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Web Proof Information Pack of

卡姆丹克

卡姆丹克太陽能系統集團有限公司
Comtec Solar Systems Group Limited

(Incorporated in the Cayman Islands with limited liability)

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SUMMARY

OVERVIEW

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

We focus on the design, development, manufacturing and marketing of high quality monocrystalline solar wafers and not on other aspects of the solar products value chain. While we were primarily a semiconductor wafer manufacturer before 2004, we have changed our focus to solar products since then. The change in our business focus was mainly driven by the increasing demand for solar wafer products. As the manufacture of solar wafers and semiconductor wafers is similar in many respects, including the use of polysilicon as a principal raw material and the processing involved in growing ingots and slicing wafers, technical expertise gained from the manufacture of semiconductor wafers is easily transferable to the manufacture of solar wafers. The compatibility of production for semiconductor wafers and ingots and solar wafers and ingots is high in terms of equipment and machinery used. The only difference in the equipment used is the shaping machine, since solar wafers must be in a square shape while semiconductor wafers are in a round shape. We are therefore able to fully exploit our origin as a manufacturer of semiconductor wafers and concentrate our resources on enhancing the quality of our solar products and developing new and innovative solar wafers. Our research and development capabilities, together with our semiconductor wafer manufacturing experience, have resulted in proprietary ingot growing and slicing processes and improved energy use. As we believe that long-term success in the solar power industry will depend largely on product quality and achieving superior manufacturing processes, we will dedicate significant resources to research and development.

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

RAW MATERIALS AND CONSUMABLES

We currently manufacture monocrystalline solar wafers primarily using solar-grade polysilicon which accounted for approximately 41.3%, 51.5%, 69.8% and 53.4% of our total cost of sales for each of the three years ended 31 December 2008 and the six months ended 30 June 2009, respectively. Our purchases of virgin polysilicon accounted for approximately 44.4%, 51.9%, 67.8% and 75.9% of our total purchases of raw materials and consumables for each of the three years ended 31 December 2008 and the six months ended 30 June 2009, respectively. We currently procure our virgin polysilicon primarily from our overseas suppliers through long-term supply contracts and on the spot market. Purchases from our five largest suppliers together accounted for approximately 77.4%, 69.8%, 62.4% and 82.2% of raw materials and consumables purchased during each of the three years ended 31 December 2008 and the six months ended 30 June 2009, respectively. Our five largest suppliers supplied polysilicon, wires and slurry to us. For each of the three years ended 31 December 2008 and the six months ended 30 June 2009, purchases from our largest polysilicon supplier amounted to approximately RMB12.3 million, RMB42.9 million, RMB99.3 million and RMB121.8 million, respectively, representing approximately 26.4%, 34.0%, 22.0% and 69.7% of our total purchases of raw materials and consumables for the relevant periods, respectively. The total purchases of polysilicon from our largest polysilicon supplier as a percentage of our total purchase of raw materials and consumables decreased during the period from 2006 to 2008 due to our efforts to diversify our supplier base. The total purchase of polysilicon from our largest polysilicon supplier as a percentage of our total purchase of raw materials and consumables increased for the six months ended 30 June 2009 compared to 2008 as we were able to increase our purchase of high quality polysilicon from Major International Supplier A at attractive prices.

In addition, a portion of our polysilicon is sourced from certain of our customers who sell polysilicon feedstock to us, which, however, are not directly connected to the sales of our solar products to such customers. We sourced approximately 23.9%, 26.2%, 53.9% and 2.8% of total polysilicon purchases from our customers in each of the three years ended 31 December 2008 and the six months ended 30 June 2009, respectively. Our purchase of polysilicon from our customers as a percentage of our total polysilicon purchase increased for 2008 compared to 2007 because there was a shortage of polysilicon in the market during the first three quarters of 2008 and some of our customers were willing to supply more polysilicon to us in this period for our production. It was common practice in the industry to purchase polysilicon from customers. The purchases of polysilicon from our customers and the sale of our solar products to them are not "back-to-back" arrangements, which means the terms and conditions of our purchases from and sales to such customers are made independent of and without reference to each other. Due to the historical shortage of polysilicon, our customers often sourced their own polysilicon materials and sold them to wafer manufacturers in the industry in order to obtain more supply of wafers from those wafer manufacturers. We are not required to and we do not set aside polysilicon purchased from our customers for production of wafers for any specific customers. Sourcing polysilicon from our customers was a way for us to expand and diversify our supplier base. As polysilicon has not been in shortage since the end of 2008, we do not expect that we will need to purchase polysilicon from our customers in the foreseeable future.

SUMMARY

Despite the industry-wide shortage of polysilicon raw materials before the fourth quarter of 2008, our strong relationships with various suppliers of polysilicon feedstock had allowed us to manage our procurement of polysilicon effectively. We have an average of approximately four years of relationship with our major suppliers. We continue to rely on these relationships to provide us with a stable supply of quality polysilicon feedstock to meet our production requirements. As at the Latest Practicable Date, based on our actual and planned production capacity as well as our estimated shipment volume, we believe that our inventory of polysilicon, together with expected deliveries from committed supply contracts, are sufficient for approximately 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.

PRODUCTION CAPACITY AND UTILISATION

We have increased our production capacity steadily since 2004, when we first began producing solar products. Our production capacity increased to 55 MW by the end of 2007 from 9 MW at the end of 2006, on an annualised basis. The capacity utilisation rate of our ingot production facilities for the first half of 2009 was approximately 90.6%, and the capacity utilisation rate of our wafer production facilities for the first half of 2009 was approximately 79.4%.

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

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

The following table sets forth our utilisation rates for the solar products set forth therein during the Track Record Period.

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

We calculate utilisation of our manufacturing facilities by dividing actual production for the relevant period by the averaged production capacity during the same period. The averaged production capacity for a given period is calculated by dividing the sum of the annualised production capacity as at the end of each month during such period by the number of months in the period. For details on the calculation of our production capacity, please refer to the section headed "Glossary of Technical Terms — Assumptions about conversion efficiency, and production capacity and output" in this document.

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

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

OUR EXPANSION PLAN

We will continue to expand our production capacity to capture the anticipated global demand for solar products. To capitalise on the rising global demand for solar wafers, we currently intend to further increase our annual production capacity to 504 MW by the end of June 2010. We have acquired land adjacent to one of our existing Nanhui plants on which we are installing manufacturing facilities to expand our annual production capacity to 200 MW. The construction of the building for our production capacity expansion was substantially completed in December 2008 and installation of production equipment for the capacity expansion to 200 MW is expected to be completed by the end of November 2009. Our annualised production capacity as at the end of September 2009 was approximately 130 MW. On a weighted average basis and taking into account our anticipated annual production capacity expansion from 55 MW to 200 MW by the end of November 2009, our total production capacity for the year ending 31 December 2009 is approximately 84.6 MW. The increased capacity will be allocated to the production of solar wafers and solar ingots, with a stronger emphasis on production of solar wafers. The projected amount of capital expenditure to expand our annual production capacity to 200 MW in 2009 is RMB260.0 million, of which RMB114.6 million has been paid as of 30 June 2009 and the remainder of RMB145.4 million will be paid between the third quarter of 2009 to the end of 2010 and will be funded by cash flows from our operations and bank loans. We plan to further expand our production capacity to 504 MW by the end of June 2010. The total budget for such expansion is RMB410.8 million and is expected to be paid from the fourth quarter of 2009 to the second quarter of 2011 and is expected to be funded by proceeds from the [●] as to approximately half and our cash flows from operations and/or bank loans as to the remaining half. Please refer to the paragraphs headed "Planned expansion" under the section headed "Business" in this document for further details of our capacity expansion plans.

Our expansion plan is formulated based on the expected growth of the solar power market and the demand for our solar products. We have adopted a multi-faceted approach to manage our rapid capacity expansion. For example, we have drawn on our strong technical expertise for the fast ramp-up of our production capacity. On the supply front, we intend to maintain the strong relationships established with our long-term suppliers as part of our plan to secure sufficient raw materials for our increased production capacity. On the customer front, we have continued to strengthen our relationship with a diversifying group of customers which has enabled us to obtain ideas from exchanges of market intelligence with them for the enhancement of our solar products. We also strive and will continue to maintain sufficient financial liquidity to facilitate our rapid expansion and future planned expansion. Based on our operating results during the Track Record Period, we believe that, with the increase in our production capacity, our production and sales volumes would increase, which would have a positive effect on our revenues. However, our operations and growth prospects may be negatively affected if the recent global economic turmoil and credit crisis continue or the demand for solar products does not increase as anticipated. As our industry relies on government subsidies in the end-users market for solar power applications, the purchasing power of our customers may be negatively affected if government subsidies are reduced. We have not yet procured orders to utilise the additional production capacity we will have after our capacity expansion from 200 MW to 504 MW. We currently have no plan to expand the production of semiconductor products.

SALES ANALYSIS

Our revenues for each of the three years ended 31 December 2008 and the six months ended 30 June 2009 were RMB135.4 million, RMB349.1 million, RMB762.1 million and RMB184.3 million, respectively. Our five largest customers together accounted for approximately 69.5%, 84.4%, 66.1% and 62.8% of our total revenues for each of the three years ended 31 December 2008 and the six months ended 30 June 2009, respectively. Our largest customer in each of the three years ended 31 December 2008 and the six months ended 30 June 2009 accounted for approximately 34.8%, 53.8%, 21.6% and 18.3% of our total revenues for each of the three years ended 31 December 2008 and the six months ended 30 June 2009, respectively. Our percentage of sales to our largest customer decreased since 2008 due to our efforts to diversify our customer base. 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	%	RMB'000	%
							(unaudited)			
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	3.0	—	—
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	1.2	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.

SUMMARY

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

	Year ended 31 December						Six months ended 30 June			
	2006		2007		2008		2008		2009	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
							(unaudited)			
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 wafers in 2006.
2. Includes revenue from the sale of materials, such as monocrystalline silicon and recyclable silicon.

Despite the impact of the global economic downturn on the solar power industry since the fourth quarter of 2008, we believe that our operating environment is improving as our sales volume and revenue continue to improve since the six months ended 30 June 2009. Our sales volume for the two months ended 31 August 2009 was 11.6 MW, representing an average monthly sales volume of 5.8 MW, which was approximately 34.9% higher than our average monthly sales volume of approximately 4.3 MW for the six months ended 30 June 2009. Our unaudited revenue for the two months ended 31 August 2009 was approximately RMB69.0 million, representing an average monthly unaudited revenue of approximately RMB34.5 million, which was approximately 12.4% higher than our average monthly revenue of approximately RMB30.7 million for the six months ended 30 June 2009. In comparison, our average monthly sales volume for the two months ended 31 August 2008 was 30.0% higher than our average monthly sales volume for the six months ended 30 June 2008. The increase in our average monthly sales volume for the two months ended 31 August 2008 was attributable to the decrease in our utilisation rate during the six months ended 30 June 2008, however, the increase in our average monthly sales volume for the two months ended 31 August 2009 was attributable to an increase in our sales volume. Please refer to the section titled "Financial Information" of this document for more details.

OUR GROSS PROFIT MARGIN

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. Since the fourth quarter of 2008, our revenue and net profit has been materially and adversely affected. Despite the contraction in revenues as a result of a decrease in the average selling price of our solar products, 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.

SUMMARY

The recent financial crisis and deteriorated worldwide economic conditions have resulted in downward pressure on prices of solar wafers. The average selling prices of our Company's solar wafer products have been reduced since November 2008. The average selling prices of our 125 mm by 125 mm solar wafer products decreased from RMB17.3 per Watt for the six months ended 30 June 2008, to RMB6.8 per Watt for the six months ended 30 June 2009, representing a decrease of approximately 60.7%. The average selling prices of our 156 mm by 156 mm solar wafer products decreased from RMB19.2 per Watt for the six months ended 30 June 2008, to RMB6.5 per Watt for the six months ended 30 June 2009, representing a decrease of approximately 66.1%. While the average selling prices of our solar products have decreased in the six months ended 30 June 2009, our raw material costs have decreased at a lower rate during the same period as the market prices for polysilicon decreased at a slower rate. As a result, our gross profit margin and gross profit for the six months ended 30 June 2009 have decreased. Nevertheless, our long-term supply contracts did not contribute to the decrease in our gross profit margin for the six months ended 30 June 2009 because the prices we paid for our purchases of polysilicon under our long-term supply contract with a Major International Supplier were below the prevailing market prices for polysilicon during this period and we did not purchase any polysilicon from Major International Supplier B during the same period as we were re-negotiating the terms of the our long-term supply agreement with them during the period. We believe prices of polysilicon and wafers will continue to fluctuate in the near future and we will continue to adopt cost efficiency measures to maintain or improve our gross profit margins.

OUR STRENGTHS AND STRATEGIES

We believe that our key competitive strengths are:

- One of the leaders in product quality and production technologies among monocrystalline solar wafer manufacturers in the PRC
- Cost-effective and efficient manufacturing model
- Strong relationships with suppliers and customers
- Experienced management team

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

- Continued focus on manufacturing high quality monocrystalline solar wafers
- Expand our production capacity while maintaining a low cost production structure
- Improve manufacturing efficiency through continuous process innovation
- Procure sufficient supplies of quality polysilicon at favourable prices
- Continue to grow our existing PRC customer base and develop new customer relationships both locally and abroad

OUR SUPPLY CONTRACTS

Long-term supply contract with Major International Supplier A

We have purchased polysilicon from Major International Supplier A, since 2000, although these purchases were pursuant to spot contracts. Our purchases of polysilicon from Major International Supplier A were made at prices generally more favourable than our average purchase price from our other suppliers for polysilicon of comparable quality. Our total purchases of polysilicon from Major International Supplier A, including spot purchases and purchases under the long-term supply contract with them, accounted for approximately 28.6%, 59.1%, 27.8% and 91.2% of our Group's total polysilicon purchases by value for each of the three years ended 31 December 2008 and the six months ended 30 June 2009, respectively. In 2006, we entered into an eight-year supply contract with Major International Supplier A for the supply of polysilicon from 2008 to 2015 and received our first shipment of polysilicon from Major International Supplier A in January 2008 in accordance with the terms of the supply contract. As a general industry practice, long-term supply contracts for virgin polysilicon, such as the long-term supply contract with Major International Supplier A, are typically entered into significantly in advance of the date of the first shipment in order to accommodate the capacity planning of the supplier. The salient terms of our long-term supply contract with Major International Supplier A are as follows.

- *Effective period*. The contract took effect on 1 January 2007 and will expire on 31 December 2015.

- *Rights and obligations*. Major International Supplier A is required to supply, and we have committed to purchase, a fixed quantity of virgin polysilicon in each calendar year beginning in 2008. Such quantities were determined by arm's length negotiation between the parties, taking into account our requirements for the raw material and the International Major Supplier's production capacity during the relevant period. If we are unable to fulfill the minimum purchase commitment in any calendar year, the amount of advance payment in respect of that particular calendar year will be forfeited. The long-term supply agreement with Major International Supplier A does not expressly stipulate that our Group will be subject to any other liabilities should our Group fail to meet the minimum purchase commitment. On the other hand, we rely on our contractual rights under the long-term supply contract to ensure that the supplier will honour its commitments under the contract.

