2007	2008	2008	2009
				(unaudited)	
Aggregate Sales					
Wafers (in pieces)	5,397	43,557	15,669	15,669	nil
Ingots (in kg)	4,086	10,193	12,218	8,553	7,996
Average Unit Price					
Wafers (RMB/piece)	21.7	13.9	12.0	12.0	N/A
Ingots (RMB/kg)	2,393.0	2,620.4	2,625.9	2,619.4	1,131.3

Due to our capacity expansion, the sales volume of semiconductor ingots increased as we continued to supply to our existing customers from 2006 to 2008, although the sale of semiconductor products was not the main focus of our business. We served our long-term customers in the semiconductor products segment and the fluctuation in the sales volumes and average unit price of semiconductor products was mainly due to our customers’ order patterns and the availability of our aggregate capacity for the manufacture of semiconductor products. During the sixth months ended 30 June 2009, sales volume of semiconductor products decreased due to a decrease in market demand for these products, as well as our strategic decision to focus on sales of wafers and ingots.

PRINCIPAL COMPONENTS OF CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Revenues

Revenues represent the net amounts received and receivable for goods sold to customers during the Track Record Period.

The following table sets forth a breakdown of our revenue from the sale of solar wafers, solar ingots, semiconductor products and other revenues, for the three years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2008 and 2009:

	Year ended 31 December						Six months ended 30 June			
	2006		2007		2008		2008		2009	
	RMB’000	%	RMB’000	%	RMB’000	%	RMB’000 (unaudited)	%	RMB’000	%
Monocrystalline solar wafers										
156 mm by 156 mm	—	—	132,084	37.9	227,737	29.9	90,639	27.3	63,367	34.3
125 mm by 125 mm[1]	107,613	79.5	162,828	46.6	324,512	42.6	157,533	47.6	87,829	47.7
Total wafers	107,613	79.5	294,912	84.5	552,249	72.5	248,172	74.9	151,196	82.0
Monocrystalline solar ingots	12,297	9.1	25,640	7.4	173,217	22.7	56,894	17.2	18,324	10.0
Semiconductor products	9,895	7.3	27,369	7.8	32,272	4.2	22,592	6.8	9,046	4.9
Other revenues[2]	5,611	4.1	1,143	0.3	4,365	0.6	3,526	1.1	5,687	3.1
Total Revenue	135,416	100.0	349,064	100.0	762,103	100.0	331,184	100.0	184,253	100.0

1. Includes revenue of RMB4.5 million from the sale of 103 mm by 103 mm wafer in 2006.
2. Includes revenue from the sale of materials, such as monocrystalline silicon and recyclable silicon.

For a detailed analysis of the fluctuations of the revenues from sales of solar wafers, solar ingot, semiconductor products and other revenues, please refer to the sub-sections headed "Period to Period Comparison of Results of Operations — Six Months Ended 30 June 2009 Compared to Six Months Ended 30 June 2008", "Period to Period Comparison of Results of Operations — Year Ended 31 December 2008 Compared to Year Ended 31 December 2007 — Revenues" and "Period to Period Comparison of Results of Operations — Year Ended 31 December 2007 Compared to Year Ended 31 December 2006 — Revenues" in this section.

The following table sets forth the analysis of our revenue by geographical market for the Track Record Period (note):

	Year ended 31 December						Six months ended 30 June			
	2006		2007		2008		2008		2009	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000 (unaudited)	%	RMB'000	%
The PRC	120,970	89.3	332,322	95.2	659,938	86.6	299,324	90.4	159,505	86.6
Taiwan	—	—	—	—	25,086	3.3	10.577	3.2	6,702	3.6
Japan	11,511	8.5	6,337	1.8	23,028	3.0	10,150	3.1	—	—
Thailand	—	—	4,947	1.4	49,383	6.5	7,139	2.2	5,483	3.0
Germany	—	—	—	—	92	0.0	—	—	11,346	6.2
Other countries	2,935	2.2	5,458	1.6	4,576	0.6	3,994	1.1	1,217	0.6
Total	135,416	100.0	349,064	100.0	762,103	100.0	331,184	100.0	184,253	100.0

Note: Our revenue by geographical market may be different from our revenue by domicile of group entities as set out in "E. Notes to the Financial Information — 6. Revenue and Segment Information" of Appendix I to this document.

During the Track Record Period, we focused on our sales in the PRC market as many of the leading solar cell and module manufacturers are located in the PRC. Our revenues derived from the PRC market increased by approximately 174.7% from 2006 to 2007 and by approximately 98.6% from 2007 to 2008 and decreased by approximately 46.7% from the six months ended 30 June 2008 to the six months ended 30 June 2009. The decline in proportion of our total revenues derived outside of the PRC from 2006 to 2007 was primarily due to our Company's decision to focus on selling our solar products to our reputable and long-term customers in the PRC. The increase in proportion of our total revenue derived from outside of the PRC from 2007 to 2008 was due to our strategy to diversify our sales to different countries in the world, such as Germany and Thailand.

Cost of sales

Our cost of sales primarily consists of raw materials costs, consumables costs and overhead costs. Raw materials costs are polysilicon costs. Consumables costs are comprised primarily of the costs of purchasing wires, crucibles, graphite, slurry and other materials in the manufacturing process. Overhead costs are comprised primarily of utility costs, salaries, wages and other benefits for our production personnel and depreciation of plant, property and equipment used in production.

The following table sets forth the breakdown of our overall cost of sales for the Track Record Period:

	Year ended 31 December						Six months ended 30 June			
	2006		2007		2008		2008		2009	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
							(unaudited)			
Raw materials	28,207	41.3	98,000	51.5	370,600	69.8	92,426	55.0	88,429	53.4
Consumables	22,184	32.5	55,419	29.1	88,494	16.7	46,219	27.5	43,098	26.0
Overhead										
Utilities	4,671	6.8	11,359	6.0	19,959	3.8	8,903	5.3	11,598	7.0
Depreciation	3,135	4.6	7,462	3.9	18,501	3.5	9,312	5.5	11,689	7.1
Staff costs	3,479	5.1	6,922	3.6	11,915	2.2	5,881	3.5	7,106	4.3
Others	6,567	9.7	11,005	5.9	21,333	4.0	5,373	3.2	3,733	2.2
Total	68,243	100.0	190,166	100.0	530,802	100.0	168,114	100.0	165,653	100.0

Our raw materials cost represented a smaller proportion of our total cost of sales in the first half of 2008 as compared to the full year of 2008, primarily because the cost of raw materials was lower in the first half of 2008 than during the full year of 2008. In addition, as our production volume increased during the second half of 2008, our requirement for polysilicon also increased. As our purchase requirements for polysilicon increase, our average unit cost for polysilicon also increases as we need to purchase such increased quantities from sources more expensive than suppliers with whom we have either long term contracts or long-established relationships. As a result, our average unit cost of polysilicon increased during the second half of 2008 as compared to the first half of 2008. The proportion of consumables costs to our total cost of sales had generally increased from 2006 to 2008 due to our adoption of more cutting procedures with wire saws since 2006, which require the use of more consumables. The decrease in raw material cost as a percentage of our total cost of sales for the six months ended 30 June 2009 as compared to the six months ended 30 June 2008 was primarily due to a significant decrease in our cost of polysilicon which was resulted from the economic downturn in this period.

Gross profit

Our gross profit is our total revenue less cost of sales. Our gross profit margins for each of the three years ended 31 December 2008 and the six months ended 30 June 2009 were 49.6%, 45.5%, 30.4% and 10.1%, respectively. We experienced a general decrease in our gross profit margin from 2006 to 2008, as the prices of polysilicon continue to increase at a higher rate than the prices of our solar products. Included in the costs of sales in the year ended 31 December 2008 was approximately RMB43.4 million write-down of inventories further contributed to the drop in gross profit for the relevant year. The decline in our gross profit margin in the first half of 2009 was primarily because our cost of sales decreased at a lower rate than the rate at which the average unit price of our solar products decreased, save as disclosed above. Nevertheless, our long-term supply contracts did not contribute to the decreases in gross profit in the year ended 31 December 2008 and the six months ended 30 June 2009 as the prices we paid for our purchases under our long-term supply agreement with Major International Supplier A during the relevant year and period were already lower than the prevailing market prices and we did not purchase any polysilicon from Major International Supplier B during the six months ended 30 June 2009 as we were re-negotiating the terms of the our long-term supply agreement with them during the period.

Other income

Our other income primarily includes processing services fees, interest income and net foreign exchange gains.

	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Processing services fees	12,318	11,769	41,485	22,281	3,032
Interest income	120	331	2,988	1,155	891
Foreign exchange gain	46	3,774	2,154	—	—
Others	—	—	506	—	129
	12,484	15,874	47,133	23,436	4,052

Income from processing services represents amounts received and receivable for wafer processing services provided to our major customers as a complementary service to further our relationship with them. Processing services fees are charged on a per wafer basis for wafers and by weight for ingots.

Other expenses

Our other expenses primarily include impairment of advance to suppliers, share-based payments expense and legal and professional fees.

	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Impairment of advance to suppliers	—	—	8,984	—	—
Share-based payments expense	—	—	41,932	3,300	—
Legal and professional fees	—	—	29,369	11,278	1,468
	—	—	80,285	14,578	1,468

Impairment of advance to suppliers for the year ended 31 December 2008 was mainly attributed to the decrease in the net realisable value of raw materials for which certain advances had been made. Legal and professional fees represent primarily the legal and professional fees incurred for the purpose of the [●], for which we began to utilise the services of various professionals since 2008.

Share-based payments expense of approximately RMB 41.9 million represent fair values of services received from the grantees (i.e. certain employees of the Group) in exchange for awards of share options granted by the Company determined by reference to the fair values of the share options on 2 June 2008 (the "Grant Date"). The Group recognised an expense of approximately RMB 22.5 million from the Grant Date to 31 December 2008 on a straight-line basis. Due to the changes in market conditions resulting from the global economic downturn and financial crisis in the fourth quarter of 2008, the original terms of the share options granted to the employees of the Group on the Grant Date were no longer commercially meaningful to the Company and the grantees and thus, pursuant to a board resolution dated 30 December 2008, the Company cancelled all the outstanding share options. Pursuant to the Company's accounting policy which was in line with the requirement of IFRS 2 "Share-based Payment", at the time when share options were cancelled during the vesting period (which should be from the Grant Date to 1 June 2011 in accordance to the relevant terms of the share options granted (the "Vesting Period")), the Group accounted for the cancellation as an acceleration of vesting, and recognised immediately the amount that otherwise would have been recognised for services received over the remainder of the Vesting Period. Accordingly, the Company recognised an expense of approximately RMB 19.4 million, representing the grant-date fair values of the share options less the amount previously recognised in the Group's books, in the Group's consolidated statement of comprehensive income on 31 December 2008. Details of the fair values of the share options of the Company are set out in note 33(a) of Section E to the Accountants' Report to the Document.

Distribution and selling expenses

Distribution and selling expenses consist primarily of salaries, wages and other benefits for our sales related personnel, advertising, depreciation of property, plant and equipment related to distribution and selling, transportation and other expenses related to distribution and selling. The proportion of distribution and selling expenses to our Group's total revenue is low due to the historical shortage of solar products and strong market demand, which lessen our need to allocate substantial resources to sell and advertise our solar products. In response to the deteriorated market conditions since the fourth quarter of 2008, we have increased our remuneration to our sales personnel to further motivate them. We believe that low distribution and selling expenses are currently a norm for participants in the upstream and midstream sectors of the solar power industry.

The following table sets forth the breakdown of distribution and selling expenses during the Track Record Period:

	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Staff costs	221	257	594	240	533
Advertising expenses	68	87	145	144	44
Depreciation	36	36	80	40	60
Transportation	92	101	335	221	72
Others	115	154	247	63	446
	532	635	1,401	708	1,155

Administrative and general expenses

Administrative and general expenses consist primarily of salaries, wages and other benefits for our administrative, finance and human resources personnel, written off of fixed assets, general office expenses, depreciation of property, plant and equipment attributable to administration, net exchange loss, as well as other miscellaneous expenses.

The following table sets forth the breakdown of administrative and general expenses during the Track Record Period:

	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Staff costs	1,620	2,611	7,255	2,415	5,175
Written off of fixed assets	—	1,918	—	—	—
General and administrative	718	1,369	2,234	1,598	391
Depreciation	506	827	940	453	416
Operating lease rental fee	345	449	679	324	440
Travelling	348	537	1,146	771	189
Net exchange loss	—	—	—	2,412	1,385
Legal and professional fees	77	192	6,249	777	671
Others	1,558	3,278	5,385	3,629	750
	5,172	11,181	23,888	12,379	9,417

Interest expenses

We record interest paid in relation to bank loans as an expense.

Tax

Tax represents amounts of PRC enterprise income tax and U.S. income tax paid or payable by us, at the applicable tax rates in accordance with the relevant law and regulations in the PRC and in the United States, net of any exemptions or tax holidays that may be applicable.