- *Advance payment*. We are required to make two advance payments, the amounts of which were determined after arm's length negotiation between the parties based on the total purchase price and generally represent a certain fixed percentage of the total purchase price for the minimum quantity of purchases over the contract period. These two advance payments were made in 2006 and 2007, respectively, and we have not suffered any material loss of such advance payments.

- *Pricing and settlement terms*. The virgin polysilicon will be sold at various fixed prices but subject to adjustments in accordance with changes to an energy price index. Despite the decrease in market prices of polysilicon, the parties agreed not to adjust the contracted prices. Further, the prices we paid for our purchases of polysilicon under this long-term supply contract were below the prevailing market spot prices for polysilicon during 2008 and the six months ended 30 June

2009 but higher than the market average for long-term contract prices for polysilicon for 2008 and 2009, according to Solarbuzz. We are invoiced for each delivery and each invoice amount is reduced on a pro-rata basis by the advance payments we made. The credit period for our purchases with this supplier is 30 days.

- *Goods return policy*. We may return our purchases of the virgin polysilicon within 5 days of receipt if the shipment does not conform to the quantity ordered or the agreed specifications.

- *Security Interest.* Pursuant to the long term supply contract with this Major International Supplier, our Group granted to Major International Supplier A a continuing security interest in the virgin polysilicon supplied by Major International Supplier A and in the proceeds of sale or insurance of such virgin polysilicon until the entire purchase of such virgin polysilicon and if applicable, all late payments, interest and expenses necessary to enforce such security interest, are paid. Major International Supplier A has the right to take all necessary measures to create, perfect, preserve and enforce the security interest.

- *Termination and renewal*. The contract does not contain any renewal clause, and does not stipulate the circumstance of when the advance payments made can be refunded. It terminates at the end of the contractual period. Other than the forfeiture of any advance payments in accordance with the terms of the contract, the contract does not stipulate any specific compensation or penalty for early termination.

- *Confidentiality*. We are subject to confidentiality obligations under the contract and may not publicly disclose details of the contract without the prior consent of Major International Supplier A. For this reason, we are unable to disclose certain commercially sensitive information, such as the amount and percentage of our total purchases from Major International Supplier A and our annual minimum purchase commitment under the contract, in this document.

Long-term supply contract with Major International Supplier B

In April 2008, we entered into a seven-year supply contract, with Major International Supplier B, a company primarily engaged in the manufacturing and distribution of polysilicon as well as various types of chemicals and an Independent Third Party, with whom our business relationship began in 2008. The salient terms of our long-term supply contract with Major International Supplier B (as amended in July 2009) are as follows.

- *Effective period*. The contract took effect on 2 April 2008 and will expire on 31 December 2015.

- *Rights and obligations*. Major International Supplier B is required to supply, and we have committed to purchase, fixed quantity of virgin polysilicon starting from 2009. Such quantities were determined by arm's length negotiation between the parties, taking into account our requirements for the raw material and Major International Supplier B's production capacity during the relevant period. Major International Supplier B has the sole and absolute discretion to require us to increase or decrease our annual purchase quantity by a percentage of no greater than 3% by providing us with three months written notice. If we fail to accept deliveries for a certain number of times in any calendar year, our payment obligations for our minimum purchase commitment in that calendar year may be accelerated. On the other hand, we rely on our

contractual rights under the long-term supply contract to ensure that Major International Supplier B will honour its commitments under the contract. Although the contract does not specifically set out other available remedies, but it also does not preclude Major International Supplier B from seeking legal remedies from us should we fail to meet the minimum purchase commitment.

- *Advance payment*. We were required to make two advance payments in 2008. Further, we will be required to make one advance payment in 2009 and another one advance payment by 30 September 2010 in accordance with an agreed schedule, which were determined after arm's length negotiation between the parties based on the total purchase price and generally represent a certain fixed percentage of the total purchase price of our purchases of virgin polysilicon over the contract period. The outstanding balance of advance payments are generally not refundable, except in limited circumstances, which include termination of the contract by mutual agreement, breach of contract by Major International Supplier B, bankruptcy or insolvency of Major International Supplier B and Major International Supplier B's inability to deliver products to us. We have made the advance payments in accordance with the said schedule, and we have not suffered any material loss with respect to such advance payments made.

- *Pricing and settlement terms*. The virgin polysilicon are sold to us at various fixed prices. Such prices are subject to adjustments with reference to an agreed formula taking into account of Major International Supplier B's average purchase prices of metallurgical silicon and electricity and changes in the exchange rate of the Korean Won (the purchase price will only be adjusted upward if the Korean Won appreciates against the U.S. dollar), and generally track the production cost of Major International Supplier B. Despite the decrease of market prices of polysilicon, no such adjustment to the contracted prices has been made since the commencement of the contractual period as mutually agreed between us and Major International Supplier B. Pursuant to an amendment agreement that we entered into with Major International Supplier B, Major International Supplier B however agreed to lower the prices of virgin polysilicon sold to us under the long-term supply contract. We and Major International Supplier B did not rely on the originally agreed formula to lower the contracted prices, primarily due to the preference of both parties to apply a meaningful approach to price adjustment to reflect changes in the prevailing market conditions for polysilicon as a result of the global financial crisis. The originally agreed formula, however, remains to be a binding term of the long-term supply contract. Based on our communication with Major International Supplier B and our experience during the Track Record Period, we believe it is likely that any future adjustment to the contract prices will be based on mutual negotiation between us and Major International Supplier B. We are invoiced 14 days before each delivery and are expected to pay within seven days before the date of delivery. Each invoice amount will be reduced on a pro-rata basis by the advance payments we made.

- *Goods return policy*. We may return our purchases of the virgin polysilicon within 45 days of receipt if the shipment does not conform to the agreed specifications.

- *Termination and renewal*. Pursuant to the long-term supply contract, the contract may be terminated (i) by mutual agreement; (ii) for breach of the terms and conditions therein; (iii) due to bankruptcy or insolvency in either party; (iv) if, having exerted commercially reasonable efforts, Major International Supplier B believes that it is unable to deliver the products; (v) by Major International Supplier B at its sole discretion if our Group produces polysilicon or acquires a producer of polysilicon; or (vi) if our Group undergoes a change of control. The contract does not expressly stipulate any compensation or penalty specifically for early termination of the

contract by any party, except as mentioned above. Nonetheless, except when the contract is terminated due to Major International Supplier B's inability to deliver the products, the expiry or termination of the contract does not relieve the parties of any obligations accruing prior to such termination.

- *Confidentiality*. We are subject to confidentiality obligations under the contract and may not publicly disclose details of the contract without the prior consent of Major International Supplier B. For this reason, we are unable to disclose certain commercially sensitive information, such as the amount and percentage of our total purchases from Major International Supplier B and our annual minimum purchase commitment under the contract, in this document.

We have been able to fulfill the minimum purchase requirements under the long-term supply contract with Major International Supplier A due to our rapid expansion and the increase in our sales orders since the contract became effective. We experienced an increase in our sales volume of our solar products from approximately 7.8 MW in 2006 to approximately 44.3 MW in 2008 and from approximately 18.2 MW for the six months ended 30 June 2008 to approximately 25.8 MW for the six months ended 30 June 2009. As at the Latest Practicable Date, the aggregate annual minimum purchase commitments of our Group under all of our long-term supply contracts are approximately 36,000 kg in 2008, 76,000 kg in 2009, 256,000 kg in 2010, 296,000 kg in 2011 and 366,160 kg from 2012 to 2015. Despite the recent economic turmoil, our Directors believe that we will be able to meet the minimum purchase requirements in the future based on our current production capacity because our production volume has not been materially affected by the recent economic turmoil. In particular, our purchases of polysilicon for the year ended 31 December 2008 and the six months ended 30 June 2009 were approximately 223,608 kg and 205,681 kg, respectively, and we plan to expand our production capacity from 55 MW as at the end of June 2009, to 200 MW by the end of November 2009 and 504 MW by the end of June 2010. Since our Group's requirements for polysilicon generally increase in proportion to our capacity expansion, the aggregate minimum purchase commitments as mentioned above are expected to be lower than our Group's requirements for polysilicon in each year.

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

With reference to the recent decline in the market prices of polysilicon, the contract price under our long-term supply contract with Major International Supplier A and the average contract price under our long-term and short-term supply contracts with Major International Supplier B 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. We have renegotiated our pricing terms with Major International Supplier B and as a result, we entered into two amendment contracts with respect to the long-term supply contract and a short-term supply contract with Major International Supplier B.

Short-term supply contracts with Major International Supplier B

In July 2009, we entered into two short-term supply contracts with Major International Supplier B, a company primarily engaged in the manufacturing and distribution of polysilicon as well as various types of chemicals and an Independent Third Party. The salient terms of these short-term supply contracts (one of which was amended in August 2009) with Major International Supplier B are similar and are set out below:

- *Effective period*. The contracts took effect on 7 July 2009 and 29 July 2009, and will expire on 31 December 2009 and 31 October 2009, respectively.

- *Rights and obligations*. Major International Supplier B is required to supply, and we have committed to purchase, fixed quantities of virgin polysilicon in the period from 7 July 2009 to 31 December 2009. We also rely on our contractual rights under these short-term supply contracts to ensure that Major International Supplier B will honour its commitments under the contracts on the other hand. Either party can turn to arbitration institutions for remedies.

- *Advance payment*. We are required to pay for every delivery under these short-term supply contracts in full at least seven days prior to the date of delivery.

- *Pricing and settlement terms*. The virgin polysilicon will be sold at various fixed prices, which are lower than the market prices of virgin polysilicon as at the date of these short-term supply contracts. We entered into an amendment agreement to one of these short-term supply contracts in August 2009, which lowered the contracted price for some of the virgin polysilicon that will be delivered to us. The adjusted contract price was lower than the then prevailing market price for polysilicon. Delivery will be made upon payment by us.

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

- *Termination and renewal*. The contracts do not contain any renewal or termination clause.

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

OUR SALES CONTRACTS

Long-term sales contract with Suntech

We currently have one five-year framework agreement with Suntech, an Independent Third Party. We began to supply solar wafers pursuant to such agreement in 2007. Our business relationship with Suntech began in 2006. The salient terms of the five-year framework agreement with Suntech are as follows.

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

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

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

- *Pricing and settlement terms*. The solar wafers were sold at a fixed price in 2007 and the prices and settlement terms for the subsequent years are subject to further agreement by arm's length negotiation between Suntech and us on an order-by-order basis. In 2008, we agreed to sell solar wafers to Suntech with a credit period of up to seven days. Suntech had prepaid a portion of the purchase price for some of the solar wafers to be delivered by us pursuant to this agreement. However, all of such prepayment had either been applied towards payment of purchases of wafers or refunded as at the Latest Practicable Date pursuant to a supplemental agreement between the parties to reflect the change in market practice. Suntech is not required to make further prepayment each year over the contractual period.

- *Goods return policy.* Suntech is responsible to inspect the goods within seven days of delivery by us. If Suntech is not satisfied with the quality of the goods delivered, Suntech shall notify us of such dissatisfaction within 30 day of delivery. Upon confirmation by us that the delivered goods do not conform to the agreed specifications, we shall replace such defective goods within seven days. Whether the delivered goods conform to the agreed specifications is determined by a set of standard tests agreed to by both parties. The long-term sales contract does not have other goods return provision.

- *Termination and renewal*. The agreement will be automatically renewed for one year, unless either party gives written notice to the other to terminate the agreement prior to 30 days before the expiry of the relevant term of the agreement.

Our Directors believe that we will be able to meet our obligation to supply the minimum quantity of solar wafers to Suntech in accordance with the terms of the long-term sales contract given our planned production capacity expansion to 504 MW by the end of June 2010 and the fact that polysilicon is no longer in shortage.

The framework agreement with Suntech provides us with a significant volume of sales for a period of five years, which is in line with our plans for production capacity expansion. As our sales to Suntech, our largest customer for each of the three years ended 31 December 2008, comprised 34.8%, 53.8%, 21.6% and 18.3% of total revenues for each of the three years ended 31 December 2008 and the six months ended 30 June 2009, respectively, any decrease in purchase orders from Suntech will likely have a material impact on our future growth and profitability if we are unable to source replacement orders from other customers. Our percentage of sales to Suntech decreased in 2008 due to our efforts to diversify our customer base.

RISK FACTORS

Our Group's operations are subject to a number of risks, a detailed discussion of which is set out in the section headed "Risk Factors" in this document. These risks can be broadly classified into:

- Risks relating to our business;

- Risks relating to the recent global financial market turmoil;

- Risks relating to our industry;

- Risks relating to the PRC; and
- Risks relating to the [●].

Set out below is a list of the risks referred to above.

Risks relating to our business

- Prices for solar wafers may fluctuate, subject to future demand for solar products and competitive factors.
- If we are unable to obtain sufficient high quality polysilicon in a timely manner and at commercially reasonable prices, our business could be materially and adversely affected.
- We experienced a general decline in our gross profit margins during the Track Record Period and various factors that are not within our control could adversely affect our gross profit margins in the future.
- Our future success depends on our ability to increase our production capacity and to launch new products to remain competitive. We may be unable to achieve our development plans, which would limit our growth potential and impair our results of operations and financial condition.
- Cash flow from our operations will not be sufficient to fund our current business plans and we may not be able to obtain external financing in a timely manner or on commercially acceptable terms.
- Advance payment arrangements with most of our polysilicon suppliers and equipment suppliers expose us to their credit risk.
- Our dependence on a limited number of key manufacturing equipment and spare parts suppliers could prevent us from fulfilling our customer orders in a timely manner or implementing our expansion plans.
- We depend on a limited number of customers for a significant portion of our revenues, and we anticipate such dependence to continue in the near future.
- We began commercially manufacturing monocrystalline solar products in 2004 and you should evaluate the prospects of our business in light of our limited operating history.
- Interruptions in the supply of electricity and other utilities to our manufacturing facilities may adversely affect our production and results of operations.
- Equipment failures may disrupt our business.
- Our inability to adequately address the financial, operational, infrastructure and human resources challenges of managing a rapidly growing business may negatively impact on our ability to implement our strategic initiatives.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

SUMMARY

Risks relating to the recent global financial market turmoil

Risks relating to our industry

- A substantial reduction or elimination of government subsidies and economic incentives for solar power applications may adversely affect our business and prospects.
- Market demand for solar wafers will be subject to various factors, including competing sources of power.
- The recent ease of imbalance of market supply and demand of polysilicon may not continue, and we may not be able to pass on increases in our raw material costs to our customers.
- Solar wafer products utilising crystalline-silicon-based technology may become obsolete; solar power may not be adopted for wide commercial application.