According to the Foreign Invested Enterprises and Foreign Enterprises Income Tax Law of the PRC and other policies related to income tax relief, Comtec Semi and Comtec Solar were exempted from enterprise income tax for two years, starting from their first profitable year, which was 2003 and 2006, respectively, with being entitled to a 50% reduction in enterprise income tax for three years thereafter, or until 2007 and 2010 respectively.

Our effective tax rate for each of the three years ended 31 December 2008 and for the six months ended 30 June 2009 was 13.3%, 9.1% 21.1% and 30.6%, respectively. In 2006, our Group's tax charges included U.S. federal tax, California state tax and PRC income tax. The U.S. tax charges were mainly resulted from the taxable profits derived by the Relevant Business. The decrease in the effective tax rate from the year ended 31 December 2006 to the year ended 31 December 2007 was primarily due to the fact that a higher portion of our Group's profits was derived from Comtec Solar, which began to enjoy 100% enterprise income tax exemption for two years since 1 January 2006. The increase in the effective tax rate from the year ended 31 December 2007 to the year ended 31 December 2008 was due to (i) the expiry of its tax exemption period since 2008, when taxable profits of Comtec Solar were taxed at half of its enterprise income tax rate, (ii) the expenses incurred in relation to the granting and the subsequent cancellation of certain share options by our Group, which were not tax deductible, (iii) the legal and professional fees incurred in relation to the [●], which were also not tax deductible and (iv) the provision for withholding tax on dividend. The factors (i), (ii), (iii) and (iv) together outweighed the effect of a decrease in tax charges resulting from the reduction in the taxable profits of the Relevant Business for the year ended 31 December 2007. The increase in effective tax rate from the year ended 31 December 2008 to the six months ended 30 June 2009 was primarily due to the decrease in the profit before taxation of Comtec Solar and increase in the general and administrative expenses and expenses incurred in relation to the [●] in the offshore entities of our Group, which were not tax deductible.

Dividends

During each of the three years ended 31 December 2008 and the six months ended 30 June 2009, Mr. Zhang made drawings of approximately RMB24.1 million, RMB2.4 million, nil and nil, respectively, from the assessable profits of the Relevant Business. These drawing were used by Mr. Zhang as capital contributions in Comtec Solar. Pursuant to a shareholders' resolution passed on 30 June 2008, our Company declared a dividend of approximately RMB51.1 million to Mr. Zhang, which had been applied to off-set against the outstanding balance of Mr. Zhang with our Group as at 30 June 2008.

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Six Months Ended 30 June 2009 Compared to Six Months Ended 30 June 2008

Revenue

Revenue decreased by RMB146.9 million, or 44.4%, from RMB331.2 million for the six months ended 30 June 2008 to RMB184.3 million for the six months ended 30 June 2009, primarily as a result of a decrease in the average selling price of our solar products, partially offset by an increase in our sales volume. The decrease in the average selling price of our solar products was generally due to the significant fall in the market prices for solar products since October 2008, which was triggered by the recent financial crisis and global economic downturn. The increase in our sales volume was generally due to the increase in customer demand for our monocrystalline solar products. The sales volume of our solar products increased by 41.8% from 18.2 MW for the six months ended 30 June 2008 to 25.8 MW for the six months ended 30 June 2009.

For the six months ended 30 June 2009, sales of our 156 mm by 156 mm monocrystalline solar wafers comprised 34.3% of total revenues and sales of our 125 mm by 125 mm monocrystalline solar wafers comprised 47.7% of total revenues. In aggregate, solar wafer sales comprised 82.0% of our total sales, as compared to 74.9% for the six months ended 30 June 2008. Sales of solar ingots comprised 10% of our total sales for the six months ended 30 June 2009, as compared to 17.2% for the six months ended 30 June 2008. Sales of our semiconductor products comprised 4.9% of our total sales in the six months ended 30 June 2009, compared to 6.8% in the six months ended 30 June 2008.

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Sales of 156 mm by 156 mm monocrystalline solar wafers

Revenue from sales of 156 mm by 156 mm monocrystalline solar wafers decreased by RMB27.2 million, or 30.0%, from RMB90.6 million for the six months ended 30 June 2008 to RMB63.4 million for the six months ended 30 June 2009, primarily as a result of a decrease in our average unit price for this product, partially offset by an increase in our sales volume. Our average unit selling price for this product was RMB78.0 per wafer, or RMB19.2 per Watt, for the six months ended 30 June 2008, as compared to RMB26.4 per wafer, or RMB6.5 per Watt, for the six months ended 30 June 2009, which represents a decrease over the period of approximately 66.1%. The sales volume of our 156 mm by 156 mm wafers increased by 108.5% from 4.7 MW for the six months ended 30 June 2008 to 9.8 MW for the six months ended 30 June 2009. The average unit price of our 156 mm by 156 mm wafers was lower than that of our 125 mm by 125 mm wafers for the six months ended 30 June 2009 mainly due to the significantly contraction in the general demand for solar products during the period, together with the fact that 125 mm by 125 mm wafers were then in higher demand for our customers.

Sales of 125 mm by 125 mm monocrystalline solar wafers

Revenue from sales of 125 mm by 125 mm monocrystalline solar wafers decreased by RMB69.7 million, or 44.3%, from RMB157.5 million for the six months ended 30 June 2008 to RMB87.8 for the six months ended 30 June 2009, primarily as a result of a decrease in our average unit price for this product, partially offset by an increase in our sales volume. Our average unit selling price for this product was RMB43.8 per wafer, or RMB17.3 per Watt, for the six months ended 30 June 2008, as compared to RMB17.2 per wafer, or RMB6.8 per Watt, for the six months ended 30 June 2009, which represents a decrease over the period of approximately 60.7%. The sales volume of our 125 mm by 125 mm wafers increased by 42.9% from 9.1 MW for the six months ended 30 June 2008 to 13.0 MW for the six months ended 30 June 2009.

Sales of solar ingots and semiconductor products and other revenues

Revenue from sales of solar ingots decreased by RMB38.6 million, or 67.8%, from RMB56.9 million for the six months ended 30 June 2008 to RMB18.3 million for the six months ended 30 June 2009, primarily due to a decrease in the average unit price of our solar ingots by 52.3% from RMB12.8 per Watt for the six months ended 30 June 2008 to RMB6.1 per Watt for the six months ended 30 June 2009, and a decrease in sales volume from 4.4 MW for the six months ended 30 June 2008 to 3.0 MW for the six months ended 30 June 2009. The sales volume of our solar ingots was higher in the six months ended 30 June 2008 compared to that in the six months ended 30 June 2009 because some of our major customers increased the purchase of solar ingots from us during a period of shortage of solar ingots in 2008. Revenues from sales of semiconductor products decreased by RMB13.6 million, or 60.2%, from RMB22.6 million for the six months ended 30 June 2008 to RMB9.0 million for the six months ended 30 June 2009, primarily due to a decrease in demand by our customers. Our other revenues increased by RMB2.2 million, or 62.9%, from RMB3.5 million for the six months ended 30 June 2008 to RMB5.7 million for the six months ended 30 June 2009, primarily due to an increase in our sale of materials such as monocrystalline silicon and recyclable silicon.

Cost of sales

Cost of sales decreased by RMB2.4 million, or 1.4%, from RMB168.1 million for the six months ended 30 June 2008 to RMB165.7 million for the six months ended 30 June 2009, primarily as a result of the decrease in the prices of polysilicon and the improvement in our production efficiency during the period, partially offset by the increase in polysilicon costs incurred in the manufacturing of thicker wafers as required by many of our customers.

Gross profit

Gross profit decreased by RMB144.5 million, or 88.6%, from RMB163.1 million for the six months ended 30 June 2008 to RMB18.6 million for the six months ended 30 June 2009, primarily as a result of the above.

Other income

Other income decreased by RMB19.3 million, or 82.5%, from RMB23.4 million for the six months ended 30 June 2008 to RMB4.1 million for the six months ended 30 June 2009, primarily due to the decrease in our processing services fees income. Our processing services fees income decreased due to our business strategy to focus on the production and sale of our solar products.

Other expenses

Other expenses decreased from RMB14.6 million for the six months ended 30 June 2008 to RMB1.5 million for the six months ended 30 June 2009, primarily due to the decrease in legal and professional fees in relation to the [●] and that no share-based payments expense was recognised during the period.

Distribution and selling expenses

Distribution and selling expenses increased by RMB0.5 million, or 71.4% from RMB0.7 million for the six months ended 30 June 2008 to RMB1.2 million for the six months ended 30 June 2009, primarily due to an increase in our staff costs resulting from an increase in the number of our sales personnel and their remuneration in order to maximise our sales effort in response to the market downturn.

Administrative and general expenses

Administrative and general expenses decreased by RMB3.0 million, or 24.2%, from RMB12.4 million for the six months ended 30 June 2008 to RMB9.4 million for the six months ended 30 June 2009, primarily as a result of our cost control measures.

Interest expenses

Interest expenses in relation to bank loans increased by RMB3.4 million, or 425%, from RMB0.8 million for the six months ended 30 June 2008 to RMB4.2 million for the six months ended 30 June 2009, primarily as a result of an increase in the amount of bank loans borrowed, partially offset by a decrease in interest rates of these bank loans.

Profit before taxation

Profit before taxation decreased by RMB151.6 million, or 95.9%, from RMB158.0 million for the six months ended 30 June 2008 to RMB6.4 million for the six months ended 30 June 2009, as a result of the foregoing.

Taxation

Taxation decreased from RMB29.6 million for the six months ended 30 June 2008 to RMB2.0 million for the six months ended 30 June 2009, primarily as a result of the decrease in our profit before taxation.

Our effective tax rate increased from 18.8% for the six months ended 30 June 2008 to 30.6% for the six months ended 30 June 2009, primarily due to the decrease in the profit before taxation of Comtec Solar, which accounted for most of our profit before taxation and the increase in our general and administrative expenses and the expenses incurred in relation to the [●] in offshore entities, which we were not deductible against the profit before taxation of Comtec Solar.

Profit for the year

Net profit decreased by RMB124.0 million, or 96.6%, from RMB128.4 million for the six months ended 30 June 2008 to RMB4.4 million for the six months ended 30 June 2009, as a result of the foregoing. Net profit margin decreased from 38.8% for the six months ended 30 June 2008 to 2.4% for the six months ended 30 June 2009.

Year Ended 31 December 2008 Compared to Year Ended 31 December 2007

Revenue

Revenue increased by RMB413.0 million, or 118.3%, from RMB349.1 million for the year ended 31 December 2007 to RMB762.1 million for the year ended 31 December 2008, primarily as a result of an increase in the sales volume and average unit selling price of our solar products attributable to the increase in our production capacity in the fourth quarter of 2007 and the growth in the general market demand for solar products during the first three quarters of 2008. Our increase in production capacity in the fourth quarter of 2007 enabled us to meet the growing demand of our customers, resulting in an increase in our sales volume. The main drivers for the increase in market demand for solar products during the first three quarters of 2008 were the rapid growing demand for electricity, rising price of conventional sources of power and government subsidies and economic incentives for solar power applications in certain countries in the form of cost reductions, tax write-offs and other incentives to end users, distributors, systems integrators and manufacturers of solar products. The market demand for solar products decreased suddenly and significantly in the fourth quarter of 2008 as a result of the outburst of the global financial turmoil. Changing market conditions have resulted in our customers bargaining for lower prices with us and a significant decrease in the average unit price of our solar products during the fourth quarter of 2008. Nonetheless, the effect of such decrease did not outweigh the results achieved by the Group during the first three quarters of the year.

For the year ended 31 December 2008, sales of our 156 mm by 156 mm monocrystalline solar wafers comprised 29.9% of total revenues and sales of our 125 mm by 125 mm monocrystalline solar wafers comprised 42.6% of total revenues. In aggregate, the sales of solar wafer comprised 72.5% of total sales, as compared to 84.5% for the year ended 31 December 2007. Sales of semiconductor products comprised 4.2% of total sales in the year ended 31 December 2008, compared to 7.8% in the year ended 31 December 2007.

Sales of 156 mm by 156 mm monocrystalline solar wafers

Revenue from sales of 156 mm by 156 mm monocrystalline solar wafers increased by RMB95.6 million or 72.4%, from RMB 132.1 million for the year ended 31 December 2007 to RMB227.7 million for the year ended 31 December 2008, primarily as a result of an increase in our sales volume. We sold 12.8 MW of these products during the year ended 31 December 2008, compared to 7.4 MW during the year ended 31 December 2007, representing an increase of 73.0% over the period.