Risks relating to the PRC

- Changes in the economic, political and social conditions in the PRC and policies adopted by the PRC Government may adversely affect our business, growth strategies, financial condition and results of operations.
- The PRC legal system is not fully developed so the legal protections available to you may not be as comprehensive as those [●] in other jurisdictions.
- Changes in the attitude of the PRC Government towards the development of the solar power industry may adversely affect our current or future business, growth strategies, financial condition and results of operations.
- Our primary source of funds in the form of dividends and other distributions from our operating subsidiary in the PRC is subject to various legal restrictions and uncertainties which may limit our ability to pay dividends or make other distributions to our Shareholders.
- Expiration of, or changes to, current PRC tax incentives that our business enjoys could have a material adverse effect on our results of operations.
- New labour laws in the PRC may adversely affect our results of operations.
- We may be adversely affected by the introduction of new environmental laws or regulations by the PRC Government to control polysilicon manufacturing.
- The stringent environmental protection requirements under the New Water Pollution Law could affect our business.
- It may be difficult to enforce service of process upon our executive directors and directors who live in the PRC or to enforce against us in the PRC any judgments obtained from non-PRC courts.

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

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

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

SUMMARY OF HISTORICAL FINANCIAL INFORMATION

The tables below summarise the consolidated financial information of our Group for each of the three years ended 31 December 2008 and the six months ended 30 June 2009. The following summary information of consolidated statements of comprehensive income, consolidated statements of financial position and consolidated cash flow information was derived from our Company's audited consolidated financial information prepared in accordance with IFRS as set out in the accountants' report in Appendix I to this document. You should read the entire accountants' report, including the notes thereto, included in Appendix I for more details.

Summary Consolidated Statements of Comprehensive Income Information

	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)			
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 expenses	(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/period, attributable to the owners of the 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, 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**
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.

SUMMARY

Summary Consolidated Statements of Financial Position

	At 31 December			At 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Assets				
Non-current assets	107,942	309,597	473,933	523,365
Current assets	125,740	306,184	343,328	343,903
Total Assets	233,682	615,781	817,261	867,268
Liabilities and equity				
Current liabilities	125,391	302,934	254,093	299,455
Non-current liabilities	—	164,646	3,251	3,466
Total Liabilities	125,391	467,580	257,344	302,921
Total Equity	108,291	148,201	559,917	564,347
Total Liabilities and Equity	233,682	615,781	817,261	867,268

Summary Consolidated Cash Flow Information

	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 beginning of the year/period	8,797	75,770	150,088	150,088	165,091
Cash and cash equivalents at end of the year/period, represented by bank balances and cash	75,770	150,088	165,091	250,631	145,077

WORKING CAPITAL

The table below sets forth our current assets and liabilities as at the end of each reporting period during the Track Record Period.

	Year ended 31 December			As at 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Current assets	125,740	306,184	343,328	343,903
Current liabilities	125,391	302,934	254,093	299,455
Net current assets	349	3,250	89,235	44,448

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.

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 to meet our working capital and capital expenditure 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 from the [●].

Our banking facilities and arrangements have not been affected by the recent financial crisis and deteriorated worldwide economic conditions. In particular, as at the Latest Practicable Date, 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 us 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; and none of our customers have cancelled any orders placed with us, although we have reduced the selling prices of our solar products as mentioned above.

SUMMARY

PROFIT FORECAST FOR THE YEAR ENDING 31 DECEMBER 2009

We believe that, in the absence of unforeseen circumstances and on the bases and assumptions set out in the section headed "Profit Forecast" in Appendix III to this document, our profit attributable to the Company's owners for the year ending 31 December 2009 is likely to be not less than RMB23.9 million under IFRS.

Forecast consolidated profit attributable to owners of our Company[(2)] . . . . . Not less than RMB23.9 million

Notes:

1. One of the underlying assumptions of our profit forecast for the year ending 31 December 2009 is our successful expansion of our annualised production capacity to 200 MW by the end of November 2009. Our annualised production capacity as at the end of September 2009 was 130 MW. If we were unable to complete our annualised production capacity expansion to 200 MW by the end of November 2009 as contemplated, our profit after taxation for the year ending 31 December 2009 is likely to be approximately RMB4.8 million lower than our forecast of RMB23.9 million.
2. The bases and assumptions on which the forecast consolidated profit attributable to owners of our Company for the year ending 31 December 2009 has been prepared are summarised in Appendix III to this document. The forecast consolidated profit attributable to owners of our Company for the year ending 31 December 2009 is based on audited consolidated results for the six months ended 30 June 2009, the unaudited consolidated management accounts of our Group for the two months ended 31 August 2009 and a forecast of the consolidated results of our Group for the remaining four months ending 31 December 2009.

RESTRICTED SHARES GRANT TO DIRECTOR

A total of 3,877,058 restricted Shares ("Restricted Shares") were granted to Mr. Chau Kwok Keung, an executive Director, at nil consideration for the purpose of giving him an opportunity to have a personal stake in us and to motivate him to optimise his performance and efficiency, and also to retain him as our employee whose contributions are important to our long-term growth and profitability. While share options are most commonly used in a company's incentive compensation program, restricted share awards are outright grants of shares subject to vesting restrictions, which are intended to induce performance since the grantee will immediately become a shareholder of the company and will be entitled to voting and receiving dividends. We therefore consider that Mr. Chau's economic interest would be more appropriately aligned with that of the other Shareholders of our Company if Mr. Chau's compensation package is structured in a way that will also include the grant of Restricted Shares. The grant of Restricted Shares was approved by written resolutions of the Shareholders dated 2 June 2008 and 3 August 2009. For further information on the Restricted Shares grant, please refer to the paragraph headed "Further information about Directors — Restricted Shares grant to Director" set out in Appendix VI to this document.

[●] SHARE OPTION SCHEME

We have adopted the [●] Share Option Scheme to motivate our employees to optimise their performance, efficiency and future contributions to our Group and to reward them for their past contributions to our Group. The principal terms of the [●] Share Option Scheme were approved by written resolutions of the Shareholders dated 2 June 2008. Options to subscribe for an aggregate of 230,000 Shares were granted on 3 August 2009 at an original subscription price per Share of HK$6.27.

Pursuant to the terms of the [●] Share Option Scheme which required, in the event of any alteration to the capital structure of our Company including by way of capitalization of profits or reserves, adjustments to be made to, among other things, the aggregate number of Shares subject to any option that have been granted under the [●] Share Option Scheme but have not, at the time, been exercised. We therefore granted an additional amount of options to subscribe for an aggregate of 344,020 Shares on 2 October 2009. The total number of Shares which may be issued upon the exercise of options granted under the [●] Share Option Scheme is therefore 574,020 Shares (the "Underlying Shares"), representing (i) approximately 0.057% of the issued share capital of our Company (without taking into account any Shares which may be allotted and issued upon the exercise of any options which have been granted under the [●] Share Option Scheme), and (ii) approximately 0.057% of the issued share capital of our Company and assuming that all options granted under the [●] Share Option Scheme are exercised at the same time (without taking into account any Shares which may be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme). As at the Latest Practicable Date, none of the options granted under the [●] Share Option Scheme had been exercised by the grantees.

Pursuant to the [●] Share Option Scheme and the relevant offer letters in respect of the grant of options:

(i) the adjusted subscription price per Underlying Share shall be HK$2.51; and

(ii) all options granted under the [●] Share Option Scheme can only be exercised in the following manner: (a) Shares representing 1/12th of the Underlying Shares shall vest on 1 November 2009; and (b) from 1 November 2009 onwards, the remaining 11/12th of the Underlying Shares shall vest in equal quarterly instalments of 1/12th of the Underlying Shares at the end of each three-month period subject to continued employment with our Company during that period and all other terms and conditions as described in the [●] Share Option Scheme. No option holder shall in any way sell, transfer, assign, charge, mortgage, encumber or create any interest in favour of any third party over or in relation to any options or purport to do so.

Please refer to the section headed "[●] Share Option Scheme" in Appendix VI to this document for further details of the [●] Share Option Scheme.

SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Scheme, the purpose of which is to motivate the relevant participants to optimise their future contributions to our Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such participants who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of our Group. Additionally in the case of the executive Directors and senior management of our Group, to enable our Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions. The principal terms of this scheme are summarised in the paragraph headed ''Share Option Scheme'' in Appendix VI to this document.

SUMMARY

CORPORATE INVESTOR

On 18 March 2008, we entered into a subscription agreement with a financial investor, CMTF, and issued 11,212,019 Series A Shares to CMTF at a consideration of approximately US$20 million based on the post-investment equity valuation of US$494.5 million, which was determined at arm's length with reference to future earnings potential of our Company. On 30 March 2009, we renegotiated the terms of the investment by CMTF in our Company given the economic downturn and therefore entered into a supplemental agreement with CMTF, pursuant to which we issued an additional 13,587,494 Series A Shares to CMTF credited as fully paid by a transfer of share premium of the Company in the amount of HK$13,587.49. As at the Latest Practicable Date, CMTF was holding a total of 24,799,513 Series A Shares.

The proceeds of approximately US$20 million from the investment by CMTF in our Company were used to finance expansion of our production capacity and as our general working capital.

Upon our Company's request and pursuant to the terms of a lock-up undertaking, CMTF agrees not to sell, make any short sale of, loan, grant any option for the purchase of, or otherwise dispose of any securities of our Company, however or whenever acquired, without the prior written consent of our Company or [●], as the case may be, for a period of 180 days from the [●] Date.

DEFINITIONS

In this document, unless the context otherwise requires, the following expressions have the following meanings:

"Affiliate"	a person, directly or indirectly, controlling, controlled by or under direct or indirect common control with another person
"Articles of Association" or "Articles"	our current articles of association, which were adopted on 2 October 2009, as may be amended from time to time, a summary of which is set out in Appendix V to this document
"associate(s)"	has the meaning ascribed thereto under the Listing Rules
"Board" or "Board of Directors"	the board of Directors
"Business Day"	a day on which banks in Hong Kong are generally open for business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong
"BVI"	the British Virgin Islands
"CAGR"	compound annual growth rate
"CEO"	chief executive officer of our Group
"CFO"	chief financial officer of our Group
"China" or "PRC"	the People's Republic of China, which for the purpose of this document, excludes the Hong Kong Special Administrative Region of the PRC, the Macau Special Administrative Region of the PRC and Taiwan
"China Merchants Securities Group"	China Merchants Securities Co., Ltd, a company incorporated in the PRC in 1991, and its subsidiaries, associates and entities or companies controlled by it or its subsidiaries or its associates
"CMTF"	CMTF Private Equity One, an exempted company incorporated with limited liability under the laws of the Cayman Islands
"Companies Law"	the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
"Companies Ordinance"	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented, or otherwise modified from time to time
"Comtec Electronics"	Shanghai Comtec Electronics Co., Ltd., a company wholly-owned by Mr. Zhang

DEFINITIONS

"Comtec Ltd"	Comtec Ltd, a trade name in the U.S. used by Mr. Zhang in carrying out business as a sole proprietor
"Comtec Semi"	上海卡姆丹克半導體有限公司 (Shanghai Comtec Semiconductor Co., Ltd.), a wholly foreign-owned enterprise incorporated under the laws of the PRC on 21 December 1999 and an indirect wholly-owned subsidiary of our Company
"Comtec Semi (Cayman)"	Comtec Semiconductor (Cayman) Limited (formerly known as New Genuine Limited), an exempted company incorporated with limited liability under the laws of the Cayman Islands on 23 April 2007 and a direct wholly-owned subsidiary of our Company
"Comtec Semi (HK)"	Comtec Semiconductor (Hong Kong) Limited (formerly known as Winkle (Hong Kong) Limited), a limited liability company incorporated in Hong Kong on 12 October 2007 and an indirect wholly-owned subsidiary of our Company
"Comtec Solar"	上海卡姆丹克太陽能科技有限公司 (Shanghai Comtec Solar Technology Co., Ltd.), a wholly foreign-owned enterprise incorporated under the laws of the PRC on 5 July 2005 and an indirect wholly-owned subsidiary of our Company
"Comtec Solar (Cayman)"	Comtec Solar (Cayman) Limited (formerly known as Most Talent Limited), an exempted company incorporated with limited liability under the laws of the Cayman Islands on 23 April 2007 and a direct wholly-owned subsidiary of our Company
"Comtec Solar (HK)"	Comtec Solar (Hong Kong) Limited (formerly known as Star View (Hong Kong) Limited), a limited liability company incorporated in Hong Kong on 12 October 2007 and an indirect wholly-owned subsidiary of our Company
"Comtec Solar (Jiangxi)"	江西卡姆丹克太陽能科技有限公司 (Jiangxi Comtec Solar Technology Co., Ltd.) (formerly known as 真彩(南昌)科技實業有限公司 (HK Truecolor Technologyical Industry Limited (Nanchang)), a wholly foreign-owned enterprise established in the PRC on 22 March 2006 and an indirect wholly-owned subsidiary of our Company
"Connected Person(s)"	has the meaning ascribed thereto under the Listing Rules

DEFINITIONS

"Controlling Shareholders"	has the meaning ascribed thereto in the Listing Rules and unless the context requires otherwise, refers to Mr. Zhang and Fonty, who, together, will control the exercise of approximately 66.4% voting rights in the general meeting of our Company immediately after the [●] and the [●] (assuming that the [●] is not exercised)
"COO"	chief operating officer of our Group
"Corporate Reorganisation"	the reorganisation of our Group conducted in preparation for the [●], details of which are set out in the paragraph headed "Corporate Reorganisation" under the section headed "History and Corporate Structure" in this document
"Covenantors"	Mr. Zhang and Fonty
"CSRC"	中國證券監督管理委員會 (China Securities Regulatory Commission), a regulatory body responsible for the supervision and regulation of the securities markets in the PRC
"CTO"	chief technology officer of our Group
"Director(s)"	member(s) of our board of directors
"EIA"	Energy Information Administration, a statistical agency of the U.S. Department of Energy
"Euro(s)" or "€"	the official currency of the European Union, used in 16 member states including Austria, Belgium, Cyprus, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia and Spain
"Ferrotec"	Ferrotec Corporation, a company incorporated under the laws of Japan in September 1980, listed on the Jasdaq Securities Exchange in Japan (Jasdaq: 6890) and an Independent Third Party
"Fonty"	Fonty Holdings Limited, a company incorporated under the laws of the BVI with limited liability on 5 September 2007, the entire issued share capital of which is directly owned by Mr. Zhang
"Group", "our Group", "our", "we" or "us"	our Company and its subsidiaries at the relevant point of time or, where the context so requires in respect of the period before our Company became the holding company of our present subsidiaries, the present subsidiaries of our Company and the businesses carried on by such subsidiaries or (as the case may be) their predecessors