Sales of 125 mm by 125 mm monocrystalline solar wafers and 103 mm by 103 mm monocrystalline solar wafers

Revenue from sales of 125 mm by 125 mm monocrystalline solar wafers increased by RMB161.7 million, or 99.3%, from RMB162.8 million for the year ended 31 December 2007 to RMB 324.5 million for the year ended 31 December 2008, primarily as a result of an increase in sales volume partially offset by a decrease in the average unit selling price for this product. We sold 19.6 MW of these products during the year ended 31 December 2008, compared to 9.4 MW during the year ended 31 December 2007, representing an increase of 108.5% over the period. Our average unit selling price for these products was RMB41.9 per wafer, or RMB16.6 per Watt, for the year ended 31 December 2008, as compared to RMB43.7 per wafer, or RMB17.3 per Watt, for the year ended 31 December 2007, which represents a decrease over the period of 4.1% in terms of RMB per piece and 4.0% in terms of RMB per Watt primarily due to the decrease in market demand for solar products in the fourth quarter of 2008. We did not sell any 103 mm by 103 mm monocrystalline solar wafers in 2008.

Sales of solar ingots and semiconductor products and other revenues

Revenue from sales of solar ingot increased by RMB147.6 million, or 576.6%, from RMB25.6 million for the year ended 31 December 2007 to RMB173.2 million for the year ended 31 December 2008, primarily as a result of an increase in the sales volume due to our expansion of capacity in the fourth quarter of 2007 and an increase in the average unit selling price of this product. We sold 11.9 MW of this product in the year ended 31 December 2008, compared to 2.6 MW in the year ended 31 December 2007, representing an increase of 357.7% over the period. Our average unit selling price for this product was RMB14.6 per Watt for the year ended 31 December 2008, as compared to RMB10.0 per Watt for the year ended 31 December 2007, representing an increase of 46.0% over the period. Revenue from sales of semiconductor products increased by RMB4.9 million, or 17.9%, from RMB27.4 million for the year ended 31 December 2007 to RMB32.3 million for the year ended 31 December 2008, primarily due to an increase in production capacity. Our other revenues increased by RMB3.3 million, or 300.0%, from RMB1.1 million for the year ended 31 December 2007 to RMB4.4 million for the year ended 31 December 2008, due to an increase in sales of materials such as monocrystalline silicon and recyclable silicon.

Cost of sales

Cost of sales increased by RMB340.6 million, or 179.1%, from RMB190.2 million for the year ended 31 December 2007 to RMB530.8 million for the year ended 31 December 2008, primarily as a result of the increase in the sales volume of our solar wafers, solar ingots and semiconductor products, the increases in costs of procuring polysilicon and a write-down of our inventory of approximately RMB43.4 million due to the decrease in the net realisable value of our inventory as at 31 December 2008, have been partially offset by the cost saving as a result of our reduction in wafer thickness in 2008. The average unit cost per kg of polysilicon procured by us increased by RMB736.5, or 99.8%, from RMB737.7 for the year ended 31 December 2007 to RMB1,474.2 for the year ended 31 December 2008.

Gross profit

Gross profit increased by RMB72.4 million, or 45.6%, from RMB158.9 million for the year ended 31 December 2007 to RMB 231.3 million for the year ended 31 December 2008, primarily as a result of an increase in sales volume of all our solar products and the average selling unit price of our wafers. However, our gross profit margin decreased from 45.5% in the year ended 31 December 2007 to 30.4% in the year ended 31 December 2008, primarily due to our polysilicon costs rising at a higher rate than the increase in the average unit selling price of our solar products for the first three quarters of 2008 and falling at a slower rate than the decrease in the average unit selling price of our solar products during the fourth quarter of 2008.

Other income

Other income increased by RMB31.2 million, or 196.2%, from RMB15.9 million for the year ended 31 December 2007 to RMB 47.1 million for the year ended 31 December 2008, primarily due to an increase in our processing services fee income of RMB29.7 million and interest income of RMB2.7 million. The increase in our processing services fees income was due to increased demand for such service from our customers. The increase in our interest income was mainly due to the increase in our average bank balances during 2008.

Other expenses

Other expenses increased from nil for the year ended 31 December 2007 to RMB80.3 million for the year ended 31 December 2008, primarily due to share-based payments expense of RMB41.9 million resulted from the cancellation of certain share options previously granted by our Group, legal and professional fees incurred for the [●] of RMB29.4 million and an impairment of advance to suppliers of RMB9.0 million. Such impairment was due to the decrease in the net realisable value of raw materials for which we had paid advances to Major International Supplier A.

Distribution and selling expenses

Distribution and selling expenses increased by RMB0.8 million, or 133.3%, from RMB0.6 million for the year ended 31 December 2007 to RMB1.4 million primarily as a result of an increase of 131.1% in our staff costs in relation to distribution and selling team for 2008 due to an increase in the number of our sales personnel and an increase in their remuneration.

Administrative and general expenses

Administrative and general expenses increased by RMB12.7 million, or 113.4%, from RMB11.2 million for the year ended 31 December 2007 to RMB 23.9 million for the year ended 31 December 2008, primarily as a result of an increase in payroll, general administrative cost and traveling expenses due to the expansion of our operations and an increase in our legal and professional fees, primarily due to professional fees incurred for the purposes of assessing the Group's exposure to U.S. taxation.

Interest expenses

Interest expenses in relation to bank loans increased by RMB5.5 million, or 687.5%, from RMB0.8 million for the year ended 31 December 2007 to RMB 6.3 million for the year ended 31 December 2008, primarily as a result of an increase in interest-bearing debt. Unsecured short-term bank loans increased from RMB20.0 million as at 31 December 2007, to RMB140.0 million as at 31 December 2008, both at the same variable interest rate based on the benchmark interest rate issued by the People's Bank of China.

Profit before taxation

Profit before taxation increased by RMB4.5 million, or 2.8%, from RMB162.1 million for the year ended 31 December 2007 to RMB 166.6 million for the year ended 31 December 2008, as a result of the foregoing.

Taxation

Taxation increased by RMB20.3 million, or 137.2%, from RMB14.8 million for the year ended 31 December 2007 to RMB35.1 million for the year ended 31 December 2008, primarily as a result of an increase in our profit before taxation and the increase in local tax rate and expenses incurred in relation to the [●], which were not tax deductible. Our effective tax rate increased from 9.1% in 2007 to 21.1% in 2008. The increase in our effective tax rate was primarily due to the fact that Comtec Solar ceased to enjoy 100% enterprise income tax exemption and was only entitled to a 50% reduction in its enterprise income tax in 2008, the expenses incurred in relation to the cancellation of certain share options previously granted by the Group, the legal and professional fees incurred in relation to the [●], which were also not tax deductible, and the provision for withholding tax on dividend, partially offset by a decrease in the tax expenses in respect of the portion of taxable income in the U.S. subject to Section 956 of the U.S. Internal Revenue Code, as all of the sourcing and trading functions of Comtec Ltd has been succeeded by Comtec Solar (HK) in June 2008.

Profit for the year

Net profit decreased by RMB15.9 million, or 10.8%, from RMB147.4 million for the year ended 31 December 2007 to RMB 131.5 million for the year ended 31 December 2008, as a result of the foregoing. Net profit margin decreased from 42.2% for the year ended 31 December 2007 to 17.3% for the year ended 31 December 2008.

Year Ended 31 December 2007 Compared to Year Ended 31 December 2006

Revenue

Revenue increased by RMB213.7 million, or 157.8%, from RMB135.4 million for the year ended 31 December 2006 to RMB 349.1 million for the year ended 31 December 2007, primarily as a result of the introduction of sales of 156 mm by 156 mm monocrystalline solar wafers during 2007 which have a relatively higher average unit selling price, a general increase in aggregate unit price of wafers due to increased general market demand for solar products and an increase in sales volume of 125 mm by 125 mm monocrystalline solar wafers, solar ingots and semiconductor products. Our increase in production capacity enabled us to meet the growing demand of our customers, resulting in an increase in our sales volume. The main drivers for the increase in market demand for solar products were the rapid growing demand for electricity, rising price of conventional sources of power and government subsidies and economic incentives for solar power applications in certain countries in the form of cost reductions, tax write-offs and other incentives to end users, distributors, system integrators and manufacturers of solar products.

For the year ended 31 December 2007, sales of our 156 mm by 156 mm monocrystalline solar wafers comprised 37.9% of total revenues and sales of our 125 mm by 125 mm monocrystalline solar wafers comprised 46.6% of total revenues. In aggregate, solar wafer sales comprised 84.5% of total sales, as compared to 79.5% for the year ended 31 December 2006, primarily as a result of an increase in production capacity. We added additional production capacity during 2007 by adding 39 ingot pullers, one cropping saw, one squaring machine and five wire saws which increased our capacity to 55 MW by the end of 2007, on an annualised basis. Sales of semiconductor products comprised 7.3% of total sales in the year ended 31 December 2006, compared to 7.8% in the year ended 31 December 2007.

Sales of 156 mm by 156 mm monocrystalline solar wafers

We began production of 156 mm by 156 mm monocrystalline solar wafers in 2007. Revenue from sales of 156 mm by 156 mm monocrystalline solar wafers was RMB 132.1 million for the year ended 31 December 2007, which is equivalent to an average unit selling price of RMB72.1 per wafer, or RMB17.8 per Watt. We sold 7.4 MW of this product during the year ended 31 December 2007.

Sales of 125 mm by 125 mm monocrystalline solar wafers and 103 mm by 103 mm monocrystalline solar wafers

Revenue from sales of 125 mm by 125 mm monocrystalline solar wafers and 103 mm by 103 mm monocrystalline solar wafers increased by RMB55.2 million, or 51.3%, from RMB107.6 million for the year ended 31 December 2006 to RMB 162.8 million for the year ended 31 December 2007, primarily as a result of an increase in sales volume due to increased production capacity, as well as a slight increase in average unit price. Our average unit selling price for these products was RMB41.1 per wafer, or RMB16.5 per Watt, for the year ended 31 December 2006, as compared to RMB43.7 per wafer, or RMB17.3 per Watt, for the year ended 31 December 2007, which represents an increase over the period of 6.3% in terms of RMB per piece and 4.8% in terms of RMB per Watt. We sold 6.5 MW of these products during the year ended 31 December 2006, compared to 9.4 MW during the year ended 31 December 2007, representing an increase of 44.6% over the period. We had no sales of 103 mm by 103 mm monocrystalline solar wafers in 2007.

Sales of solar ingots and semiconductor products and other revenues

Revenue from sales of solar ingot increased by RMB13.3 million, or 108.1%, from RMB12.3 million for the year ended 31 December 2006 to RMB25.6 million for the year ended 31 December 2007, as a result of increased sales volume from increased production capacity, as well as a slight increase in average unit selling price. Our average unit selling price for this product was RMB9.6 per Watt for the year ended 31 December 2006, as compared to RMB10.0 per Watt for the year ended 31 December 2007, representing an increase of 4.2% over the period. We sold 1.3 MW of this product in the year ended 31 December 2006, compared to 2.6 MW in the year ended 31 December 2007, representing an increase of 100.0% over the period. Revenue from sales of semiconductor products increased by RMB17.5 million, or 176.8%, from RMB9.9 million for the year ended 31 December 2006 to RMB27.4 million for the year ended 31 December 2007, primarily due to an increase in production capacity. Our other revenues decreased by RMB4.5 million, or 80.4%, from RMB5.6 million for the year ended 31 December 2006 to RMB1.1 million for the year ended 31 December 2007, due to a decrease in sales of materials.

Cost of sales

Cost of sales increased by RMB122.0 million, or 178.9%, from RMB68.2 million for the year ended 31 December 2006 to RMB 190.2 million for the year ended 31 December 2007, primarily as a result of increases of 204.5% in costs of procuring polysilicon and consumables, and 105.8% in overhead costs. As our production capacity increased, our cost of sales also generally increased. The pace of increase of the Lost of Sales however, was affected to a large extent by that of the price of polysilicon. The average unit cost per kg of polysilicon procured by us increased by RMB322.8, or 77.8%, from RMB414.9 for the year ended 31 December 2006 to RMB737.7 for the year ended 31 December 2007. In addition, the increase in our cost of sales was also contributed by an increase of 111.9% in the sales volume of our solar wafers and an increase of 101.1% in the sales volume of our solar ingots in 2007.

A substantial portion of our spot purchases during the Track Record Period was from Major International Supplier A and our purchases from this supplier were at prices lower than the prevailing spot prices, in part due to our excellent long-standing relationship with this supplier. Our cost efficiency measures, which include reducing the thickness of wafers and recycling the materials generated during the production process, are effective in reducing our polysilicon consumed and our cost of consumables and overhead. The thickness of our 125 mm by 125 mm wafers reduced from the range of 210 μm to 270 μm in 2006, to the range of 185 μm to 225 μm in 2007 and to the range of 170 μm to 230 μm in the first half of 2008. Our cost of consumables as a percentage of revenue decreased from 16.4% for 2006 to 15.9% for 2007 and overhead costs as a percentage of revenue decreased from 13.2% for 2006 to 10.5% for 2007.