DEFINITIONS

"HCT Shaping"	HCT Shaping Systems SA, a company incorporated under the laws of Switzerland in 1982, and subsequently acquired by Applied Materials, Inc., which is listed on Nasdaq (Nasdaq: AMAT), and an Independent Third Party
"HK$" or "HK dollar(s)" and "HK cent(s)"	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
"HKAS(s)"	Hong Kong Accounting Standard(s)
"HKFRS(s)"	Hong Kong Financial Reporting Standard(s)
"HKICPA"	Hong Kong Institute of Certified Public Accountants
"Hong Kong", "HKSAR" or "HK"	the Hong Kong Special Administrative Region of the PRC
"IEA"	International Energy Agency
"IFRS"	International Financial Reporting Standard(s)
"Independent Third Party(ies)"	an individual(s) or a company(ies) who or which is/are independent of and not connected with any Director, chief executive or substantial shareholder (within the meaning of the Listing Rules) of our Company or any of its subsidiaries or any of their respective associates
"JA Solar"	JingAo Solar Co., Ltd., a company incorporated under the laws of PRC in May 2005, and a subsidiary of JA Solar Holding Co., Ltd. (a company listed in the National Association of Securities Dealers Automated Quotation System of the U.S. (Nasdaq: JASO)) and an Independent Third Party
"Jiangyin Bekaert"	Jiangyin Bekaert Alloy Materials Co., Ltd., a joint venture company incorporated under the laws of PRC in 2004 and an Independent Third Party
"Jiangyin Jetion"	Jiangyin Jetion Science and Technology Co., Ltd., a company incorporated under the laws of the PRC in March 2005 and a wholly-owned subsidiary of Jetion Holdings Limited (a company listed on the Alternative Investment Market of the London Stock Exchange (LON: JHL)) and an Independent Third Party
"JZ GRAT"	JZ GRAT of 2009, an irrevocable grantor retained annuity trust set up by Mr. Zhang for the benefit of himself and his family members, a shareholder of our Company and of which J.P. Morgan Trust Company Delaware is the trustee

DEFINITIONS

"Latest Practicable Date"	12 October 2009, being the latest practical date prior to the printing of this document for the purpose of ascertaining certain information contained in this document prior to its publication
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
"Major International Supplier A"	a major supplier of polysilicon to our Company and an Independent Third Party
"Major International Supplier B"	a major supplier of polysilicon to our Company, which is a listed company primarily engaged in the manufacturing and distribution of polysilicon and various types of chemicals, with an annual production capacity of 16,500 tonnes of polysilicon, with an audited consolidated revenue of approximately over US$2 billion and an audited consolidated net income of approximately over US$250 million in 2008 and an Independent Third Party
"Memorandum of Association" or "Memorandum"	our memorandum of association
"Meyer Burger"	Meyer Burger Technology AG, a company incorporated under the laws of Switzerland in 1959, listed on the SWX Swiss Exchange (SWX: MBTN) and an Independent Thirty Party
"Mr. Zhang"	Mr. John Zhang, the founder of our Group, our Chairman, our CEO and an executive Director of our Company and one of our Controlling Shareholders
"NDRC"	中華人民共和國國家發展和改革委員會 (National Development and Reform Commission), the chief planning ministry under the PRC State Council
"Nissin"	Shanghai Nissin Machine Tool Co., Ltd., a company incorporated under the laws of the PRC in March 1995 and an Independent Third Party
"Non-competition Deed"	a deed of non-competition dated 5 October 2009 entered into by the Controlling Shareholders in favour of our Company, details of which are disclosed in the section headed "Controlling and Substantial Shareholders"
"our Company" or the "Company"	Comtec Solar Systems Group Limited 卡姆丹克太陽能系統集團有限公司, an exempted company incorporated with limited liability under the laws of the Cayman Islands on 13 November 2007

DEFINITIONS

"PHOTON Consulting"	an international solar power industry research company or publication and an Independent Third Party
"PHOTON Consulting 2007"	"Solar Annual 2007", published by Solar Verlag GmbH's PHOTON Consulting Unit
"PRC Government" or "State"	the central government of the PRC, including all political sub-divisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof
"[●] Share Option Scheme"	the existing share option scheme for employees of our Group approved and adopted by us pursuant to a resolution passed by our Shareholders on 2 June 2008, the principal terms of which are summarised under the section headed "[●] Share Option Scheme" in Appendix VI to this document
"Relevant Business"	the sole proprietorship business carried on by Mr. Zhang under the trade name of Comtec Ltd in the U.S.
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"SAFE"	中華人民共和國國家外匯管理局 (the State Administration of Foreign Exchange of the PRC)
"SARS"	severe acute respiratory syndrome
"Series A Share(s)"	the Preferred A Share(s) with nominal value of HK$0.001 each in our share capital
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Shanghai Subsidiary(ies)"	Comtec Semi and Comtec Solar, or where the context requires, any one or both of them
"Share(s)"	ordinary share(s) with a nominal value of HK$0.001 each in our capital, which are to be subscribed for and traded in Hong Kong dollars and listed on the Stock Exchange
"Share Option Scheme"	the share option scheme conditionally adopted by us on 2 October 2009, the principal terms of which are summarised under the paragraph headed "Share Option Scheme" in Appendix VI to this document
"Shareholder(s)"	holder(s) of the Share(s)
"Solar Verlag GmbH"	Solar Verlag GmbH, a publishing and editorial company incorporated under the laws of Germany and an Independent Third Party

DEFINITIONS

"Solarbuzz"	Solarbuzz LLC, an international solar energy research and consulting company based in San Francisco, the U.S and an Independent Third Party
"Solarbuzz 2006-2008"	"Marketbuzz 2006 — Annual World PV Market Review", "Marketbuzz 2007 — Annual World PV Market Review", and "Marketbuzz 2008 — Annual World Photovoltaic Market Review" published by Solarbuzz
"Solarbuzz 2007-2008"	"Marketbuzz 2007 — Annual World PV Market Review" and "Marketbuzz 2008 — Annual World Photovoltaic Market Review" published by Solarbuzz
"Solarbuzz 2008-2009"	"Marketbuzz 2008 — Annual World PV Market Review" and "Marketbuzz 2009 — Annual World Photovoltaic Market Review" published by Solarbuzz
"Solarbuzz 2008"	"Marketbuzz 2008 — Annual World Photovoltaic Market Review" published by Solarbuzz
"Solarbuzz 2009"	"Marketbuzz 2009 — Annual World Photovoltaic Market Review" published by Solarbuzz
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary(ies)"	has the meaning ascribed thereto in section 2 of the Companies Ordinance
"Sunergy"	China Sunergy (Nanjing) Co., Ltd., a company incorporated under the laws of the PRC and a subsidiary of China Sunergy Co., Ltd. (a company listed in the National Association of Securities Dealers Automated Quotation System of the U.S. (Nasdaq: CSUN)), an Independent Third Party, and its subsidiaries, associates and entities or companies controlled by it or its subsidiaries or its associates
"Suntech"	Wuxi Suntech Power Co., Ltd., a company incorporated under the laws of the PRC in 2001 and a subsidiary of Suntech Power Holdings Co., Ltd. (a company listed on the New York Stock Exchange (NYSE: STP)) and an Independent Third Party
"Taifook Securities Group"	Taifook Securities Group Limited, a company listed on the Stock Exchange, and its subsidiaries, associates and entities or companies controlled by it or its subsidiaries or its associates
"Topsola"	Shanghai Topsolar Green Energy Co., Ltd., a company incorporated under the laws of the PRC in November 2002 and an Independent Third Party

DEFINITIONS

"Track Record Period"	the three years ended 31 December 2008 and the six months ended 30 June 2009
"United States" or "U.S." or "USA"	the United States of America within the meaning of [●]
"U.S. dollar(s)" or "US$"	United States dollars, the lawful currency of the United States
"U.S. Internal Revenue Code"	the United States Internal Revenue Code, as amended in 1986
"U.S. Securities Act"	the United States Securities Act of 1933, as amended from time to time
"WFOE"	wholly foreign-owned enterprise within the meaning prescribed under PRC laws
"%"	percent

Certain amounts and percentage figures included in this document have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

In this document, unless otherwise stated, certain amounts denominated in Renminbi have been translated into HK dollars or U.S. dollars at an exchange rate of RMB0.88 = HK$1.00 or RMB6.90 = US$1.00, respectively, and certain amounts denominated in Euro have been translated into U.S. dollars at an exchange rate of € 0.64 = US$1.00 for illustration purpose only. Such conversions shall not be construed as representations that amounts in Renminbi were or could have been or could be converted into HK dollars or U.S. dollars at such rates or any other exchange rates on such date or any other date.

If there is any inconsistency between the Chinese names of entities or enterprises established in the PRC and their English translations, the Chinese names shall prevail. The English translation of company names in Chinese or another language which are marked with "" and the Chinese translation of company names in English which are marked with "*" is for identification purpose only.*

Unless otherwise specified, all relevant information in this document assumes no exercise of the [●].

GLOSSARY OF TECHNICAL TERMS

This glossary contains explanations of certain terms and definitions used in this document in connection with us and our business. The terms and their meanings may not correspond to standard industry meaning or usage of those terms.

"BIPV"	Building Integrated Photovoltaics
"cropping saws"	the equipment to cut ingots before they are squared and sliced into wafers
"CZ"	Czochralski, a growth method of which an important application is the growth of large cylindrical ingots of single crystal silicon
"GW"	gigawatt, which equals 10^9 Watt
"hot zone"	a graphite thermal isolation structure into which a crucible is placed to preserve heat during ingot pulling production
"g"	gram
"ingot"	cylindrical silicon brick, which is created when polysilicon is melted, crystallised and pulled in a furnace, and to be sliced into wafers
"ingot pullers"	the equipment used for ingot production to pull molten polysilicon from a crucible in a rotating upward motion in a vacuum chamber
"kerf loss"	the amount of material loss during the cutting process, a measure of a wafer manufacturer's production efficiency, which is calculated by dividing (a) the difference between the weight of the raw materials used in the cutting process and the weight of the wafers produced, by (b) the weight of the raw materials used in the cutting process
"kg"	kilogram
"kilowatt hour"	a unit of energy which refers to the specific amount of energy provided in a 3,600-second time period
"km"	kilometre
"KW"	Kilowatt, which equals 10^3 Watt
"module"	Interconnected solar cells encapsulated and protected in transparent materials that protect against humidity, air and mechanical damage, which are normally made with a glass front and aluminum frame

GLOSSARY OF TECHNICAL TERMS

"monocrystalline silicon"	processed silicon where all the material consists of a single crystal structure
"mm"	millimetre
"MW"	megawatt, which equals 10^6 Watt
"multicrystalline silicon"	processed silicon where the material consists of several small (typically 1-20 mm) crystal grains
"N-type"	silicon's conductivity type, either P or N
"photovoltaic" or "PV"	the field of technology and research related to the application of solar cells for energy by converting solar energy (sunlight, including ultra violet radiation) directly into electricity (solar electricity)
"production yield"	a measure of a wafer manufacturer's production efficiency, which equals to the weight of wafers produced divided by the weight of the raw materials used in the production of such wafers
"P-type"	silicon's conductivity type, either P or N
"solar cell"	a device manufactured from silicon wafers which converts light energy into electrical energy
"squaring machine" or "squarer"	the equipment used in the wafering process to cut cropped ingots into blocks to be sliced into wafers
"TW"	terawatt, which equals 10^{12} Watt
"wafer"	a thin disk made by slicing ingots and used to manufacture solar cells
"Watt" or "Wp"	a unit of power equal to 1 joule per second
"wire saws"	equipment with a matrix of wires to simultaneously cut a square ingot into thin wafers
"μm"	micrometre

GLOSSARY OF TECHNICAL TERMS

ASSUMPTIONS ABOUT CONVERSION EFFICIENCY, AND PRODUCTION CAPACITY AND OUTPUT

We measure our wafer production capacity and output in MW, representing 1,000,000 Watts, a unit of power-generating capacity. For the purposes of this document, we have assumed an average solar power conversion efficiency rate of 17% for cells using our monocrystalline solar wafers. The conversion efficiency rate of a solar cell is the percentage of light energy from the sun that such cell or module converts into electrical energy. This conversion efficiency rate is estimated based on feedback we received in 2009 from our top 10 cell-manufacturing customers for the year ended 31 December 2008, which in aggregate accounted for approximately 85% of our total revenue in 2008. There were no material differences in the conversion efficiency rates as reported by our top 10 cell-manufacturing customers during the Track Record Period. The reported conversion efficiency rate ranges from 17.0% to 18.0%. Based on this conversion efficiency rate, we have assumed that each 125 mm by 125 mm solar wafer we produce generates approximately 2.53 Watts of power and each 156 mm by 156 mm wafer we produce generates approximately 4.06 Watts of power. We also measure our ingot production capacity and output in MW. Each kg of an ingot is assumed to yield a number of solar wafers that our current manufacturing processes generally yield. We calculated our production capacity, as at 31 December 2006, 2007 and 2008 and 30 June 2009 based on the wafer slicing capacity of our equipment in operation as at such dates, on an annualised basis. We calculated our planned production capacity of 200 MW by the end of November 2009 and 504 MW by the end of June 2010 based on the wafer slicing capacity of our equipment planned to be in operation by 31 December 2009 and 31 December 2010, respectively, on an annualised basis.

The production capacity of our Group as a whole as referred to in this document represents the lower of the production capacity for ingots and the production capacity for wafers. We adopted this approach as an ingot is an intermediate product in the production process of wafers, and when wafer production as a whole, which includes both the ingot production process and the wafering process, is considered, the production capacity for wafers, our Group's primary product, is limited by the production capacity of either product.

REFERENCES TO MARKET PRICES OF POLYSILICON OR SOLAR WAFERS

In this document, unless otherwise stated or required by the context , the phrase "market price" refers to the market price of polysilicon or solar wafers as for the period or at the date reported in the industry reports published by Solarbuzz or PHOTON Consulting for the period or at the dates in respect of which such reference is made. Where such market price referred to in this document is expressed in a currency other than the originally reported currency, such market price was translated using the relevant exchange rate set out in the section headed "Definitions" in this document and is for illustrative purposes only.

FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- our business strategies and plan of operation;
- our capital expenditure plans;
- the amount and nature of, and potential for, future development of our business;
- our operations and business prospects;
- our dividend policy;
- projects under construction or planning;
- the regulatory environment of our industry in general; and
- future development in our industry.

The words "anticipate", "believe", "could", "expect", "intend", "may", "plan", "seek", "will", "would" and similar expressions, as they relate to us or our industry, are intended to identify a number of these forward-looking statements. These forward-looking statements reflecting our current views with respect to future events are not a guarantee of future performance and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this document. One or more of these risks or uncertainties may materialise, or underlying assumptions may prove inaccurate.

Subject to the requirements of the Listing Rules, we do not intend to publicly update or otherwise revise the forward-looking statements in this document, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this document might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements in this document are qualified by reference to this cautionary statement.

RISK FACTORS

RISKS RELATING TO OUR BUSINESS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The principal raw material used in our production of monocrystalline solar wafers is solar-grade virgin polysilicon and its prices had been rising at a higher rate than the prices for our solar products before the recent economic downturn in the fourth quarter of 2008 and falling at a lower rate than the prices of our solar products since the fourth quarter of 2008, which had caused our gross profit margins to decrease generally over the Track Record Period. Our gross profit margins for the years ended 31 December 2006, 2007, 2008 and the six months ended 30 June 2009 were 49.6%, 45.5%, 30.4% and 10.1%, respectively. The recent financial crisis and deteriorated worldwide economic conditions have resulted in our customers bargaining for lower prices with us and we have, as a result, had to reduce the selling prices of our solar products since November 2008. The average selling prices of our 125 mm by 125 mm solar wafers decreased from RMB16.6 per Watt for the year ended 31 December 2008, to RMB6.8 per Watt for the six months ended 30 June 2009, representing a decrease of approximately 59.0%. The average selling prices of our 156 mm by 156 mm solar wafer products decreased from RMB17.8 per Watt for the year ended 31 December 2008, to RMB6.5 per Watt for the six months ended 30 June 2009, representing a decrease of approximately 63.5%. While the average selling prices of our solar products have decreased in the six months ended 30 June 2009, our raw material costs have decreased at a lower rate during the same period and such decrease did not immediately result in a corresponding reduction in our cost of sales because, due to the historical lead time for the supply of polysilicon, we had committed to purchase polysilicon at higher prices before the sudden fall in the prices

of polysilicon in October 2008. In addition, our customers took advantage of their increased bargaining power following the financial crisis by demanding thicker wafers, which would lower the breakage rate during their manufacturing process but increased our production cost for additional raw materials used for such wafers. As a result, our gross profit margin and gross profit for the six months ended 30 June 2009 have decreased. We believe prices of polysilicon and wafers will continue to fluctuate in the near future. Intensifying market competition could reduce our operating margins further due to price competition and loss of market share. In addition, our profit margins will be substantially affected by any economic downturn and reduction in government subsidies in major end-user markets for solar power technology such as Germany, the U.S., Spain and Italy, where the revenues of the end customers of solar products are ultimately derived from. If the financial crisis and deteriorated worldwide economic conditions continue, it could have a further material adverse effect on our profit as demand for solar products could decline. We may experience a decline in our overall gross profit margin and such decline will adversely impact our financial condition, results of operation and prospects.

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

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

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

RISK FACTORS

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

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

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

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

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

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

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

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

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

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

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

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

We were first founded in 1999 to engage in the business of manufacturing semiconductor wafers and ingots. We commenced our solar products business in 2004, and since then we have expanded this business rapidly and it has replaced our semiconductor business to become our principal source of revenues, accounting for approximately 88.6%, 91.9%, 95.2% and 92.0% of our total revenues for each of the three

years ended 31 December 2008 and the six months ended 30 June 2009, respectively. While we expect that the production of solar products will continue to be our primary business in the near future, given our limited operating history in this business, our operating results over the Track Record Period may not provide a meaningful basis for evaluating our business, financial performance and prospects.

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

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

Equipment failures may disrupt our business.

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

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

We have experienced significant growth over the three years ended 31 December 2008 and expect our business to continue to grow if we are successful in implementing our key strategic initiatives. The growth of our business has required significant attention from our management and expenditure of other resources and will likely continue to strain our finances, infrastructure and personnel as we implement our strategies. In order to properly manage this planned growth, we must improve our operational and financial systems, expand our network and system infrastructure, and enhance the effectiveness of our financial controls and procedures. We also will need to continue to manage our customer relationships and manage our relationships

with equipment and raw materials suppliers. Our inability to manage this planned growth may prevent us from achieving our desired growth and producing high quality products, which could negatively impact our reputation and may result in us not being able to attract and retain customers. As a result, our business, prospects, financial condition and results of operations may be materially and adversely affected.

Our continued success and expansion plans also depend, to a significant extent, on our ability to attract, train and retain qualified technical personnel with expertise in the solar power industry. As part of our expansion plans, we plan to hire approximately an additional 200 employees during the period from July 2009 to November 2009 and approximately another 495 employees from January to June 2010. Since July 2009, we have hired 147 new employees as at the Latest Practicable Date. Since our industry is characterised by evolving technologies and high demand for skilled technical personnel, there can be no assurance that we will be able to attract or retain qualified technical staff or other highly-skilled employees that we will need to achieve our strategic objectives. As our business has grown rapidly in recent years, our ability to train and integrate new employees into our operations may not meet the growing demands of our business. If we are unable to attract and retain qualified personnel, our business may be materially and adversely affected.

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

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

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

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

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

Our ability to maintain profitability depends in part on our ability to maintain full utilisation of our production capacity. We are currently in the process of expanding our production capacity but we do not currently have binding orders for the solar products that we will be capable of producing on completion of

such expansion. If we are unable to obtain additional orders for our solar products, procure sufficient raw materials, or if we experience any material equipment failure, then we will not be able to fully utilise of our production capacity. As we incur fixed costs associated with our facilities and equipment whether they are being utilised, operating at less than full utilisation results in expenses without corresponding revenue, which reduces our operating margins.

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

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

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

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

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

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

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

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

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

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

All of our manufacturing facilities are currently located in Nanhui Industrial Zone which is located approximately 50 km southeast from the city centre of Shanghai in the PRC, where we manufacture all of our monocrystalline solar wafers, and store raw materials, work-in-progress and inventories. We also conduct all of our research and development at such facilities. Our production, operations and business could be adversely affected by the effects of fire, severe weather, flood or earthquake and similar events or labour

disputes. The occurrence of a natural disaster or prolonged adverse weather conditions in Nanhui Industrial Zone may result in severe damage to our production facilities. In addition, we may incur substantial repair and reconstruction expenses, which will materially affect our results of operations and financial condition. In addition, our manufacturing processes require the proper, skilful and experienced operations of hazardous equipment, such as pullers and wire saws. We may experience equipment failures or shutdowns or periods of reduced production due to human error or due to unforeseen equipment malfunctions, accidents or interruptions in power supply, any of which could adversely impact our production and operations. Furthermore, such events could cause damages to others' properties or cause personnel injury or death, which could lead to us paying civil compensation, administrative penalties and lead to litigation or regulatory enforcement proceedings. Any occurrence of these events could interrupt or limit our production capacity, or affect our ability to meet customer demand and orders, which would have a negative impact on our reputation, and have a material adverse effect on our financial condition and results of operations.

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

We do not have any product liability insurance or business interruption insurance. Any business disruption or natural disaster could result in substantial costs and a diversion of resources, which would have an adverse effect on our business and results of operations.

As with other solar product manufacturers, we are exposed to risks associated with product liability claims if the use of our solar products results in injury. We cannot predict whether product liability claims will be brought against us in the future or the effect of any resulting negative publicity on our business. The successful assertion of product liability claims against us could result in potentially significant monetary damages and require us to make significant payments. Furthermore, widespread product failures may damage our market reputation, reduce our market share and cause our sales to decline.

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

Our success depends largely on our ability to use and develop our technology and expertise without infringing the intellectual property rights of third parties. The validity and scope of claims relating to solar power technology patents may involve complex scientific, legal and factual questions and analysis and, therefore, may be highly uncertain. We may be subject to litigation involving claims of patent infringement or violation of other intellectual property rights of third parties. The defence and prosecution of intellectual property suits, patent opposition proceedings, and related legal and administrative proceedings can be both costly and time-consuming and may significantly divert the efforts and resources of our technical and management personnel. An adverse determination in any such litigation or proceedings to which we may become a party could subject us to significant liability to third parties, require us to seek licences from third parties, to pay ongoing royalties, or to redesign our solar products or subject us to injunctions prohibiting the production and sale of our solar products or the use of our technologies. Protracted litigation could also result in our customers or potential customers deferring or limiting their purchase or use of our solar products until resolution of such litigation.

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

We rely primarily on patent laws, proprietary technology and contractual restrictions to protect our intellectual property. As at the Latest Practicable Date, we have registered five patents in the PRC and one trademark in Hong Kong. Nevertheless, such registration may only provide limited protection for our

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

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

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

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

Our PRC operating subsidiaries' functional currency is Renminbi and we report our financial statements in Renminbi. Our Group's operations are mainly based in the PRC. During each of the three years ended 31 December 2008 and the six months ended 30 June 2009, we derived about 19.7%, 15.8%, 9.7% and 7.3% respectively of our sales in U.S. dollars and nil, 0.7%, 3.7% and 6.2% of our sales in Euro for the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, respectively, while our costs of sales, except raw material costs, and operating expenses have been denominated primarily in RMB. During each of the three years ended 31 December 2008 and the six months ended 30 June 2009, about 65.2%, 18.4%, 22.5% and 1.6%, respectively of our total purchases of raw materials and consumables were denominated in U.S. dollars and nil, 33.7%, 20.3% and 69.7% of our purchases of raw materials and consumables were denominated in Euro for each of the three years ended 31 December 2008 and the six months ended 30 June 2009, respectively. As at 30 June 2009, our Group's foreign-currency denominated

bank balance and cash amounted to approximately RMB[83.7 million]. Due to our strategy to diversify our customer base, our sales to foreign countries, such as Germany and Thailand, as a percentage of our total sales have increased and may continue to increase. Therefore, any significant fluctuation in the exchange rate of the Renminbi against other currencies may adversely affect our financial condition and results of operations. The change in value of the Renminbi against other currencies is affected by changes in the PRC's political and economic conditions, among other factors. The value of the Renminbi has steadily appreciated since the PRC Government changed its policy of pegging the value of the Renminbi to the U.S. dollar in 2005. If the PRC Government decides to adopt an even more flexible currency policy in the future, the Renminbi may further appreciate against other currencies. The appreciation of Renminbi against the U.S. dollar and other currencies may have an adverse effect on our results of operations, in particular as our revenues denominated in U.S. dollars and Euros increase.

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

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

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

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

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

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

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

RISKS RELATING TO THE RECENT GLOBAL FINANCIAL MARKET TURMOIL

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

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

As a result of the disruptions in the financial markets and other macro-economic challenges currently affecting the economy of the U.S. and other parts of the world, our customers and suppliers may experience cash flow concerns. As a result, our customers may delay their payment to us and suppliers may increase their prices, reduce their output or change terms of sales. Additionally, if the operating and financial performance of our customers and/or suppliers deteriorates, or if they are unable to make scheduled payments or obtain

credit, our customers may not be able to pay, or may delay payment of, accounts receivable owed to us and our suppliers may restrict credit or impose different payment terms. Any inability of our current or potential customers to pay us or any demands by our suppliers for different payments may adversely affect our earnings and cash flow.

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

RISKS RELATING TO OUR INDUSTRY

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

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

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

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

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

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

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

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

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

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

Improvements in solar wafer technologies may render obsolete the products that are currently produced and the manufacturing processes and related equipment that are currently employed in connection with solar wafer production. In addition, technologies for the development of alternative and competing solar power

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

RISKS RELATING TO THE PRC

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

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

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

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

Our Company is a holding company established in the Cayman Islands, and we currently conduct our business primarily through two entities, namely, Comtec Solar and Comtec Semi, both of which are incorporated in the PRC. We also acquired Comtec Solar (Jiangxi) in 2008. These three entities were established under the laws of the PRC and are generally subject to the laws and regulations applicable to foreign investment in the PRC, including, laws applicable to wholly foreign-owned enterprises. Since 1979, the PRC has been developing a comprehensive system of laws, rules and regulations, especially in respect

of economic issues, including, but not limited to, foreign investments, corporate governance, commerce, taxation and trade. Nevertheless, compared to more developed legal systems in other countries, the PRC has a much shorter history of modern legislation. The promulgation of new laws is frequent, which may bring more protections and restrictions, but at the same time, increase the uncertainty of current laws. Also, the enforcement of existing laws in the PRC may not be as systematic as in other countries.

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

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

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

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

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

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

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

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

deemed by the competent authorities as made in order to enjoy favorable tax treatment, such favorable withholding tax enjoyed by us may be adjusted by the competent authorities in the future. As we may receive dividends from Comtec Semi, Comtec Solar (Jiangxi) and Comtec Solar through our Hong Kong subsidiaries, we cannot assure you that the Hong Kong subsidiaries can enjoy the favourable withholding tax rate of 5% as the reorganisation of the PRC subsidiaries may be deemed to have been made in order to enjoy favourable tax treatment. This may reduce the amount of our future distribution of profits to our Shareholders.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

to the Income Tax Law. If we are required under the Income Tax Law to withhold PRC enterprise income tax on our dividends payable to our foreign Shareholders, or if you are required to pay PRC enterprise income tax on the transfer of your Shares, the value of your investment in our Shares may be materially and adversely affected.

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

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

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

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

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

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

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

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

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

In preparation for the [●], we have sought the following waivers from strict compliance with the relevant provisions of the Listing Rules and the Companies Ordinance:

I. MANAGEMENT PRESENCE

Rule 8.12 of the Listing Rules requires that a new applicant applying for a [●] must have a sufficient management presence in Hong Kong. This normally means that at least two of its executive Directors must be ordinarily resident in Hong Kong. Since we carry on a significant part of our business operations in the PRC and all of our manufacturing facilities are located in the PRC, our head office and our senior management members are and will continue to be based in the PRC. Our Group does not carry on any business nor do we have any other form of presence in Hong Kong. At present, Mr. Chau Kwok Keung, our executive Director, CFO, company secretary and authorised representative, is a holder of a Hong Kong permanent identity card and will be ordinarily resident in Hong Kong upon [●], but none of the other executive Directors are Hong Kong residents or based in Hong Kong. We have applied to the Stock Exchange for a waiver from strict compliance with the requirement under Rule 8.12.

We have received from the Stock Exchange a waiver from compliance with Rule 8.12 of the Listing Rules subject to the following conditions:

(a) we appoint two authorised representatives pursuant to Rule 3.05 of the Listing Rules who will act as our principal communication channel with the Stock Exchange and will ensure that they comply with the Listing Rules at all times. The two authorised representatives appointed are Mr. Chau Kwok Keung, who will continue to be an ordinary resident in Hong Kong, and Mr. Zhang, an executive Director and Chairman of our Company. Each of the authorised representatives will be available to meet with the Stock Exchange in Hong Kong within a reasonable period of time upon request and will be readily contactable by telephone, facsimile or e-mail. Both authorised representatives will provide his mobile phone numbers, residential phone numbers, fax numbers and email addresses to the Stock Exchange. Each of the two authorised representatives has been duly authorised to communicate on our behalf with the Stock Exchange;

(b) we appoint a compliance adviser pursuant to Rule 3A.19 of the Listing Rules who will also act as our communication channel with the Stock Exchange for a period commencing on the [●] Date and ending on the date on which we distribute the annual report for the first full financial year after the [●] Date in accordance with Rule 13.46 of the Listing Rules;

(c) both the authorised representatives have means to contact all members of the Board (including the independent non-executive Directors) promptly at all times as and when the Stock Exchange wishes to contact the members of the Board for any matters. We will implement a policy whereby (i) each Director (including the independent non-executive Directors) will provide his or her mobile phone number, residential phone number, fax number and e-mail address to the authorised representatives; (ii) each Director (including the independent non-executive Directors) will provide valid phone numbers or means of communication to the authorised representatives when he or she travels; and (iii) each Director (including the independent non-executive Directors) will provide his or her mobile phone number, residential phone number, office phone number, fax number and e-mail address to the Stock Exchange; and

(d) all Directors who are not ordinarily resident in Hong Kong have confirmed that they hold valid travel documents to visit Hong Kong and will be able to meet with the Stock Exchange within a reasonable period of time, when required.