Gross profit

Gross profit increased by RMB91.7 million, or 136.5%, from RMB67.2 million for the year ended 31 December 2006 to RMB 158.9 million for the year ended 31 December 2007, primarily as a result of an increase in sales volumes of all our solar products and the average unit price of our wafers. Our gross profit margin decreased from 49.6% in the year ended 31 December 2006 to 45.5% in the year ended 31 December 2007, primarily due to the increase in polysilicon prices described above. The decrease was partly offset by increased average unit selling price of our wafers and our increased efficiency of materials utilisation due to better equipment, improved processes and economies of scale resulting from increased capacity.

Other income

Other income increased slightly by RMB3.4 million, or 27.2%, from RMB12.5 million for the year ended 31 December 2006 to RMB 15.9 million for the year ended 31 December 2007, primarily as a result of an increase of RMB3.7 million in foreign exchange gains from the U.S. dollar denominated advance payments from a major customer as a result of the appreciation of the RMB over the period, which was offset in part by a slight decrease in processing services fee income. The exchange rate of RMB against the U.S. dollar appreciated by approximately 5.2% during this period.

Distribution and selling expenses

There was no material fluctuation of distribution and selling expenses from the year ended 31 December 2006 to the year ended 31 December 2007. The level of expenses remained relatively stable.

Administrative and general expenses

Administrative and general expenses increased by RMB6.0 million, or 115.4%, from RMB5.2 million for the year ended 31 December 2006 to RMB 11.2 million for the year ended 31 December 2007, primarily as a result of a RMB2.0 million written off of fixed assets, an increase in salaries and other benefits related to administration by RMB1.0 million from our increase in number of employees, an increase in general office expenses by RMB0.7 million and an increase in depreciation of administration related property, plant and equipment by 0.3 million. Fixed assets were written off after our technical team, upon inspection, determined that they could not be further utilised in production. The number of our administration employees increased from 38 to 52, or 36.8%, and their average salaries increased by 2.6% over this period.

Interest expenses

Interest expenses in relation to bank loans increased by RMB0.4 million, or 100%, from RMB0.4 million for the year ended 31 December 2006 to RMB 0.8 million for the year ended 31 December 2007, primarily as a result of an increase in interest-bearing debt and interest rates. Unsecured short-term bank loans increased from RMB2.0 million at an annual interest rate of 6.12%, as at 31 December 2006 to RMB20.0 million at a variable interest rate based on the benchmark interest rate issued by the People's Bank of China, as at 31 December 2007, which was approximately 7.52%.

Profit before taxation

Profit before taxation increased by RMB88.5 million, or 120.2%, from RMB73.6 million for the year ended 31 December 2006 to RMB 162.1 million for the year ended 31 December 2007, as a result of the foregoing.

Taxation

Taxation increased by RMB5.0 million, or 51.0%, from RMB9.8 million for the year ended 31 December 2006 to RMB14.8 million for the year ended 31 December 2007, primarily as a result of an increase in the taxation expenses in respect of the Relevant Business. The said increase was primarily due to an increase of approximately US$3.0 million (equivalent to approximately RMB22.2 million) in the assessable profits of the Relevant Business for United States income tax purposes. Such increase in the assessable profits is due to the income subject to income tax in the United States under Section 956 of the U.S. Internal Revenue Code, being the customers' deposits received and kept by Mr Zhang, through the Relevant Business, on behalf of Comtec Solar, in the course of the business operation of the Relevant Business. Our effective tax rate decreased from 13.3% in 2006 to 9.1% in 2007. The decrease in effective tax rate was primarily due to the increase in Comtec Solar's contribution to our Group's revenue and profits in 2007 compared to 2006 and the fact that Comtec Solar enjoyed 100% enterprise income tax exemption in 2007. The combined effect of such factors had outweighed the impact from the increase in taxation expenses resulted from the increase in the assessable profits derived by the Relevant Business.

Profit for the year

Net profit increased by RMB83.6 million, or 131.0%, from RMB63.8 million for the year ended 31 December 2006 to RMB147.4 million for the year ended 31 December 2007, as a result of the foregoing. Net profit margin decreased from 47.1% for the year ended 31 December 2006 to 42.2% for the year ended 31 December 2007.

LIQUIDITY AND CAPITAL RESOURCES

On a combined basis, we fund our operations primarily from the sales of our solar products, proceeds from bank loans and capital contributions from shareholders. Our cash requirements relate primarily to capital expenditures on the purchases of property, plant and equipment and purchases of raw materials. In particular, we are currently funding our production capacity expansion to 200 MW with our cash flow from operations and bank loans and do not plan to utilise proceeds from the [●] for such purpose.

We regularly monitor current and expected liquidity requirements to ensure we maintain sufficient cash reserves to meet our liquidity requirements in the short and long term. The recent global credit crisis has not adversely impacted our liquidity position or capital resources as we have obtained additional capital of approximately US$20.0 million from the investment by CMTF in our Group and bank loans of RMB140.0 million from the Agricultural Bank of China in July 2008, which consisted two amounts of RMB20.0 million and RMB120.0 million, repayable in July 2009, both at an annual interest rate of 7.69%, which was 103% of the benchmark interest rate issued by the People's Bank of China. These loans were fully settled in July 2009. Our Directors believe that the interest rates are in line with market rates. As at Latest Practicable Date, we had short-term banking facilities of RMB336 million. Our short-term bank loans under such banking facilities are repayable in 12 months from their respective draw down dates and interests on these short-term bank loans are charged at the benchmark interest rate issued by the People's Bank of China and payable on a quarterly basis. As at 31 August 2009, we have utilised RMB136 million of our available banking facilities of RMB336 million.

We expect our sources and uses of cash would remain substantially the same in the future, except that we would have additional funds from proceeds of the [●], devote a greater proportion of our cash resources to plant, property and equipment for our production capacity expansion and potentially enter into additional loan agreements to fund our expansion.

The following table is a condensed summary of our consolidated cash flow statements during the Track Record Period:

	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Net cash from (used in) operating activities	108,583	171,724	(154,113)	(3,451)	13,076
Net cash used in investing activities	(29,204)	(118,052)	(80,410)	(33,675)	(52,358)
Net cash (used in) from financing activities	(12,406)	20,646	249,526	137,669	19,268
Increase (decrease) in cash and cash equivalents	66,973	74,318	15,003	100,543	(20,014)
Cash and cash equivalents at the beginning of the year/period	8,797	75,770	150,088	150,088	165,091
Cash and cash equivalents at the end of the year/period	75,770	150,088	165,091	250,631	145,077

Cash flow from operating activities

Our cash inflow from operating activities is mainly attributed to the receipt of payments for the sale of our solar products and receipt of customer deposits. Our cash outflow from operating activities is mainly attributed to payments and advance payments for the purchase of raw materials and consumables and overhead costs.

Our cash flow from operating activities increased by approximately 58.1%, from RMB108.6 million for the year ended 31 December 2006 to RMB171.7 million for the year ended 31 December 2007, primarily as a result of the increase in our sales triggered by the introduction of sales of 156 mm by 156 mm monocrystalline solar wafers during 2007 and the growing demand of our customers. Our cash flows from operating activities decreased by approximately 189.7%, from a net cash inflow of RMB171.7 million for the year ended 31 December 2007 to a net cash outflow of RMB154.1 million for the year ended 31 December 2008, primarily as a result of an increase in our advance to suppliers for raw materials pursuant to the long-term supply agreements we entered into during the period, the repayment of a significant amount of customer advance from Suntech and a decrease in customers' deposits received as we no longer required advances from our customers for sales pursuant to short-term contracts due to the changes in market conditions since the fourth quarter of 2008. Our cash flow from operating activities improved from a net cash outflow of RMB3.5 million for the six months ended 30 June 2008 to a net cash inflow of RMB13.1 million for the six months ended 30 June 2009, primarily as a result of a decrease in our advance to suppliers for raw materials due to the refund of deposits paid to local suppliers in the six months ended 30 June 2009 as a result of the changes in market conditions and that no repayment of customers' deposit was made in the six months ended 30 June 2009.

We had a net cash inflow of RMB13.1 million from operating activities for the six months ended 30 June 2009, while our operating profit before changes in working capital but after adjustments for non-cash expenses and income for the same period was RMB20.8 million. The cash outflow from movement in working capital of RMB7.7 million was primarily due to an increase of RMB35.6 million in bills receivables and an increase of RMB30.7 million in inventory, partially offset by a decrease of RMB37.7 million in trade and other receivables and a decrease of RMB13.7 million in advance to suppliers. The increase in our bills receivables was primarily due to the increase in the amount of bills we received from our customers as payments for our solar products. The increase in inventory was primarily due to our purchase of a sizable quantity of polysilicon to take advantage of an attractive offer for the purchase of polysilicon from Major International Supplier A. The decrease in our trade and other receivables was primarily due to the decrease in our sales amount. The decrease in our advance to suppliers was primarily due to refund of deposits paid to local suppliers due to the changes in the market conditions and practices following the economic downturn at the end of 2008. Tax refund amounted to RMB6.2 million, primarily due to overpayment of tax in prior years.

Our net cash outflow from operating activities was RMB154.1 million for the year ended 31 December 2008, while our operating profit before changes in working capital but after adjustments for non-cash expenses and income for the same period was RMB280.9 million. The cash outflow of RMB435.0 million from movement in working capital and tax paid was primarily due to a decrease of RMB148.8 million in customers' deposits received, an increase of RMB140.9 million in advances to suppliers, an increase of RMB48.9 million in trade and other receivables and an increase of RMB42.8 million in our inventory, partially offset by an increase of RMB17.9 million in our trade and other payables. The increases in advances to suppliers and in trade and other receivables were mainly related to our expansion in operating scale and our signing of supplier contract with the Major International Supplier. The decrease in customers' deposits received was mainly due to our repayment of an outstanding deposit of RMB141.0 million to Suntech. The increase in inventories was mainly due to our expansion in operating scale. The increase in our trade and other payables was mainly due to our expansion in operating scale and the increase in our payable for professional fees in relation to the [●].

We had a net cash inflow of RMB171.7 million from operating activities for the year ended 31 December 2007, while our operating profit before changes in working capital but after adjustments for non-cash expenses and income for the same period was RMB172.9 million. The cash outflow of RMB1.2 million from movement in working capital and tax paid was primarily due to an increase of RMB49.6 million in advances to suppliers and an increase of RMB38.3 million in trade and other receivables, partially offset by an increase of RMB55.8 million in customers' deposits received and an increase of RMB27.9 million in trade and other payables. The increase in advances to suppliers was mainly related to our long-term polysilicon supply agreement with Major International Supplier A. The increase in trade and other receivables was resulted from our expanded averaged annualised production capacity from 9 MW to 55 MW during the fourth quarter of 2007 and the granting of discretionary credit periods to selected customers. The increase in customers' deposits received was primarily due to the pre-payment of our solar products in connection with our expanded production capacity. The increase in trade and other payables was mainly related to our purchase of additional equipment for increasing our production capacity.

We had a net cash inflow of RMB108.6 million from operating activities but after adjustment for non-cash expenses and income for the year ended 31 December 2006, while our operating profit before changes in working capital for the same period was RMB77.6 million. The cash inflow of RMB31.0 million from movement in working capital and tax paid was primarily due to a significant increase of RMB84.5 million in customers' deposits received, partially offset by an increase of RMB46.5 million in advance to suppliers. The increase in customers' deposits received was primarily due to our shift in product mix towards solar wafers and the related pre-payment for our solar products in connection with our expanded annualised production capacity from 6 MW to 9 MW. The increase in advances to suppliers was mainly related to an advance payment required to be made by us in 2006 under our long-term supply agreement with Major International Supplier A for the purchase of polysilicon.

Cash flow from investing activities

We derive our cash inflow from investing activities principally from interest received on our bank deposits. Our cash outflow from investing activities is principally for purchases of property, plant and equipment, relating primarily to our production capacity expansion.

In the six months ended 30 June 2009, we had net cash used in investing activities of RMB52.4 million, which was primarily due to payment of RMB43.5 million for deposits paid and purchase of property, plant and equipment in each case, in connection with our production capacity expansion and an increase of RMB9.7 million in advance to a Shareholder.

In the year ended 31 December 2008, we had net cash used in investing activities of RMB80.4 million, which was primarily due to payment of RMB61.5 million for purchase of property, plant and equipment and RMB11.1 million for prepaid lease payments, in each case, in connection with our production capacity expansion.

In the year ended 31 December 2007, we had net cash used in investing activities of RMB 118.1 million, which was primarily due to payment of RMB114.6 million for purchase of property, plant and equipment and RMB3.9 million increase in deposits paid for acquisition of property, plant and equipment, in each case, in connection with our production capacity expansion.

In the year ended 31 December 2006, we had net cash used in investing activities of RMB 29.2 million, which was primarily due to payment of RMB19.6 million for purchase of property, plant and equipment, RMB8.8 million increase in deposits paid for acquisition of property, plant and equipment and RMB0.9 million for prepaid lease payments, in each case, in connection with our production capacity expansion.