DIRECTORS

DIRECTORS

Name	Address	Nationality
Executive Directors		
Mr. Zhang	Room 2701, No. 17 Lane 500 Huang Jin Cheng Road Changning District Shanghai 201103 PRC	USA
Mr. Chau Kwok Keung	Flat B, 9th Floor Block 2 Royal Peninsula 8 Hung Lai Road Kowloon Hong Kong	Chinese (Hong Kong)
Mr. Shi Cheng Qi	Room 201, No. 8 185 Feng Gu Road Shanghai 200232 PRC	Chinese
Non-executive Director		
Mr. He Xin	11B, 6th Floor Yangriwanpan Haide 3 Road Nanshan Shenzhen 518054 PRC	Chinese
Independent non-executive Directors		
Mr. Daniel DeWitt Martin	1050-184 Borregas Ave. Sunnyvale, California 94089, USA	USA
Mr. Kang Sun	642 Fontes Drive, Fremont, California 94539, USA	USA
Mr. Leung Ming Shu	Flat 1309 Block B Tai Hang Terrace 5 Chun Fai Road Jardine's Lookout Hong Kong	Chinese (Hong Kong)

CORPORATE INFORMATION

Registered office	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Headquarters	16 Yuan Di Road Nanhui Industrial Zone Shanghai 201300 PRC
Head office in the PRC	16 Yuan Di Road Nanhui Industrial Zone Shanghai 201300 PRC
Principal place of business in Hong Kong	Suite 28 35/F Central Plaza 18 Harbour Road Wanchai Hong Kong
Company's website	www.comtecsolar.com (*information contained in this website does not form part of this document*)
Company secretary	Mr. Chau Kwok Keung, HKICPA, ACCA, CFA
Authorised representatives	Mr. Zhang Room 2701, No. 17 Lane 500 Huang Jin Cheng Road Changning District Shanghai 201103 PRC Mr. Chau Kwok Keung Flat B, 9th Floor Block 2 Royal Peninsula 8 Hung Lai Road Kowloon Hong Kong
Audit committee	Mr. Leung Ming Shu (Chairman) Mr. Daniel DeWitt Martin Mr. Kang Sun
Nomination committee	Mr. Zhang (Chairman) Mr. Daniel DeWitt Martin Mr. Kang Sun

CORPORATE INFORMATION

Remuneration committee	Mr. Zhang (Chairman) Mr. Kang Sun Mr. Leung Ming Shu
Compliance adviser	Piper Jaffray Asia Limited 39th Floor, Tower 1, Lippo Centre 89 Queensway, Admiralty Hong Kong
Principal banker	Agricultural Bank of China 35 Ting Chao Gong Road Hui Nan County, Nanhui District Shanghai 201300 PRC
Cayman Islands principal share registrar and transfer office	Butterfield Fulcrum Group (Cayman) Limited Butterfield House 68 Fort Street P.O. Box 609 Grand Cayman KY1-1107 Cayman Islands
Hong Kong Share Registrar	Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17th Floor Hopewell Centre 183 Queen's Road East Wanchai Hong Kong

INDUSTRY OVERVIEW

This section contains information and statistics relating to the industry in which we operate. We have derived such information and data from publicly available government official sources and Independent Third Party publications which have not been independently verified by us, [●], [●], [●] or any of their respective affiliates or advisers. These Independent Third Party publications are available to the general public and their backgrounds are provided in the section headed "Definitions" of this document. We have taken reasonable care in the reproduction of such information. The information in such government official sources may not be consistent with the information compiled within or outside of the PRC. We make no representation as to the correctness or accuracy of such information and accordingly such information should not be unduly relied on. We have taken such care as we consider reasonable in the reproduction and extraction of such information.

Investors should also note that PHOTON Consulting and Solarbuzz, who prepared certain researches that had been included in this document, are not commissioned by us or our Connected Persons and/or the [●].

SOLAR POWER INDUSTRY OVERVIEW

Global electricity generation

Global electricity generation is expected to increase from 18.0 trillion kilowatt hours in 2006 to 31.8 trillion kilowatt hours in 2030, according to the EIA. Although the recent economic downturn since mid 2008 affected power demand, the recession will not be long-lasting under EIA's forecast. Additionally, the EIA indicates that over 66% of the world's electricity in 2006 was generated from fossil fuels such as coal, natural gas and oil. Despite the significant fall in oil and other fuel prices in late 2008 to early 2009, the economic recovery will provide support to global energy demand and price in the long run. Rising fuel prices, together with supply constraints, some governments' attempt to relieve dependence on foreign countries for fuel feedstock and environmental concerns, could limit the potential of many conventional sources of electricity to meet the rapidly growing demand of electricity.

Advantages of solar power

Amongst all renewable sources of power, solar power has emerged as one of the most rapidly growing renewable sources of electricity and offers several advantages over other forms of electricity generation, including:

- *Abundance of resource.* According to a study commissioned by the Department of Energy of the U.S., on average, 120,000 TW of solar energy strikes the Earth each year, an amount that exceeds current global annual electricity consumption. In other words, more energy from sunlight strikes the Earth every hour (120,000 TWh) than is consumed on the planet in a year (16,379 TWh in 2006).

- *Rising prices of power generated from conventional sources and desire for energy supply security.* Solar power electricity generation does not require fossil fuels, and therefore, enjoys advantages over conventional sources of electricity that face input price volatility, supply constraints, delivery risk and dependence on fossil fuel reserves. The prices of conventional sources of power, including oil, gas and coal, have reached historical high levels in 2008. Solar power is a viable and sustainable source of energy that can address the problem of input price volatility with

conventional/fossil fuel energy sources given the limited reserve of fossil fuel and escalating electricity consumption in the long run. Furthermore, governments are trying to reduce their dependence on foreign sources of power to strengthen security of energy supply. In 2006, net import of energy accounted for over 60% of the primary energy supply in Germany, and over 80% of the fuel used for power generation in Italy, Spain, Japan and Korea, was imported, according to the IEA. The ratio was 31% in the U.S. (source: IEA key world energy statistics). Expanding domestic production of power, particularly through renewable resources, is a key part of governments' energy security agenda.

- *Governments' incentives for applying renewable sources of energy.* Use of solar power has been growing at a high rate in countries where incentives are offered by their governments to encourage solar power use. Countries such as the PRC, Germany, Spain and the U.S. (source: European Photovoltaic Association ("EPIA"), NDRC's "可再生能源中長期發展規劃" and the PRC Ministry of Finance's "關於印發太陽能光電建築應用示範項目申報指南的通知", and the American Recovery and Reinvestment Act of 2009) have offered or planned to offer substantial incentives in the form of direct subsidies for solar power system installations or rebates for electricity produced from solar power. Increasing government support for solar power use in regions, such as California and southern Europe, which receive many hours of sunlight each year and where solar power is more cost effective, is also driving demand for solar power.

- *Environmental advantages.* Solar power is one of the most environmentally friendly and cleanest sources of power, as it produces no gas or noise emissions and generates no waste. Governments around the world are adopting initiatives aimed at addressing worldwide environmental concerns and climate change risks associated with the use of fossil fuels. The United Nations' Kyoto Protocol and many national and regional regulations addressing greenhouse gas emissions also provide momentum for the development of solar power industry.

- *Bringing electricity to remote rural areas.* Photovoltaic systems can be set up in rural areas with inconvenient access to power grids but rich in solar power, e.g. Gansu and Qinghai Provinces in the western part of China. This could solve the problem of lack of power supply in the regions.

- *Matching peak time output with peak time demand.* Peak power usage and high electricity costs typically occur mid-day, which also generally corresponds to peak sunlight hours and solar power electricity generation.

- *Modularity and flexibility of installation.* Solar power systems can generate electricity at any landscape with exposure to sunlight. Additionally, solar power systems can produce electricity on or off-grid, making them an effective alternative for remote or greenfield use. Solar power systems can also be manufactured and deployed in various sizes and configurations to meet specific users' needs.

- *Reliability and durability.* According to EPIA, the estimated lifetime of a photovoltaic module is 30 years. The modules can provide over 80% of the initial power after 25 years. Solar power systems also generally do not require significant ongoing maintenance, making them one of the most reliable forms of electricity generation. According to Solarbuzz, solar modules typically can operate for more than 20 years without requiring major maintenance.

Challenges and limitations

According to the EIA, renewable power, comprising hydroelectric, solar, wind and geothermal, represented approximately 19% of global net electricity generation in 2006. Solar power alone accounted for less than 0.03% of global net electricity generation in 2006. Solar power must overcome several challenges to become a more widely accepted form of power generation, including:

- *Attaining cost competitiveness with conventional energy sources.* According to PHOTON Consulting, *Solar Annual 2007: Big Things in a Small Package*, the solar power systems are currently costlier than the conventional fossil fuel electricity systems. In order to incite demand for solar power usage, manufacturers must reduce costs of solar power systems through innovation and improvement of production methods and yields. When the cost of solar electricity generation becomes comparable to that of traditional sources, high system reliability and low cost of operation will be key factors driving customer demand. By then, with price parity achieved, solar power can be cost-competitive without governmental incentives or subsidies.

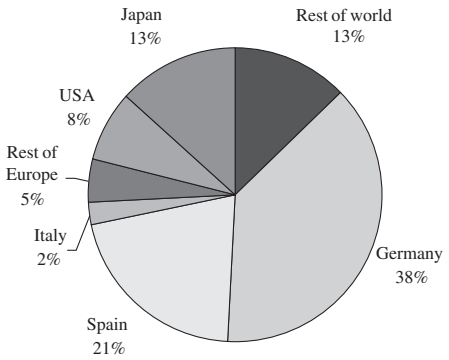
- *Technological upgrade.* The continuous improvement of cell technologies, including conversion efficiencies and wafer thickness, is critical to the reduction of raw materials usage and lowering the costs required to manufacture a solar power system with a given output.

- *Intermittent source of power.* Solar power systems require sunlight to generate electricity and are less effective in climates of low sunlight and extreme hot and cold temperatures. As a result, solar power systems generally cannot be used as a sole source of electricity and must be combined with a storage solution (such as a battery) or other source of electricity.

Growth in use of solar power

The solar power industry has experienced significant growth in the past few years. According to Solarbuzz, total cumulative photovoltaic installed capacity reached 15.7GW in 2008, representing year-on-year increase of 61%. Europe has the largest share of cumulative installed capacity in which Germany, Spain, Italy and rest of Europe contributed 38.1%, 21.0%, 2.4% and 4.7% of cumulative world PV capacity as at end of 2008, respectively.

Regional Breakdown of Cumulative World PV Capacity as at end 2008 (%MW)

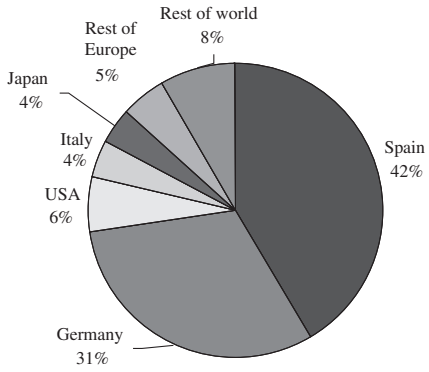


Source: Solarbuzz 2009

INDUSTRY OVERVIEW

According to Solarbuzz, the annual global solar power market, as measured by the volume of solar modules delivered to the installation sites for grid-connected installations or off-grid applications, grew from 345 MW in 2001 to 5,948 MW in 2008, representing a CAGR of 50%. Europe accounted for 82% of world demand in 2008, with Spain and Germany ranked the first two places in the market ranking. Market share of China in 2008 was still small at 0.6%.

Regional Breakdown of World PV Market in 2008 (%MW)



Source: Solarbuzz 2009

Under Solarbuzz's forecast, global annual capacity addition in 2013 will increase to 8,311 MW (under Balanced Energy Scenario), 14,792 MW (Green World Scenario) or 21,036 MW (Production Led Scenario), representing 39.7%, 148.7% or 253.7% growth from the 2008 level despite the decrease in PV demand in certain regions like Spain*. This suggests huge growth potential of the solar power industry.

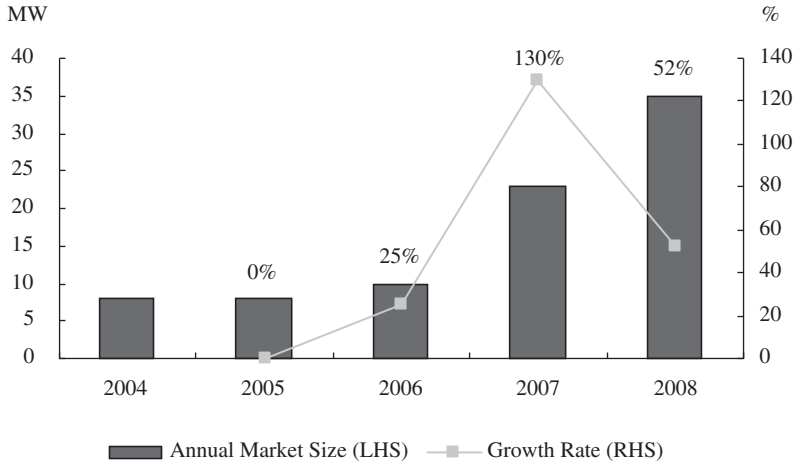
* *According to Spanish government's policy, PV systems have to be completed and entered into the register of energy producers by 27 September 2008 in order to receive remuneration under the old feed-in tariff system instead of the new, lower feed-in tariff system that follows. Moreover, a cap of 500 MW, 502 MW and 488 MW installation were set for 2009-2011 respectively, compared with 2,463 MW addition in 2008, suggesting fall in PV demand.*

INDUSTRY OVERVIEW

China's PV Market

China's newly installed PV capacity has been on the rise in recent years, with growth rate at 25%, 130% and 52% in 2006, 2007 and 2008 respectively. According to Solarbuzz, China's annual installation reached 35 MW in 2008, bringing cumulative capacity to approximately 150 MW. In 2008, market share of China over the world was still small, at 0.6% only.

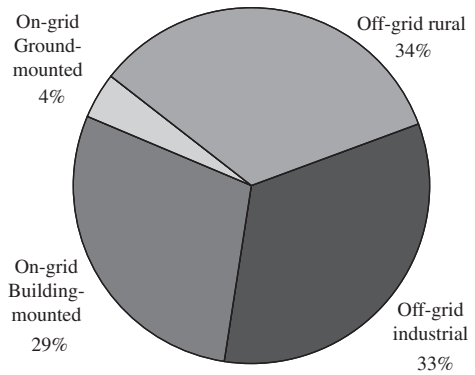
China's Annual PV installation addition



Source: Solarbuzz 2009

According to Solarbuzz, a large portion of the newly installed systems in China are off-grid systems, both for rural electrification and for industrial uses, contributing 34% and 33% of the additions in 2008, respectively. Meanwhile, contribution of on-grid applications are increasing, being 34% of total market share in 2008 compared with 13% in 2007. On the other hand, regions in the western part of China, including Tibet, Qinghai and Xinjiang, contributed the largest market shares of the 2008 addition, led by strong off-grid programs associated with the China Western Development Program. Some Eastern provinces including Jiangsu, Zhejiang and Beijing, on the other hand, started to grow in solar applications.