Cash flow from financing activities

We derive our cash inflow primarily from bank loans as well as other financing activities. Our cash outflow from financing activities is principally due to repayment of bank loans and interest.

In the six months ended 30 June 2009, we had net cash inflow from financing activities of RMB19.3 million, which was primarily due to new bank loans of RMB143.5 million, partially offset by repayment of bank loans of RMB120.0 million.

In the year ended 31 December 2008, we had net cash inflow from financing activities of RMB249.5 million, which was primarily due to new bank loans of RMB140.0 million and proceeds from the issuance of preference shares of RMB140.4 million.

In the year ended 31 December 2007, we had net cash inflow from financing activities of RMB20.6 million, which was primarily due to a RMB20.0 million new bank loan and an amount of RMB4.2 million advance from a shareholder, which was offset in part by a RMB2.0 million repayment of bank loans.

In the year ended 31 December 2006, we had net cash used in financing activities of RMB12.4 million, which was primarily due to RMB24.1 million of dividends payment, a repayment of RMB6.4 million to a related company and a RMB5.0 million repayment of bank loans, which was offset in part by RMB24.2 million of capital contributions.

WORKING CAPITAL

We had a net current assets position of RMB44.4 million as at 30 June 2009. We require cash primarily for our expenditures for our business operation. Our Directors confirm that we have sufficient working capital for our present requirements for at least the next 12 months from the date of this document, after taking into account the financial resources presently available to us, including operating cash flows, banking facilities, cash and cash equivalents on hand, and the estimated net proceeds of the [●].

We had used the short term prepayment from Suntech to finance our long-term capital expenditure and long-term advances to suppliers during the Track Record Period because the timing of such prepayment had coincided with the timing of our payment requirement for the capital expenditure and the advances to suppliers. After the [●], we would finance our capital expenditure and long-term advances to suppliers from our operating cash flows, banking facilities as well as proceeds from future debt or equity securities offering.

Taking into account our cash inflows from financing activities in 2009, including new bank loans of RMB136 million obtained in March and June 2009, which will be repaid in 12 months from their respective drawdown date but renewable upon repayment date, our available bank facilities of RMB186.2 million as at the Latest Practicable Date and the expected proceeds from the [●], we believe that we have adequate cash to satisfy all capital commitments which are expected to fall due in 2009 and 2010.

Despite the recent financial crisis and deteriorated worldwide economic conditions, our financial position has not been affected as at the Latest Practicable Date. In particular, we have not received any indication from the Agricultural Bank of China that there would be potential withdrawal of any banking facilities granted to our Group and our standby short-term banking facilities of RMB336 million remain available to us according to their original terms; the Agricultural Bank of China has not requested for early repayment of our outstanding loans, nor requested the Company to increase the amount of pledge for our secured borrowings; there is no bankruptcy nor default on the part of any of our customers and suppliers; none of our customers had cancelled orders placed with us; and we have been able to obtain more favourable payment terms for our purchase of equipment from some of our equipment suppliers.

INDEBTEDNESS

	As at 31 December			As at 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Short-term bank loans				
secured	—	—	20,000	67,500
unsecured	2,000	20,000	120,000	96,000
Total	2,000	20,000	140,000	163,500

In October 2006, we borrowed RMB2.0 million from the Bank of Shanghai at an annual interest rate of 6.12%, which we repaid in September 2007.

In July 2007, we entered into a loan agreement with the Bank of Shanghai with an aggregate amount of RMB20.0 million with a variable interest rate based on the benchmark interest rate issued by the People's Bank of China, which we repaid in mid-June 2008. Mr. Zhang provided personal guarantee amounting to RMB20.0 million to secure our loan agreement with the Bank of Shanghai in 2007 and such personal guarantee by Mr. Zhang had been released after the loan was repaid in June 2008.

In July 2008, we borrowed two amounts of RMB20.0 million and RMB120.0 million from the Agricultural Bank of China, both at an annual interest rate of approximately 7.69%, which are repayable in July 2009. These loans were repaid in July 2009.

In February 2009, we entered into two discounted bills arrangement with the Agricultural Bank of China in relation to certain receivables from a long-term customer in relation to its purchases from us and obtained a cash amount from the Agricultural Bank of China, which were in a total of approximately RMB7.5 million. The discounted bills had matured and had been settled in July 2009. The finance charges related to such discounted bills arrangements were borne by the long-term customer. The sum of RMB7.5 million is treated as our short-term loan and also remained as bills receivable as the risk of non-payment by the customer to the Agricultural Bank of China rested with us due to the recourse in nature of the discounted bills.

As at Latest Practicable Date, we have obtained short-term banking facilities of RMB336 million from the Agricultural Bank of China. The salient terms of our short-term bank loans under such banking facilities are as follows:

- *Term*. From 27 August 2009 to 26 August 2010, we are entitled to utilise credit facility of RMB336 million in aggregate from the bank, subject to the approval by the bank for each loan under such credit facility. Any unused portion of the credit facility at the end of the term will be automatically cancelled. Our loans under the credit facility are repayable in 12 months from their respective draw down dates.

- *Interest Rate.* The interests on the bank loans are charged at the benchmark interest issued by the People's bank of China and payable on a quarterly basis.

- *Our Rights*. Our Company is entitled to use the loans granted by the bank and the loans shall be for purposes stipulated in the relevant loan agreements.

- *Our Obligations.*

  - We shall repay any loans advanced and any interest for such loans in accordance with the terms and conditions of the relevant loan agreements.

  - We shall keep the bank informed of our operations and financial status shall provide the bank with our the accounting reports on a periodic basis, although we are not subject to any specific working capital requirements under the banking facility or our loans with the bank.

  - We shall notify the bank in advance any proposed actions which may affect the bank's rights as a creditor of us, such as reorganisation, assets transfer, application for dissolution and application for bankruptcy and we may not carry out such actions without the bank's approval and its consent to any change in the relevant debt obligation or early repayment arrangement in connection with such actions. The Agricultural Bank of China has confirmed that any [●] or any corporate reorganisation for the purpose of [●] involving Comtec Solar, the party to the banking facilities, are not subject to its consent and/or approval.

  - We shall forthwith notify the bank in writing any material adverse change in our business, including deregistration, any unlawful activities of our legal representatives, any involvement of us in any litigation or arbitration of importance, any serious operation and financial difficulties we encounter. In such cases, we shall also implement measures as approved by the bank to protect the bank's rights as a creditor of us.

  - We shall not evade our obligations to the banks by transferring assets, withdrawing capital or transferring equity interests in ourselves.

- *Guarantee.* Guarantees may be required for the loans under the banking facility, which shall be entered into by the relevant parties separately. Should the relevant guarantor loss partially or completely its ability to guarantee the relevant loan or should any asset pledged or mortgaged for the purpose of guaranteeing the loans losses its value, we shall offer other guarantees for the relevant loan as approved by the bank. If any relevant guarantor violates its obligations under the relevant guarantee in connection with the loans, the bank is entitled to terminate the loans, request early repayment of our outstanding loans or take any other asset preservation measures.

- *Consequence of Breach of Obligations.* If we breach our obligations under the relevant loan agreements, the bank will be entitled to demand us to rectify any relevant breach within a given period of time, terminate the relevant loans, request early repayment of the outstanding amount under the relevant loans, declare our any other loans with the bank as immediately due or take any other asset preservation measures.

At the close of business on 31 August 2009, being the latest practicable date for the purpose of this statement prior to the printing of this document, the Group had outstanding bank loans of approximately RMB136 million (of which RMB76 million was secured by fixed charges on certain of the Group's assets, including certain properties, plant and equipment having book values of approximately RMB84,769,000).

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, the Group did not have outstanding at the close of business on 31 August 2009 any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

The Directors confirm that there has not been any delay or default in repayment of our Group's bank loans during the Track Record Period.

COMMITMENTS

Our future contractual obligations relate to acquisition of property, plant and equipment, lease contracts for factory land and buildings, as well as polysilicon supply contracts.

We had the following commitments of lease obligations and capital expenditure which were not provided for in our consolidated financial statements:

	As at 31 December			As at 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Lease obligations				
within one year	503	564	1,117	1,117
in the second to fifth year, inclusive	1,400	1,400	2,448	2,448
after five years	3,879	3,529	4,290	3,691
Capital expenditures contracted but not provided for in the financial statements	39,219	1,805	117,883	119,315
Capital expenditures authorised but not contracted for	—	—	480,444	1,385,248

The significant amount of capital commitments as at 31 December 2006 was for our expansion in the second half of year 2007, namely, our plant expansion from 9 MW to 55 MW, on an annualised basis, in the fourth quarter of 2007. Although we have large-scale expansion planned in 2009, the amount of capital commitments as at 31 December 2007 decreased significantly because contracts for our planned capacity expansion in 2009 and 2010 had neither been authorised nor signed by the end of 2007. The amount of capital commitments as at 31 December 2008 increased significantly because we had either authorised or signed contracts for our planned capacity expansion in 2009 and 2010. Such amount of capital commitments decreased as at 30 June 2009 due to the completion of certain purchases of equipment and the construction of the facility housing the equipment for our capacity expansion. As at 30 June 2009, capital commitments contracted for but not provided for in the financial statements of our Group was RMB119.3 million in respect of the expansion in Shanghai, including the acquisition of 62 pullers, 1 cropping saw, 3 squares and 8 wire saws. Capital commitments authorised but not contracted for, as at 30 June 2009, amounted to RMB20.0 million, RMB74.2 million and RMB341.9 million for land use rights, building the factory premises, and the acquisition of equipment and machineries for our capacity expansion from 55 MW to 504 MW, respectively and RMB949.2 million for the acquisition of property, plant and equipment in general for our production capacity expansion beyond 504 MW. The source of funding of our capital commitments were mainly cash flows from operating activities and financing activities such as bank loans and proceeds from the [●]. As at the Latest Practicable Date, the amount of capital committed for our expansion was RMB1,448.1 million.

We have entered into long-term supply contracts with Major International Supplier A and Major International Supplier B, pursuant to which we committed to purchase a minimum amount of polysilicon at pre-determined prices to be used in the manufacture of our solar products. We made advance payments to both companies, which in aggregate amounted to approximately RMB45.3 million, RMB44.7 million, RMB128.7 million for each of the three years ended 31 December 2008, respectively. The minimum purchase commitments in relation to long-term supply contracts amounted to approximately RMB329.5 million, RMB284.8 million, RMB1,234.5 million and RMB1,227.2 million for each of the three years ended 31 December 2008 and 30 June 2009, respectively. The decrease in total future minimum purchases remaining under the agreements from approximately RMB 329.5 million at 31 December 2006 to approximately RMB 284.8 million at 31 December 2007 was due to the advances of approximately RMB 44.7 million made by the Group to Major International Supplier A during the year ended 31 December 2007 in accordance with the payment terms specified in the purchase agreement entered into between our Group and Major International Supplier A. We have purchased approximately 24,000 kg polysilicon, amount to RMB12.9 million under the long-term supply contract in 2009 at the Latest Practicable Date. Our Directors confirm that there was no incident that our Group failed to meet the minimum purchase commitments during the Track Record Period and we will be able to fulfill the minimum annual purchase amount for the year of 2009 due to our rapid expansion plan. Our Group had made purchases of RMB11.2 million under the long-term supply contracts during the six months ended 30 June 2009. At 31 August 2009, the amount of minimum purchase commitments was approximately RMB1,442 million. For more information on our supply contracts with suppliers, please refer to the section headed "Business — Raw Materials and Consumables — Materials — Polysilicon" in this document.

CAPITAL EXPENDITURES

Our capital expenditures principally consisted of expenditures on land, leases and property, plant and equipment relating to our manufacturing facilities. We expect to continue to make significant capital expenditures to expand our production capacity. The following table sets forth our historical capital expenditures for the Track Record Period.

	Year ended 31 December			Six months ended 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Historical capital expenditures				
Property, plant and equipment	28,429	118,474	72,648	43,522
Land use rights	895	—	11,062	—
Total	29,324	118,474	83,710	43,522

The significant increase in capital expenditures in 2007 was due to our expansion in 2007 for 39 ingot pullers, one cropping saw, one squaring machine and five wire saws. Our capital expenditures in 2008 and the six months ended 30 June 2009 are primarily for our production capacity expansion from 55 MW to 200 MW. In response to the deteriorated market conditions in the solar power industry and the global economic downturn, our equipment suppliers have provided favourable payment terms to us, such as payment by installment, and reduced their order lead time, which have helped to relax our working capital requirement.

Our projected capital expenditures for the second half of the year 2009 and the year 2010 are set forth in the table below.

	Six months ending 31 December 2009	Year ending 31 December 2010
	RMB'000	RMB'000
Projected capital expenditures		
Property, plant and equipment	104,435	368,492
Land use rights	20,000	—
Total	124,435	368,492

The projected capital expenditure for the second half of the year 2009 of RMB124.4 million is for our planned expansion of production capacity to 200 MW to be completed by the end of November 2009 and land use rights and construction related to our capacity expansion to 504 MW. The projected capital expenditure for the year ending 31 December 2010 of RMB368.5 million is for (i) the payment for purchase of equipment in the amount of RMB41.0 million and RMB253.2 million for the payment for the purchase of equipment in relation to our planned expansion to 200 MW by the end of November 2009 and our planned expansion to 504 MW by the end of June 2010, respectively, (ii) construction costs in the amount of RMB74.3 million for our planned expansion from 200 MW to 504 MW. As at the Latest Practicable Date, the amount of capital expenditures committed by us was RMB1,448.1 million with respect to these expansions. The sources of funding of our committed capital expenditures and of the remaining amounts of projected capital expenditures are cash flows from operating and financing activities such as bank loans. The proceeds from the [●] would be partially used to fund our planned expansion from 200 MW to 504 MW. Proceeds from the [●] will not be utilised to fund our capital expenditures related to our production capacity expansion to 200 MW.

CURRENT ASSETS AND LIABILITIES

Details of our current assets and liabilities at the end of each reporting periods during the Track Record Period are as follows:

	As at 31 December			As at 30 June	As at 31 August
	2006	2007	2008	2009	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Current assets					
Inventories	37,488	33,647	33,083	63,784	60,169
Trade and other receivables	5,582	43,903	92,824	55,104	89,058
Bills receivable	—	—	—	35,604	32,380
Advance to suppliers	1,948	15,739	45,538	34,285	35,434
Prepaid lease payments - current	101	101	322	322	322
Amount due from a shareholder	4,851	62,056	—	9,727	8,927
Amount due from a related company	—	650	—	—	—
Taxation recoverable	—	—	6,470	—	—
Bank balances and cash	75,770	150,088	165,091	145,077	40,167
Total	125,740	306,184	343,328	343,903	266,457
Current liabilities					
Trade and other payables	11,557	97,265	108,788	130,947	141,792
Customers' deposits received	93,215	148,971	202	207	1,952
Amount due to a shareholder	835	5,000	—	—	—
Amount due to a related company	61	—	—	—	—
Taxation payable	17,723	31,698	5,103	4,801	4,801
Short-term bank loans	2,000	20,000	140,000	163,500	136,000
Total	125,391	302,934	254,093	299,455	284,545
Net current assets/ (liabilities)	349	3,250	89,235	44,448	(18,088)

Our net current assets decreased by RMB44.8 million from RMB89.2 million as at 31 December 2008 to RMB44.4 million as at 30 June 2009, primarily due to an increase in our short-term bank loans, an increase in our trade and other payables as our suppliers did not strictly enforce payment terms in light of the deteriorated market condition, a decrease in bank balances and cash, and a decrease in advance to suppliers primarily due to changes in our procurement strategy by committing ourselves on purchases of polysilicon over a shorter period of time, partially offset by an increase in our inventories due to our purchase of polysilicon to take advantage of an attractive offer for purchase of polysilicon at a price lower than the prevailing spot price from Major International Supplier A. As at the Latest Practicable Date, 90.8% of our polysilicon inventory as at 30 June 2009 has been utilised subsequently for the production of our solar products and 99.4% of our finished goods as at 30 June 2009 has been sold subsequently.

Our net current assets increased by RMB85.9 million from RMB3.3 million as at 31 December 2007 to RMB89.2 million as at 31 December 2008, primarily due to the increase in our working capital resources resulting from our business operations in 2008 partially offset by an increase in our bank loans.

Our net current assets increased by RMB3.0 million from RMB0.3 million as at 31 December 2006 to RMB3.3 million as at 31 December 2007, primarily due to the increase in our working capital resources resulting from our business operations in 2007 and an increase in our bank balances and cash as a result of bank loans raised, partially offset by our capital expenditure.

As at 31 August 2009, we had net current liabilities of RMB18.1 million as compared to net current asset of RMB44.4 million as at 30 June 2009. Our net current liabilities as at 31 August 2009 was mainly due to a decrease in bank balances and cash as a result of our purchase of property, plant and equipment for the purpose of our production capacity expansion to 200 MW. We plan to optimise our overall capital structure and finance our capital expenditure needs primarily through operating cash flows, the issue of new shares or long-term debt securities and the use of bank loans, taking into account our cost of capital and the risks associated with each class of capital. As at 31 August 2009, our Group had un-utilised banking facilities of approximately RMB200 million. Moreover, our Group recorded an improvement in our operating cash flows from net cash outflows position of approximately RMB154.1 million for the year ended 31 December 2008 to net cash inflows position of approximately RMB13.1 million for the six months ended 30 June 2009. Together with the estimated net proceeds from the [●], our Directors consider that our Group will have sufficient cash flow to repay our current trade nature obligations when due.

ANALYSIS OF SELECTED STATEMENT OF FINANCIAL POSITION ITEMS

Inventory Analysis

During the Track Record Period, inventories were one of the principal components of our current assets. It is imperative that we manage and control our level of inventories. Due to the strong market demand, our policy is to increase our inventory level. Our management reviews the inventory level periodically to secure a sufficient level of raw materials for our production and to avoid overstocking. We plan our production based on our production capacity and expected demand for our solar products. We then estimate the amount of required polysilicon and liaise with our suppliers to secure the required amount. Currently, based 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 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. In light of the fluctuation in polysilicons prices since the fourth quarter of 2008, we generally minimise the level of our inventory of polysilicon and would only stock up our polysilicon inventory to take advantage of attractive offers for purchase of polysilicon. As an internal control measure, all our purchases require prior approval from our management. 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.

The value of our inventory accounted for approximately 29.8%, 11.0%, 9.6% and 18.5% of our total current assets as at 31 December 2006, 2007, 2008 and 30 June 2009, respectively.

The following table is a summary of our balance of inventories at the end of each reporting periods during the Track Record Period:

	As at 31 December			As at 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	21,370	19,583	16,990	41,109
Work-in-progress	8,823	9,952	9,664	10,484
Finished goods	7,295	4,112	6,429	12,191
Total	37,488	33,647	33,083	63,784

Our inventories decreased by approximately 10.4%, from RMB37.5 million as at 31 December 2006 to RMB33.6 million as at 31 December 2007, primarily due to an increase in the sales of our finished goods and the consumption of our raw materials as market demand and sales of our solar products increased, which was only partly offset by a slight increase in work-in-progress. Our inventories decreased by approximately 1.5%, from RMB33.6 million as at 31 December 2007 to RMB33.1 million as at 31 December 2008, primarily due to a write-down of approximately RMB43.4 million in our inventories as the net realisable value of our inventories fell below their cost due to the deteriorated market conditions since October 2008. Our inventories increased by approximately 92.7%, from RMB33.1 million as at 31 December 2008 to RMB63.8 million as at 30 June 2009, primarily due to the result of our ongoing negotiation with Major International Supplier A to bargain for more attractive spot prices for our purchases of polysilicon from them, which were later offered to us by Major International Supplier A in light of the drastic decrease in the market spot prices for polysilicon since the fourth quarter of 2008 and the prices under which we have agreed to purchase polysilicon from them pursuant to our long-term supply contract which became relatively less favourable to us. Since the cost of polysilicon remained a major component in our cost of sales, we expect such purchase of additional polysilicon from Major International Supplier A at an attractive spot price in June 2009 will have a positive impact on our profit and contribute to our ability to achieve our profit forecast for the year ending 31 December 2009. Nonetheless as the amount of such purchase was relatively small, representing only approximately 6.0% of our estimated total purchase of polysilicon by volume for the year ending 31 December 2009, we do not consider it a dominant factor in our ability to achieve our profit forecast, which is more dependent on other factors such as the average selling price of our solar products and our production capacity.

Up to 30 September 2009, the subsequent utilisation of our inventories as of 30 June 2009 was RMB59.7 million, or 93.6% of the balance as of 30 June 2009. Due to the recent global financial crisis, our inventory levels have decreased since 30 June 2008. Since November 2008, it is our inventory policy that we would not stock up our inventories unless we are offered to purchase polysilicon at very attractive prices. We currently manage our inventory levels according to our operation scale and with reference to market conditions.

The following table sets forth our inventory turnover days for the Track Record Period:

	As at 31 December			As at 30 June
	2006	2007	2008	2009
Inventory turnover days[1]	201	65	23	70

1. Inventory turnover days is equal to year-end or period-end inventory divided by cost of sales and multiplied by 366 days, or 182 days for the amount at 30 June 2009.

The significantly high inventory turnover of 201 days as at 31 December 2006 was the result of our decision to stock up inventories, especially our raw materials, in expectation of expansion of our business and high market demand. Change in inventory levels were mainly driven by increase in market demand, increase in polysilicon prices and shortage of polysilicon supply as well as our financial liquidity. The decline in the inventory turnover days in 2007 and 2008, from 2006, was in line with the general strong market demand for solar products and our goal to maintain sufficient financial liquidity. The inventory write-off for the year ended 31 December 2008 also contributed to the decrease in inventory turnover days. The increase in the inventory turnover days for the six months ended 30 June 2009 was primarily due to our purchase of additional polysilicon during the period to take advantage of an attractive offer for the purchase of polysilicon from Major International Supplier A. Our Directors believe that our Group's production will grow and expand steadily in view of our strategic procurement approach by entering into a mix of long-term and short-term supply agreements with polysilicon suppliers and spot purchases. As we believe the prices of polysilicon will be stabilised in the near future, we generally minimise our polysilicon inventory levels and will only stock up to take advantage of attractive offers for purchase of polysilicon. Based 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 sufficient for 88% of our estimated remaining polysilicon requirements for 2009 and approximately 13% of our estimated requirements for 2010.

Trade and other receivables analysis

Trade and other receivables include trade receivables, utility deposits, value-added tax receivables and other receivables and prepayments. From 2006 to the third quarter of 2008, we generally requested prepayment from customers before delivery of products and in certain circumstances, granted a credit periods of approximately seven to 30 days based on our relationships with these customers and their credit profile. Since the fourth quarter of 2008, in response to the adverse changes in market conditions, 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.

Trade receivables

The following table sets out the ageing analysis of our trade receivables at the end of each reporting period:

	As at 31 December			**As at 30 June**
	2006	**2007**	**2008**	**2009**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Age				
0 to 30 days	4,012	42,788	27,675	34,661
31 to 60 days	—	—	—	2,943
61 to 90 days	—	—	422	111
91 to 180 days	10	—	674	—
Over 180 days	—	—	1	150
	4,022	42,788	28,772	37,865

Our trade receivables increased from 2006 to 2008 due to increasing production capacity and sales volume. In particular, during the quarter ended 31 December 2007, we had entered into transactions with Suntech, our largest customer in 2007, which accounted for a trade receivables balance of approximately RMB26.4 million as at 31 December 2007. We had granted a discretionary credit period of seven days to Suntech due to their good business relationship with us in 2006 and 2007. The entire amount of the RMB26.4 million trade receivables balance with Suntech was fully settled in January 2008. Our trade receivables decreased in 2008 primarily because we became more conscious to debt collection by end of 2008 in response to the uncertainty in the market and the decrease in shipment volume in the fourth quarter of 2008. Our trade receivables increased in the six months ended 30 June 2009 because our sales volume increased in June 2009 and that the trade receivables for such increased sales are within 90 days. Up to 30 September 2009, the subsequent settlement of our trade receivables as of 30 June 2009 was RMB33.9 million, or 89.5% of the trade receivables balance as of 30 June 2009.

As at 30 June 2009, we recorded trade receivables of approximately RMB3.2 million with age of over 30 days. We grant credit periods of up to 30 days to some of our solar product customers. Due to the deteriorated market conditions since the fourth quarter of 2008, we did not strictly enforce our payment terms against long-term and reputable customers in order to maintain good business relationship with them. As a result, a significant portion of our trade receivables as at 30 June 2009 was with age of over 30 days. The trade receivables with age of above 90 days were related to our semiconductor customers. As at each of 31 December 2006, 2007 and 2008 and 30 June 2009, we did not have trade receivables which were past due for which the we have not provided.

No interest is charged on trade receivables. We have provided fully for all receivables over 365 days as historical experience indicates that such amounts may not be recoverable. Trade receivables between 30 and 365 days are provided for based on estimated irrecoverable amounts from the sales of goods, determined by reference to subsequent settlement, past default experience and objective evidences of impairment. We have not provided for any trade receivables that aged over 30 days and were past due as at 30 June 2009 because they were fully settled subsequently.

In determining the recoverability of the trade receivables, we reassess any change in the credit quality of the trade receivables since the credit was granted and up to the reporting date. After reassessment, our Directors believe that no further allowance is required.