Newly installed capacity breakdown in 2008 by application



Source: Solarbuzz 2009

Solar power technologies

A solar power system generates electricity through its solar cells by capturing and converting sunlight into electricity. Currently, there are three main categories of technologies used in solar cell and module production: monocrystalline silicon, multicrystalline silicon and thin film. The table below briefly highlights these technologies:

Solar Cell/Module Technology	Production Highlights	Key Attributes
Monocrystalline Silicon Solar Cell/Module	• Made from monocrystalline wafers • Cut by wire saw from an ingot produced using a single crystal seed pulled from polysilicon feedstock	• Higher efficiency in converting sunlight into electricity compared to the other two technologies below • 15.3% average conversion efficiency ratio of the modules available on market in 2008 according to Solarbuzz • Typically the most expensive to produce as the production process is relatively slow and energy intensive compared with the production processes used for other silicon-based solar materials
Multicrystalline Silicon Solar Cell/Module	• Made from multicrystalline wafers • Cut from an ingot produced through re-melting and re-crystallising silicon into blocks through a casting process	• 13.7% average conversion efficiency ratio of the modules available on market in 2008 according to Solarbuzz • Typically less expensive to produce
Thin Film	• Alternative technology using little or no semiconductor feedstock • deposited on glass, stainless steel or plastic base material	• Lower cost but lower conversion efficiency • 5-10% conversion efficiency ratio according to Solarbuzz • Light weight, flexible and no exposure to crystalline silicon

Module and cell efficiencies

	Thin Film				Crystalline wafer based	
Technology	Amorphous silicon (a-si)	Cadmium telluride (CdTe)	CI(G)S	a-Si/m-Si	Monocrystalline	Multicrystalline
Cell Efficiency at STC* .	5-7%	8-11%	7-11%	8%	16-19%	14-15%
Module Efficiency					13-15%	12-14%

Source: EPIA Solar Generation V — 2008

** Standard Testing Conditions: 25°C, light intensity of 1,000W/m2, air mass = 1.5*

According to Solarbuzz, crystalline silicon-based technologies, comprising both monocrystalline silicon and multicrystalline silicon technologies, are currently the dominant technologies used within the industry. Approximately 87% of the solar cells were produced by using these technologies in 2008. From 2004 to 2008, monocrystalline cell production grew at a much higher rate than multicrystalline cell production primarily due to rapid expansion of monocrystalline cell capacity in China, which is driven by technological advancement in monocrystalline furnaces. In general, crystalline silicon-based technologies have higher conversion efficiency than thin film technologies, meanwhile thin film has the advantage of lower production costs and is gaining market share in recent years. The table below sets out a breakdown, by the type of technology used in production, of the solar cells produced worldwide from 2004 to 2008.

World Solar Cell Production by Technology 2004-2008

	2004		2005		2006		2007		2008		CAGR
	MW	% Total	MW	% Total	MW	% Total	MW	% Total	MW	% Total	(04-08)
Monocrystalline Silicon	391	34.1%	620	37.5%	913	41.4%	1,389	40.4%	2,828	41.3%	64.0%
Multicrystalline Silicon	692	60.3%	937	56.6%	1,110	50.4%	1,647	47.9%	3,133	45.7%	45.9%
Thin Film	64	5.6%	98	5.9%	181	8.2%	400	11.6%	893	13.0%	93.3%
Total	1,147	100.0%	1,655	100.0%	2,204	100.0%	3,436	100.0%	6,854	100.0%	56.3%

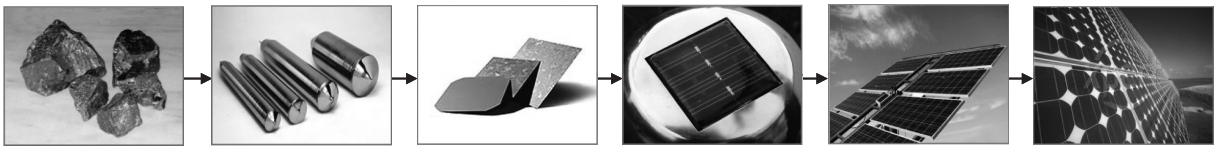
Source: Solarbuzz 2009.

Solar power system manufacturing value chain

The crystalline silicon-based solar power value chain comprises all steps in manufacturing a solar power system, including the manufacture of polysilicon raw materials, silicon ingots, solar wafers, solar cells, solar modules and ultimately solar power systems. The production of crystalline silicon-based wafer begins with the processing of quartz sands to produce metallurgical-grade silicon. This material is further purified to become virgin polysilicon feedstock, which can then be formed into either monocrystalline or multicrystalline silicon ingots. After purification, the polysilicon feedstock is melted and crystallised in crucibles to form monocrystalline or multicrystalline silicon ingots, depending on the production process

used. The ingots are then cut into blocks from which wafers are sliced using sawing techniques. The wafers are then washed and cleaned before packaging for delivery. Wafers are manufactured into solar cells through a multiple-step manufacturing process that entails etching, doping, coating and applying electrical contacts. Solar cells are then interconnected and packaged to form solar modules, which together with system components such as batteries and inverters, are distributed to installers, systems integrators, service providers or directly to end-users, for installation.

The following diagram illustrates the value chain for the production of solar products:



Polysilicon	Ingot	Wafer	Cell	Module	Systems and Applications
Solar grade polysilicon	Silicon is melted in furnace in high temperature and then crystallised into ingots	Ingots are shaped into blocks and sliced into wafers using wire saw cutters	Wafers are either etched or polished through a doping process Anti-reflection coating is applied to improve efficiency	Cells are soldered in a soldering furnace and then packaged with a glass top cover to form a solar module	Solar panels are assembled and connected with other electrical components to create a solar power generator

Global wafer raw material supply and demand

According to Solarbuzz, the raw material used to manufacture solar wafers, silicon feedstock, has historically been in short supply worldwide since 2004. However, as a combined effect of the decrease in PV demand in certain regions like Spain due to the economic downturn and new production capacities of polysilicon started to deliver significant production volumes which ease the supply constraints, the tight supply/demand balance started to ease during the third quarter of 2008, and turned to significant over-supply by the fourth quarter of 2008. The table below outlines historical global polysilicon supply and demand from 2005 to 2008.

Global polysilicon demand and supply 2005-2008

	Tonnes			
	2005	2006	2007	2008
Solar Polysilicon Demand	17,140	20,700	27,673	49,128
Recycled Polysilicon For Solar Applications	2,060	2,200	2,284	2,083
Net Solar Polysilicon Demand	15,080	18,500	25,389	47,045
Semiconductor Industry Polysilicon Demand	21,280	22,100	23,570	22,155
Total Demand	**36,360**	**40,600**	**48,959**	**69,201**
Polysilicon Production/Future Capability	29,905	35,250	48,285	71,730
(Shortage)/Excess	**(6,455)**	**(5,350)**	**(674)**	**2,529**

Source: Solarbuzz 2006-2009.

According to Solarbuzz's polysilicon demand estimates, global polysilicon supply will exceed global polysilicon demand at an increasing rate from the end of 2009 to 2013.

Tight market supply in previous years had led to significant increases in the spot market price of polysilicon. Polysilicon sold at spot market price are those that have been produced but have not been committed to customers through long-term contracts. According to Solarbuzz, spot prices had risen from the price range of US$60-80/kg in 2005 to US$100-200/kg in 2006 to US$250-400/kg in 2007. In response to the shortage in supply, manufacturers have sought to enter into long-term supply contracts with suppliers in recent years in order to mitigate the adverse effects of price increases as prices of polysilicon under long-term supply contracts are significantly lower than their spot market prices.

Meanwhile, the recent financial crisis, the fall in market demand and the threat of oversupply of polysilicon lead to tumble in spot market price. Spot market price of polysilicon ranged from US$230/kg to US$375/kg for most of 1H08, and peaked at US$400-450/kg in the middle of 2008, then dropped to around US$150/kg in the fourth quarter of 2008. By February 2009, spot prices had further fallen to US$120-140/kg. Due to such drop in market price, solar wafer/cell producers renegotiated with polysilicon suppliers in order to obtain lower long-term contract prices.

SOLAR WAFER INDUSTRY OVERVIEW

Production capacity, pricing and margin

Global year-end wafer manufacturing capacity in 2008 was relatively tight compared to cell manufacturing capacity. According to Solarbuzz, global wafer manufacturing capacity reached 10,736 MW by the end of 2008 while cell manufacturing capacity reached 11,706 MW in the same year. Compared to 10,736 MW in 2008, year end global wafer manufacturing capacity was 5,834 MW in 2007, representing a 84.0% growth rate.

In 2008, total crystalline silicon cells production was 5,961 MW, representing 96.3% growth from the 2007 level. Under the three different scenarios set out by Solarbuzz, total crystalline silicon cell production will reach 7,038 MW (under Balanced Energy Scenario), 13,040 MW (Green World Scenario) or 18,789 MW (Production Led Scenario) in 2013, representing 18.1%, 118.8% or 215.2% growth from the 2008 level, respectively and 2008-2013 CAGR will reach 3.4%, 16.9% and 25.8% respectively. The strong growth in crystalline silicon cell production will drive up demand for crystalline silicon wafers.

Primarily driven by product quality and individual contract terms, wafer prices vary significantly. According to Solarbuzz, term-contract wafer prices in 2008 ranged from €1.25/W to €1.50/W, or US$1.85-2.25/W, for multicrystalline product and from €1.40/W to €1.65/W, or US$2.10-2.45/W, for monocrystalline product. Price was as low as US$1.70/W for established loyal customers, and for the top end, new customers paid above US$2.50/W, with highest prices approaching US$3.50/W.

When market downturn started to appear in October 2008, large wafer suppliers still maintained prices at US$2.20-2.30/W, and long-term contract prices from established wafer manufacturers to Chinese cell manufacturers negotiated during the third quarter of 2008, but for delivery in 2009, was still at the range of US$2.10-2.30/W. Meanwhile, in February 2009, wafer price already fell to US$1.60-1.80/W.

In general, prices paid by European wafer purchasers to Chinese wafer manufacturers have been slightly lower than the prices paid by their Chinese counterparts as many Chinese manufacturers seek to diversify their geographic client base.

Tight wafer production capacity relative to solar cell contributed to the firm pricing structure. Excluding polysilicon, operating margin in the wafer segment are the highest within the solar value chain. According to PHOTON Consulting, *Solar Annual 2008: Four Peaks*, Page 134 (all data are rough estimates), in 2008, wafer manufacturers were expected to achieve 29% operating margin, compared to 21%, 5% and 13% for cell manufacturers, module producers and installation providers, respectively.

In addition, ingot slicing technology has gained higher significance in solar wafer manufacture. It has become a focus of concern among manufacturers to reduce polysilicon cost and economise feedstock through technology improvements and equipment and process adjustments.

Cost reduction drivers

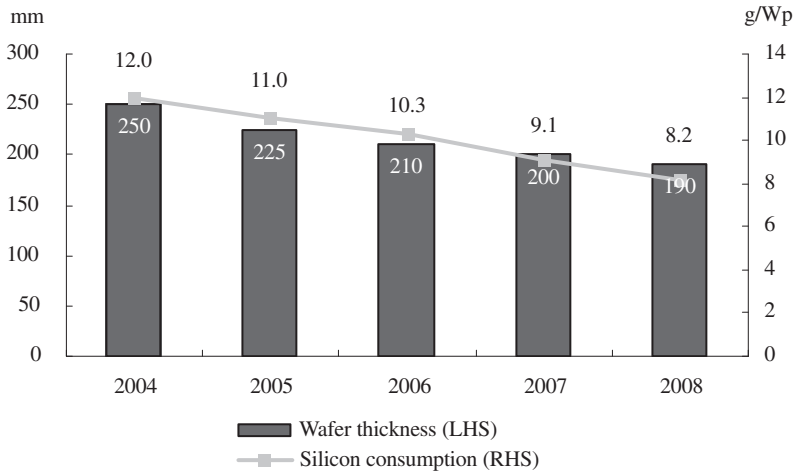
Several improvements are underway to drive down the costs for wafer manufacturers:

- *Larger Ingots.* Ingot manufacturers are improving yields and reducing utility cost by increasing ingot diameters. According to PHOTON Consulting, *Solar Annual 2007: Big Things in a Small Package*, some multicrystalline ingot manufacturers are moving from 310 kg charges to 380-450 kg charges, reducing per-kilogram electricity consumption.

- *Thinner Wafers.* Reductions in wafer thickness results in the use of less silicon per wafer for the same surface area thus a less costly wafer without loss of the light collection area. According to Solarbuzz, the average thickness of wafers has been reduced from 250 um in 2004 to 190 um in 2008, with silicon consumption reduced from 12g/Wp to 8.2g/Wp. According to PHOTON Consulting, *Solar Annual 2008: Four Peaks*, Page 113, it is expected that wafer thickness will be in a decreasing trend in the future, which will decrease average silicon costs of solar cells.

However, thinner wafers are also more fragile. In order to avoid significant yield losses from breakage, manufacturers require careful handling throughout the manufacturing process from wafers all the way to modules.

Development of silicon usage and wafer thickness



Source: Solarbuzz 2006-2009

- *Locate manufacturing facilities in low cost areas.* Relatively low cost areas such as the PRC offer competitive cost advantages through lower wages, facility costs and government sponsored tax easements. According to PHOTON Consulting, *Solar Annual 2007: Big Things in a Small Package*, Page 56 (all data are rough estimates), PRC-based manufacturers enjoy 20% - 40% lower cost than manufacturers in Europe.

Competitive Landscape

Five of the top 8 largest solar wafer manufacturers in the world are based in China. These manufacturers are LDK Solar Co., Ltd. ("LDK"), ReneSola Ltd. ("ReneSola"), Glory Silicon Energy (Zhenjiang) Co., Ltd. ("Glory"), Yingli Green Energy Holding Company Limited ("Yingli") and Trina Solar ("Trina"). Both pure-play and integrated business models are employed by these solar wafer manufacturers. According to Solarbuzz, global wafer manufacturing capacity reached 10,736 MW by the end of 2008. As at 31 December 2008, our annualised production capacity represents approximately 0.5% of the annualised global wafer manufacturing capacity. LDK was the largest solar wafer manufacturer in terms of production capacity for the year ended 31 December 2008. According to LDK, its annual production capacity was approximately 1,460 MW as at 31 December 2008 and it sold 817.9 MW of wafers for the year ended 31 December 2008. LDK primarily manufactures multicrystalline solar wafers. ReneSola and Glory focus on monocrystalline and multicrystalline solar wafers. As integrated players, Yingli and Trina produce multicrystalline solar wafers for internal use. With the exception of Glory, all PRC solar wafer manufacturers mentioned above are publicly listed.