Bill receivables

Since the fourth quarter of 2008, we have also become more receptive to accepting bills maturing in three to six months as payment for our solar products by a few major customers. In February 2009, we entered into two discounted bills arrangements with the Agricultural Bank of China in relation to certain bills receivables from a long-term customer in relation to its purchases from us and obtained a cash amount from the Agricultural Bank of China, which were in a total of approximately RMB7.5 million. The discounted bills, which were outstanding as at 30 June 2009, had matured and had been settled in July 2009. The finance charges related to such discounted bills arrangements were borne by the long-term customer. The sum of RMB7.5 million was treated as our short term loan and also remained as bills receivable until it was settled as the risk of non-payment by the customer to the Agricultural Bank of China rested with us due to the recourse in nature of the discounted bills. As at each of 31 December 2006, 2007 and 2008 and 30 June 2009, we did not have bills receivable which were past due for which the we have not provided.

The following is an ageing analysis of our bills receivable at the end of each reporting periods:

	At 31 December			At 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Age				
0 to 30 days	—	—	—	8,199
31 to 60 days	—	—	—	19,905
61 to 180 days	—	—	—	7,500
Over 180 days	—	—	—	—
	—	—	—	35,604

Other receivables

Our other receivables include utility deposits, value-added tax receivables and other receivables and prepayments.

Our value-added tax receivables were nil, nil, RMB4.8 million and RMB13.5 million as at 31 December 2006, 2007 and 2008 and 30 June 2009, respectively. Our value-added tax receivables represents any balance of value-added tax we pay on our purchase of raw materials, after the deduction of value-added tax our customers pay to us on the sales of our solar products. The increase in our value-added tax receivables from RMB4.8 million as at 31 December 2008 to RMB13.5 million as at 30 June 2009 was primarily due to our purchase of additional polysilicon in June 2009 to take advantage of an attractive offer for purchase of polysilicon from Major International Supplier A.

Our other receivables and prepayments include, among other things, advance payments to a customer who sourced polysilicon for us. We did not record any such advance payments as at 31 December 2006 and 2007 and 30 June 2009. Included in other receivables and prepayments as at 31 December 2008 is approximately RMB55.8 million refundable advance payment which was for the purpose of polysilicon sourcing assistance to Suntech, a customer who historically also sourced polysilicon for us, for their purchase of polysilicon to be supplied to us. Such amount was repaid in January 2009 because we no longer needed to seek assistance on polysilicon sourcing from Suntech due to changes in market conditions.

Debtors' turnover days

The following table sets forth our debtors' turnover days for the Track Record Period:

	As at 31 December			As at 30 June
	2006	2007	2008	2009
Debtors' turnover days[1]	11	45	14	90

1. Debtors' turnover days is equal to year-end or period-end gross sum of trade receivables and bill receivables divided by revenue and multiplied by 366 days, or 182 days for the amount at 30 June 2009.

From 2006 until the third quarter of 2008, we generally requested full payment from our customers on delivery and granted credit periods of seven to 30 days to selected customers on a case-by-case basis based on our historical relationships with them and their credit profile. Our debtors' turnover days increased from 31 December 2006 to 31 December 2007 due to the increase in operating scale, in particular, during the fourth quarters of 2006 and 2007 when we experienced a sharp increase in our production capacity. We expanded our solar wafer annual production capacity to 55 MW in the fourth quarter of 2007 and this production capacity increase had resulted in increased sales volume and trade receivables in the last quarter of 2007. Together with the increased trade receivables balance from Suntech in the fourth quarter of 2007, we recorded a significantly higher year-end trade receivables balance at 31 December 2007 which contributed to the increase in debtors' turnover days. Since the fourth quarter of 2008, in response to the adverse changes in market conditions, 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. We have also become more receptive to a few major customers paying for their purchases from us with bills maturing three to six months. Due to these changes, our debtors' turnover days increased significantly as at 30 June 2009.

Advance to suppliers

Advance to suppliers mainly includes our advance to Major International Supplier A according to our long term contract. We entered into an eight-year supply contract with Major International Supplier A to which we committed to purchase a minimum amount of polysilicon each year from 2008 to 2015. We were required to make two advance payments, which were determined after arm's length negotiations between the parties and represented part 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. The advances are unsecured, interest-free and will be used to offset against future purchases (and the remaining purchases made by our Group would be settled by cash) on an annual basis before expiry of the agreement in 2015. Pursuant to the terms of the agreement, if the minimum purchase commitment is not met in any particular year, advance amounting to 20% to 26% of the minimum purchase commitment in that particular year could be forfeited to Major International Supplier A. The contract does not contain any renewal clause, and does not stipulate the circumstance of when the advance payments made can be refunded.

Apart from Major International Supplier A, we had entered into a seven-year supply contract with Major International Supplier B pursuant to which we are required to make two advance payments in 2008, one in 2009 and one by the end of September 2010 in accordance with an agreed schedule, which in total represent 20% of the total purchase of virgin polysilicon from Major International Supplier B 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. Our other spot purchases are under usual dealing terms which require us to pay in advance of delivery. Our spot suppliers usually deliver to us within seven days of receipt of our full payments.

Our total advances to suppliers as at 31 December 2006, 2007 and 2008 and 30 June 2009 were RMB47.3 million, RMB96.9 million, RMB228.8 million and RMB215.1 million, respectively. At the end of each reporting periods, our Directors estimated the amount of advances that are expected to be settled by the offset of the purchases of the agreed contract quantity in the next twelve months from the end of the respective reporting period and reclassify such advances as current assets in the end of the respective reporting period. An impairment of advance to suppliers was recorded for the year ended 31 December 2008 because the net realisable value of the raw materials for which certain advances have been made fell below their purchase cost. Our Directors confirm that none of our advances to suppliers had been forfeited during the Track Record Period. Our Directors believe that our prepayment arrangements with our long-term suppliers are in line with common industry practices and do not expect that the recent economic turmoil would affect such practices among international suppliers. Going forward, we will finance our long-term advances to suppliers by our operating cash flows, banking facilities and proceeds from the [●].

Amount due from a shareholder

The outstanding amount due from a shareholder amounted to RMB4.9 million, RMB62.1 million, nil and RMB9.7 million as at 31 December 2006, 2007 and 2008 and 30 June 2009, respectively. Outstanding amount due from a shareholder at 31 December 2006 and 31 December 2007 represented receivables from Mr. Zhang for the increase in paid-in capital of Comtec Solar during the years then ended and was non-trade in nature. The amount was unsecured, interest-free and repayable on demand, and was fully settled as of 31 December 2008. Outstanding amount due from a shareholder at 30 June 2009 represented an advance by the Group to a shareholder and was non-trade in nature. The amount was unsecured, interest-free and repayable on demand, and was fully settled before the Latest Practicable Date. As at the Latest Practicable Date, there were no amounts due from shareholders.

Taxation recoverable

We recorded taxation recoverable of RMB6.5 million as at 31 December 2008, which represented an amount of tax overpaid in 2008 and fully recovered in June 2009.

Trade and other payables analysis

Trade and other payables include trade payables, value-added tax payables, payables for property, plant and equipment, and other payables and accrued charges.

The following is an ageing analysis of trade payables at the end of each reporting period:

	As at 31 December			As at 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Age				
0 to 30 days	1,382	17,772	11,516	11,502
31 to 60 days	752	2,828	5,608	8,067
61 to 90 days	31	1,191	3,856	2,966
91 to 180 days	1	424	2,320	1,987
Over 180 days	70	112	598	1,233
	2,236	22,327	23,898	25,755

	As at 31 December			As at 30 June
	2006	2007	2008	2009
Trade payables turnover days[1]	12	43	16	27

1. Trade payables turnover days is equal to year-end or period-end trade payables divided by cost of sales multiplied by 366 days, or 182 days for the amount at 30 June 2009.

Our trade payables turnover days increased from 12 days at 31 December 2006 to 43 days at 31 December 2007 due to credit terms extended to us in respect of some of the amounts payable under polysilicon supply contracts that we entered into with our wafer customers who sourced polysilicon for us, as well as increased purchases of consumables, which were generally purchased with credit terms, as our production capacity increased. Some of our suppliers of consumables have not strictly enforced their credit terms with us and have allowed us to defer settlement of our payables with them. Our trade payables turnover days decreased from 43 days at 31 December 2007 to 16 days at 31 December 2008 due to the more stringent payment terms granted by some of our suppliers of consumables for our purchases from them, which either required payment before delivery or are subject to credit periods of 30 to 90 days. Our trade payables turnover days increase from 16 days as at 31 December 2008 to 27 days as at 30 June 2009, primarily due to our suppliers not strictly enforcing the payment terms during the period.

Historically, most of our suppliers of polysilicon requested prepayment before delivery. However, our wafer customers who also source polysilicon for us would either request payment from us upon our receipt of the polysilicon or provide us a 30-day credit period upon our receipt of the polysilicon. There are no specific conditions for such extension of credit terms. As these customers are also our top five customers, the credit terms are granted to us mainly due to our good relationships. We had trade payables with age of over 60 days because our suppliers would like to develop further business with us and therefore granted us long credit periods. Our suppliers of consumables normally require us to pay within 30 days or 60 days of receipt of the products. However, some of these suppliers of consumables have not strictly enforced their credit terms with us and have allowed us to defer settlement of our payables with them. As at 30 September 2009, approximately 82.7% of our Group's trade payables as at 30 June 2009 had been settled. We have not fully settled our trade payables, because certain of our suppliers of consumables, with a desire to develop further business with us, allowed us to defer our settlements. Although we cannot assure that the situation will not change in the future, up to the Latest Practicable Date, there has been no indication from our suppliers that their extension of credit periods to us would change in light of the current economic crisis and the decrease in our Group's product prices.

As at 30 June 2009, payables for property, plant and equipment amounted to RMB77.6 million. Up to 30 September 2009, the subsequent settlement of our payables for property, plant and equipment was RMB6.8 million. The payables for property, plant and equipment are expected to be fully settled in 2010 with our operating cash flows and bank loans.

The following table sets forth a breakdown of our other payables and accrued charges:

	As at 31 December			As at 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Payables for employees' emoluments	562	1,975	2,826	2,422
Payables for accrued rental and utility charges	518	767	215	256
Payables for accrued interest and other charges	826	2,875	4,870	4,870
Payables for professional fees	—	—	18,536	18,674
Others	977	970	1,339	1,385
	2,883	6,587	27,786	27,607

Payables for employees' emoluments increased significantly in 2007 and 2008 due to increase in the number of employees of our Group as a result of our expansion and their average salaries. Payables for accrued interest and other charges are mainly related to the interest and late payment charges on unpaid U.S. federal tax and California state tax of the Relevant Business for the years ended 31 December 2006, 2007 and 2008. Payables for professional fees are mainly related to the accrued expenses for the [●]. Others payables include payables for miscellaneous general office expenses and advertising expenses.

We regularly monitor current and expected liquidity requirements to ensure we maintain sufficient cash reserves to meet our liquidity requirements in the short and long term. The age of our trade payables has lengthened as at 30 June 2009 and the balance of trade payables increased primarily because our suppliers were more lenient in collection in light of the deteriorated market conditions following the recent financial crisis since October 2008. Our Group is in a good liquidity position to meet our payables because of our positive net current assets and strong cash position throughout the Track Record Period.

Customers' deposits received

Our Group historically required substantially all of our customers to pay in advance for purchases of our solar products. Customers' deposits received are unsecured, interest-free and will be offset by the delivery of products by us. The total amount of customers' deposits received as at 31 December 2006, 2007 and 2008 and 30 June 2009 were RMB93.2 million, RMB149.0 million, RMB0.2 million and RMB0.2 million, respectively. The customers' deposits received included amounts received from Suntech, our largest customer and an Independent Third Party, pursuant to a framework agreement entered into in November 2006 between our Group and Suntech for the sales of our solar products. According to the framework agreement, Suntech paid a deposit of US$11.7 million, an amount equivalent to 15% of the total value of products to be purchased from our Group in 2007, before 31 December 2006 and paid another deposit of US$11.7 million before 30 June 2007. These deposits were agreed to be used to settle our export transactions to Suntech's overseas entities on a monthly basis throughout the duration of the framework agreement. Since the fourth quarter of 2008, we do not generally require our customers to pay in advance for purchases of our solar products as a result of the changes in the business environment of the solar power industry following the financial crisis.

Pursuant to a supplementary agreement entered into between our Group and Suntech in October 2007, we agreed to repay outstanding deposits of RMB141.0 million, equivalent to US$19.3 million, to Suntech. Due to changes in the Chinese Value-Added Tax (VAT) export refund policy in the PRC in July 2007, the VAT refund rate for our export transactions had been reduced from 12% to 5%. We therefore ceased all of our export transactions with Suntech by the end of 2007 and conducted our business with Suntech through domestic sales between the PRC entities of Suntech and our Group. After having negotiated with Suntech in late 2007 and having considered the prevailing market practices at the time, the parties decided that deposits were no longer required for our Group's sales to Suntech. A credit period of seven days was granted to Suntech for the domestic sales starting in the fourth quarter of 2007. In May 2008, we fully repaid the outstanding amount of deposits that we previously received from Suntech. We used funds raised through the investment by CMTF to repay a certain portion of the outstanding deposits to Suntech.

Revenue from our sales to Suntech amounted to RMB47.1 million, RMB187.7 million, RMB164.8 million and RMB33.7 million for the years ended 31 December 2006, 2007 and 2008 and the six months end 30 June 2009, respectively. These amounts accounted for approximately 34.8% and 53.8% 21.6% and 18.3% of our total revenues for the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, respectively.

Other than Suntech, we generally require our customers to pay the full purchase price on delivery of our solar products.

The following table sets forth a breakdown of customers' deposits received from our customers during the Track Record Period:

	As at 31 December			As at 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Suntech	91,362	140,950	—	—
Other customers	1,853	8,021	202	207
	93,215	148,971	202	207

Taxation payable

The taxation payable by our Group as at 30 June 2009 was approximately RMB4.8 million, all of which represents the cumulative United States income tax payable on the assessable profits of the Relevant Business during 2008. Such provision represents our Directors' best estimation on the United States income tax payable with respect to the Relevant Business during the Track Record Period, according to the U.S. Internal Revenue Code, in respect thereof. Comtec Ltd is not required to file any income tax return in the United States as it is a trade name. However, Mr. Zhang is required to include the business activities carried under the trade name of Comtec Ltd in his United States individual income tax returns. Our Directors confirm that Mr. Zhang had complied with the relevant income tax filing procedures in the United States in relation to the Relevant Business and as at the Latest Practicable Date, Mr. Zhang had settled all relevant U.S. income tax payable. For more information on the taxes in relation to the Relevant Business, please refer to the section headed "History and Corporate Structure — Corporate Reorganisation — (j) Business previously carried on by Mr. Zhang under the trade name of Comtec Ltd succeeded by Comtec Solar (HK)" in this document.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As at the Latest Practicable Date, we have not entered into any off-balance sheet transactions. We did not have any material off-balance sheet arrangements as at each of the three years ended 31 December 2006, 2007 and 2008 and at 30 June 2009.

CONTINGENT LIABILITIES

As at the Latest Practicable Date, we did not have significant contingent liabilities.

QUANTITATIVE AND QUALITATIVE INFORMATION ABOUT MARKET RISKS

Supply of Raw Materials Risk

We are exposed to fluctuations in the prices of raw materials, which represented approximately 41.3%, 51.5%, 69.8% and 53.4%, respectively, of our cost of sales for each of the three years ended 31 December 2008 and the six months ended 30 June 2009. We made purchases of raw materials through a strategic mix of long-term and short-term supply contracts, as well as from the spot market, in order to take advantage of the anticipated decrease in the market prices of polysilicon in the future while mitigating the risk of an increase in polysilicon prices in the future. Please see the section headed "Business — Raw Materials and Consumables" in this document.

Credit risk

Our principal financial assets are trade and other receivables, bills receivables, amount due from a related company, amount due from a shareholder, pledged bank deposits and bank balances and cash. Our credit risk is primarily attributable to the trade and other receivables and advances to suppliers. As at 31 December 2006, 2007, 2008 and at 30 June 2009, our trade receivable from our Group's five major customers amounted to approximately RMB 4.0 million, RMB42.2 million, RMB27.3 million and RMB23.4 million respectively, which were derived from the receivables of top five major customers which accounted for 100%, 61.8%, 94.8% and 70.4% of our trade receivables at the end of each reporting period. We did not record any amount of bills receivable as at 31 December 2006, 2007 and 2008. As at 30 June 2009, our bills receivable of approximately RMB31,326,000 were derived from the bills receivables from our top five major customers, which accounted for 88.0% of our bills receivable. In addition, as at 30 June 2009, a refundable advance payment of approximately RMB55,774,000 was derived from one of our suppliers.

In order to minimise the credit risk, our management continuously monitors the credit quality and financial condition of our customers and the level of exposure by regular review of the credit evaluation of our customers and suppliers to ensure that prompt action is taken to recover overdue debts and to lower exposure. We evaluate the credit quality and financial conditions of our suppliers based on their financial results, press releases and informal communications from time to time when we are aware of any unusual conduct or event in relation to our suppliers. In respect of the credit quality and financial conditions of our customers, 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, assess each customer's credibility and ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, our Directors consider that our credit risk is significantly reduced.

The credit risk on bank balances and cash is limited because majority of the counterparties are state-owned banks with good reputation or banks with good credit rating.

Currency risk

Most of the principal subsidiaries of our Company operate in the PRC and the functional currency of the PRC is RMB. However, these principal subsidiaries sometimes collect their revenue and settle their purchases of materials, machinery and equipment supplies and certain expenses in foreign currencies. For each of the three years ended 31 December 2008 and the six months ended 30 June 2009, our sale in U.S. dollars were about 19.7%, 15.8%, 9.7% and 7.3% of our total sales, respectively. During the each of the three years ended 31 December 2008 and the six months ended 30 June 2009, our sales in Euro were nil, 0.7% 3.7% and 6.2% of our total sales, respectively. Due to our strategy to diversify our customer base, our sales to foreign countries, such as Germany and Thailand, as a percentage of our total sales have increased and may continue to increase. As a result, our currency risk may increase. For each of the three years ended 31 December 2008 and the six months ended 30 June 2009, our total purchases of raw materials and consumables in U.S. dollar were about 65.2%, 18.4%, 22.5% and 1.6% of our total purchases of raw materials and consumables, respectively. During the two years ended 31 December 2008 and the six months ended 30 June 2009, our purchases of raw materials and consumables in Euro were about 33.7%, 20.3% and 69.7% of our total purchases of raw materials and consumables, respectively. In addition, Comtec Semi (HK) and Comtec Solar (HK) settled the acquisition of Comtec Semi and Comtec Solar in foreign currency by issuance of promissory notes which are denominated in U.S. dollars during the year ended at 31 December 2007.

We currently do not have a foreign currency hedging policy but the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure when our management is of the view that foreign exchange rates have become volatile, in which case professional advisors will be consulted to devise an appropriate hedging strategy. The Directors and the relevant officers will continue to monitor and evaluate the market conditions and our financial and operational conditions to monitor our currency risks.

The following sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% appreciation in RMB against each of the relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. A positive (negative) number below indicates an increase (decrease) in profit for the year/period where RMB strengthens against the relevant foreign currencies. For a 5% weakening of RMB against the relevant currencies, there would be an equal and opposite impact on the profit for the year/period.

	Year ended 31 December			**Six months end 30 June**
	2006	**2007**	**2008**	**2009**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
CHF impact	—	—	—	929
Euro impact	—	(36)	419	(87)
Hong Kong dollars impact	—	—	11	(78)
US$ impact	1,730	(17,984)	374	723

As illustrated in the above sensitivity analysis, our profit for the year ended 31 December 2007 would decrease substantially because our liabilities as at 31 December 2007 included two sizable foreign currency denominated monetary items, being the deposits received from our customer, Suntech, in the amount of approximately RMB141.0 million, or the equivalent of US$19.3 million and promissory notes in the amount of approximately RMB164.6 million, or the equivalent of US$22.5 million. Our exposure to the Swiss franc ("CHF") for the six months ended 30 June 2009 is mainly due to a deposit denominated in Swiss franc which we made for the purchase of certain equipment from Meyer Burger for our production capacity expansion.

Interest rate risk

We are exposed to interest rate risk in relation to variable-rate bank balances, short-term bank loans and promissory notes. Our management monitors interest rate exposures and will consider hedging significant interest rate risk when our management is of the view that interest rates have become volatile, in which case professional advisors will be consulted to devise an appropriate hedging strategy. The Directors and the relevant officers will continue to monitor and evaluate the market conditions and our financial and operational conditions to monitor our interest rate risks.

The sensitivity analysis below has been determined based on the exposure to interest rates for interest bearing bank balances, short-term bank loans and promissory notes at the end of the respective reporting periods and the stipulated changes taking place at the beginning of the financial year/period and held constant throughout the reporting period in the case of bank balances.

A 10 basis point increase or decrease on variable bank balances and 100 basis points increase or decrease or variable bank loan and promissory notes are used when reporting interest rate risk internally to key management personnel and represents managements' assessment of the reasonably possible change in interest rates. If interest rate on bank balance had been 10 basis points higher and all other variables were held constant, a positive number below indicates an increase in profit for the year/period.

	Year ended 31 December			Six months ended 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Increase in profit for the year/period	76	150	250	145

The profit for the year/period would be decreased by the same amount as mentioned above if interest rate on bank balances had been 10 basis points lower and all other variables were held constant. If the interest rate on bank loans and promissory notes had been 100 basis points higher and all other variables were held constant, a negative number below indicates a decrease in profit for the year/period.

	Year ended 31 December			Six months ended 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Decrease in profit for the year/period	—	(1,846)	(1,400)	(1,635)

The profit for the year/period would be increased by the same amount as mentioned above if interest rate on bank loans and promissory notes had been 100 basis points lower and all other variables were held constant.

Liquidity risk

Liquidity risk is the risk that our Group will not be able to meet its financial obligations as they fall due. Our Group's policy is to regularly monitor current and expected liquidity requirements and our compliance with lending covenants, to ensure that we maintain sufficient reserves of cash and adequate committed lines of funding from bank to meet our liquidity requirements in the short and longer term.

Our management plans to optimise our overall capital structure and finance our capital expenditure needs primarily through the issue of new shares or long-term debt securities and the use of bank loans, taking into account our cost of capital and the risks associated with each class of capital.

As at the Latest Practicable Date, our banking facilities and arrangements have not been affected by the recent financial crisis and deteriorated worldwide economic conditions. In particular, we have not received any indication from the Agricultural Bank of China that there would be potential withdrawal of any banking facilities granted to our Group and our standby short-term banking facilities of RMB336 million remain available to us according to their original terms; and the Agricultural Bank of China has not requested for early repayment of our outstanding loans, nor requested the Company to increase the amount of pledge for our secured borrowings.

Capital Risk

The capital structure of our Group primarily consists of bank loans, share capital, share premium, special reserve and retained profits. In 2007, we borrowed short-term bank loan of approximately RMB20.0 million, which increased our debt to equity ratio and gearing ratio, which is equal to our total borrowing divided by our total asset, from 1.9% and 0.9% in 2006 to 6.5% and 3.2%, respectively. In 2008, we borrowed short-term bank loan of approximately RMB140.0 million, which increased our debt to equity ratio and gearing ratio to 25.5% and 17.5%, respectively. Our gearing ratio increased during the Track Record Period primarily because our bank loan had increased during the same period to finance our working capital requirements and to support our capital expenditure in relation to our production capacity expansion. We intend to maintain our debt to equity ratio and gearing ratio approximately at their current level. Our Group aimed to maintain a low debt to equity ratio and a low gearing in the Track Record Period by keeping a low level of external borrowings relative to the net asset value of our Group.

In order to monitor and manage our capital risks, our management reviews the capital structure of our Group on a regular basis. We give our consideration to the cost of capital and the risks associated with each class of capital, and balance our overall capital structure through the payment of dividends, issues of new Shares through the [●] and also bank loans.

RELATED PARTY TRANSACTIONS

Comtec Electronics made certain purchases from our Group during the years ended 31 December 2006, 31 December 2007, 31 December 2008 and the six months ended 30 June 2009 with the amount of approximately RMB1.6 million, RMB1.1 million, RMB0.6 million and nil, respectively. Our Directors confirm that such transactions with Comtec Electronics ceased when Comtec Electronics became dormant in April 2008. The principal activities of Comtec Electronics are sales of electronic products and related products, provision of processing services, installation and support services.

With respect to the related party transactions set out in the accountants' report in Appendix I to this document, our Directors confirm that these transactions were conducted in the normal course of business and on normal commercial terms at prevailing market prices and/or our terms that are not less favourable than terms available from Independent Third Parties which are considered fair and reasonable and in the interest of our Shareholders as a whole. Our Directors confirm that all balances with the related parties which are non-trade in nature were fully settled on or before the [●].

DISTRIBUTABLE RESERVES

As at 30 June 2009, our reserves available for distribution to our owners amounted to approximately RMB377,889,000.

PROPERTY INTEREST AND PROPERTY VALUATION

American Appraisal China Limited, an independent property valuer, has valued our property interest as at 31 July 2009 and is of the opinion that the value of our property interests is an aggregate amount of RMB115.3 million. The full text of the letter, summary of valuation and valuation certificates with regard to such property interests are set out in Appendix IV of this document.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, up to the Latest Practicable Date, there has been no material adverse change in the financial or trading position or prospects of us since 30 June 2009 and there is no event since 30 June 2009 which would materially affect the information shown in the accountants' report set out in Appendix I to this document.