The rest of the top 8 largest manufacturers are based in Europe and Japan. Located in Norway, Renewable Energy Corporation ASA ("REC") is an integrated player involved in the production of solar-grade polysilicon, manufacture of multicrystalline and monocrystalline silicon wafers, and production of solar cells and modules. Solarworld AG ("Solarworld") of Germany manufactures products throughout the photovoltaic value chain from polysilicon to solar power plants with production facilities in Germany and U.S.. Combining with other non solar-related offerings, TKX Corporation ("TKX") is a Japanese-based company that produces solar products.

Government Policy

To promote the development of solar energy, various governments in the world have issued policies in different aspects, including development targets, subsidies, tax incentives and other supportive measures. Below set forth the major solar power industry policies issued by PRC, U.S., Germany, Taiwan and Thailand.

A. *PRC*

Area	Description
Contribution to energy consumption	Contribution of renewable energy in total energy consumption is targeted to reach 10% by 2010, and 15% by 2020, compared with 7.5% in 2005.
Feed-in Tariff	Based on reasonable cost plus reasonable profits policy. Premium of renewable energy on-grid tariff over traditional coal-fired plants will be funded by additional charge included in the electricity selling tariff.
Power generation	Grid companies are required to purchase electricity generated from grid-connected renewable energy power generation systems, including solar power.
Subsidies	• Subsidies of Rmb20/Wp would be granted to qualified construction material-based and component based BIPV demonstration projects, and Rmb15/Wp for rooftop-based and wall-based projects. • "Golden Sun Project": Pilot program to subsidize developers of on-grid PV systems with a maximum 50% of the project investment cost, and independent PV power systems at rural areas will receive 70% at max. The policy will support projects of not less than 500 MW capacity in aggregate in the next 2-3 years.
Provincial-level policy	• Jiangsu: 1) 2009-11 total installed capacity being 80 MW, 150 MW and 170 MW respectively compared with 2.856 MW currently; 2) setting the solar on-grid tariff for 2009-2011 over traditional coal-fired plants, subsidized by a charge on power users; 3) supporting the growth of local large-scale peers and technological development. • Qinghai: 13 major projects to launch in 2009-2015, with total revenue reaches Rmb86.0bn as at end 2015.

Sources: Medium-to-Long-Term Development Plan of Renewable Energy ("可再生能源中長期發展規劃"), Renewable Energy Law ("中華人民共和國可再生能源法"), Tentative Measures for Pricing and Management of Pooling of Expenses for Renewable Energy Electricity Generation ("可再生能源發電價格和費用分攤管理試行辦法"), Application guidelines for BIPV Demonstration Project (《太陽能光電建築應用示範專案申報指南》), Notice concerning Implementation of Golden Sun Demonstration Project (《關於實施金太陽示範工程的通知》), Opinion on Jiangsu Province Photovoltaic Electricity Generation Progress (《江蘇省光伏發電推進意見》), 2009-2015 Qinghai Province Solar Power Industry Development and Application Promotion Plan (《青海省太陽能產業發展及推廣應用規劃 (2009年-2015年)》), NDRC, PRC Ministry of Finance

B. *U.S.*

Area	Description
Direct spending	Provides US$16.8 billion in direct spending for renewable energy and energy efficiency programs over the next ten years under the American Recovery and Reinvestment Act of 2009.
Taxation	Project investment: • 30% federal solar investment tax credits (ITC) granted until 2016 • Businesses, utilities and individuals will be qualified to receive the full amount of the ITC Equipment manufacturing: Provides US$2 billion worth of energy related manufacturing investment credits at a 30% rate under the American Recovery and Reinvestment Act of 2009. These credits apply to projects creating or retooling manufacturing facilities to make components used to generate renewable energy, storage systems for use in electric or hybrid-electric cars, power grid components supporting addition of renewable sources, and equipment for carbon capture and storage (CCS). General: Five Year Carry-Back Provision for Operating Losses of Small Businesses under the American Recovery and Reinvestment Act of 2009
Bond and credit facilities	• US$2.4 billion limit of clean energy renewable bonds to finance renewable energy projects • Provides US$6 billion for a temporary loan guarantee program for renewable energy power generation and transmission projects that begin construction by September 30, 2011. • Creates a Clean Energy Finance Authority which will provide loan guarantees and other financial support to help ease credit constraints for renewable energy investors and catalyze new private sector investment.

Source: U.S. Government, American Council on Renewable Energy, website of the Clean Renewable Energy Bonds

C. *Germany*

Area	Description
Target	Annual growth target: 1,000-1,500 MW in 2009 1,100-1,700 MW in 2010 1,200-1,900 MW in 2011
Feed-in tariff (FIT)	Ranges from EUR0.3300-0.4301/kWh for rooftop projects and EUR0.3194/kWh for ground-mounted installations, with degression each year. FIT are granted for 20 years.
Power generation	Power companies are required to purchase electricity generated from PV systems connected to the grids. Costs of implementing the policy were shared among all customers in Germany.
Credit facilities	Loan financed programs offered by German Development Bank (KfW): • "Solarstrom Erzeugen" (No. 140) for private investors: Up to 100% investment of max EUR50,000 per installation • "ERP-Umwelt- und Energiesparprogramm" for commercial investors: 50% for SMEs, other companies up to 35% of maximum EUR500,000 investment (in old federal states) or EUR1 million investment (in new federal states) • "KFW Umweltprogramm" for commercial investors: 75% of investment of maximum EUR10 million per installation Other German banks also offer soft loans for PV systems.
Tax credits	• Investment costs for commercial systems (including planning and installation) can be depreciated over a 20 year period and other costs can be considered as operation cost • Commercial systems are VAT exempted

Sources: Solarbuzz, EPIA

D. *Taiwan*

Area	Description
Target	Set target of contribution of renewable energy in total energy consumption at 10% by 2010 Installed solar capacity reaches 30 MW by 2010, 320 MW by 2015 and 4,500 MW by 2020
Subsidy	"Program for Coping with Economic Slowdown and Bolstering the Economy" in place, providing subsidies including NT$1 billion to purchasers of solar systems, including residential customers and power companies, and 13% tax credit for investments in energy conservation equipment, 2-year accelerated depreciation and low interest rate loans.

Sources: Solarbuzz

E. *Thailand*

Area	Description
Target	Share of renewable energy in primary energy supply to reach 8% by 2011. Solar and wind energy will account for 1% of total shares, translating to 45 MW for solar (5% for new power facilities).
Subsidy	Feed-in-tariff scheme with tariff for renewable energy being maximum 4-5 times higher than that for conventional biomass power generation.
Financial incentives	Eight-year tax incentives, soft-loans up to 50 million THB with interest rates below 4%

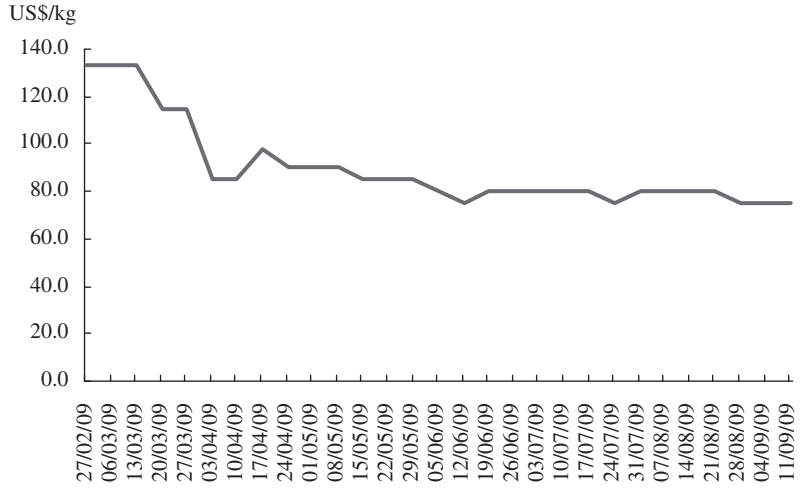
Sources: Solarbuzz

Recent Industry Development

The recent financial crisis and deteriorated worldwide economic conditions have adversely impacted the solar power industry, and the market volatility has increased significantly. The practical cessation of the Spanish market in the fourth quarter of 2008 and growth in product supply both added to the collapse in prices through the whole PV value chain.

According to Solarbuzz, spot market price of polysilicon ranged from US$230/kg to US$375/kg for most of 1H08, and peaked at US$400-450/kg in the middle of 2008, then dropped to around US$150/kg in the fourth quarter of 2008. By February 2009, spot prices had further fallen to US$120-140/kg. According to PHOTON Consulting, Solar Updates 31/7/2009 (all data are rough estimates) spot prices of polysilicon dropped from US$133/kg as at late February 2009 to about US$75/kg as at late July 2009.

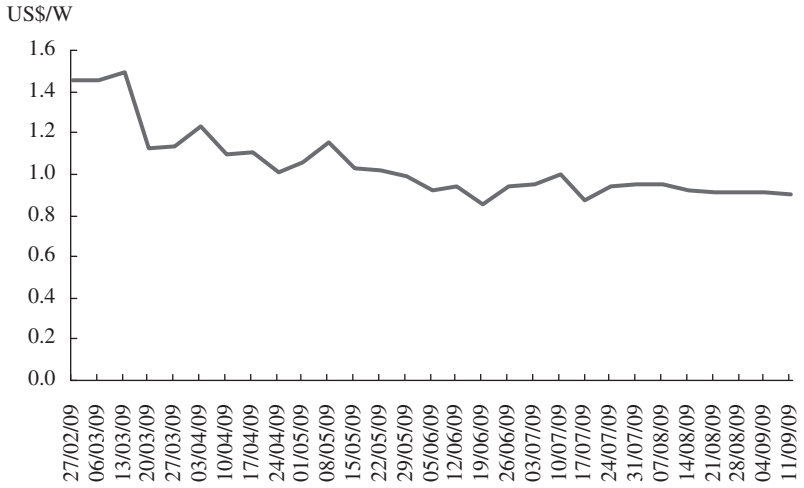
Polysilicon spot price movement



Source: PHOTON Consulting, Solar Updates 11/9/2009 (all data are rough estimates)

For wafers, according to Solarbuzz, the price was US$2.20-2.30/W in October 2008, and long-term contract prices from established wafer manufacturers to Chinese cell manufacturers negotiated during the third quarter of 2008, but for delivery in 2009, was still in the range of US$2.10-2.30/W. Meanwhile, in February 2009, wafer price already fell to US$1.60-1.80/W. According to PHOTON Consulting, *Solar Updates 2/10/2009* (all data are rough estimates) market price dropped from US$1.45/W in late February 2009 to the lowest of US$0.85/W in June 2009. The market price then consolidated at this level and recently rebounded to US$0.94/W as at late July 2009.

Wafer spot price movement*



Source: PHOTON Consulting, Solar Updates 11/9/2009 (all data are rough estimates)

* *Wafer data points included prices of 156x156 monocrystalline silicon wafer, 156x156 multicrystalline silicon wafer, 125x125 monocrystalline silicon wafer and 125x125 multicrystalline silicon wafer prices, and majority of the data was 156x156 multicrystalline silicon wafer price.*

According to Solarbuzz, the level of market activity and project pipeline are picking up again around the world, stimulated by a mix of government policies and growing end customer demand. These factors will help support the solar material prices.

INFORMATION RELATING TO SOLARBUZZ LLC AND PHOTON CONSULTING

Solarbuzz LLC

Solarbuzz LLC is a leading international solar energy research and consulting company. It provides industry reports, commissioned studies and research and consultancy services in relation to the solar photovoltaic market and industry.

PHOTON Consulting

PHOTON Consulting is a leading international provider of in-depth research, management and strategic consulting services specific to the solar energy industry. PHOTON Consulting provides a range of services including business strategy and planning services, market and demand forecasting services and policy analysis services.

REGULATORY FRAMEWORK

This section sets out summaries of certain aspects of the PRC laws and regulations, which are relevant to our Group's operation and business.

POLICY ON PRODUCTION OF MONOCRYSTALLINE SOLAR ENERGY WAFERS AND SEMICONDUCTORS

Overview

The production of monocrystalline silicon ingots and polished slices with diameter of 200 mm or above is encouraged and the production of semiconductors is permitted, according to《外商投資產業指導目錄 (2007)》(The Catalogue for the Guidance of Foreign Investment Industries (2007)) effective as of 1 December 2007. Additionally, pursuant to《外商投資產業指導目錄(2004)》(The Catalogue for the Guidance of Foreign Investment Industries (2004)) effective as of 1 January 2005 and ineffective as of 1 December 2007, the production of semiconductors was included in the catalogue of encouraged foreign investment industries.

According to《產業結構調整指導目錄(2005)》(The Catalogue for the Adjustment of Industrial Structures (2005)) effective as of 2 December 2005, production of 6 inch by 6 inch or above monocrystalline silicon ingots and wafers is encouraged.

The NDRC issued《高技術產業發展"十一五"規劃》(The 11th Five-Year Plan for the Development of High Technology Industries) on 28 April 2007, to encourage development of high-purity silicon materials used on solar energy cells. The PRC Government is aiming to establish its independent research, development and production system in new energy materials field.

The PRC Government encourages the development and utilisation of solar power through a series of policies which will be beneficial to the advancement of the production of monocrystalline silicon wafers and semiconductors, namely,《中華人民共和國可再生能源法》(The Renewable Energy Law of PRC) effective as of 1 January 2006,《可再生能源法發展"十一五"規劃》(The 11th Five-Year Plan for the Development of Renewable Energy) promulgated by NDRC on 3 March 2008 and《中華人民共和國節約能源法》(The Energy Conservation Law of the PRC) effective as of 1 April 2008.

Governmental Incentives

《中華人民共和國可再生能源法》(The Renewable Energy Law of the PRC) sets forth policies to encourage the development and use of solar energy and other non-fossil energy, and sets out the national policy to encourage and support the use of solar and other renewable energy and the use of on-grid power generation. This law authorises the relevant pricing authorities to set favourable prices for the purchase of electricity generated by solar and other renewable power generation systems. This law also sets out the national policy to encourage the installation and use of solar energy water-heating systems, solar energy heating and cooling systems, solar photovoltaic systems and other solar energy utilisation systems. It also provides the general principles regarding financial incentives for the development of renewable energy projects. The projects, as listed in the renewable energy industry development guidance catalogue, may obtain preferential loans from financial institutions and can enjoy tax preferences. The State Council is authorised to stipulate the specific tax preferential treatments. However, no rule has been issued by the State Council pertaining to this matter.

The NDRC promulgated several implementation directives of《中華人民共和國可再生能源法》(The Renewable Energy Law of the PRC). These directives set out specific measures in setting prices for electricity generated by solar and other renewal power generation systems and in sharing additional expenses occurred. The directives further allocate the administrative and supervisory authorities among different government agencies at the national and provincial levels and stipulate the responsibilities of electricity grid companies and power generation companies with respect to the implementation of 《中華人民共和國可再生能源法》(The Renewable Energy Law of the PRC).

The Ministry of Housing and Urban-Rural Development of the PRC (formerly known as the Ministry of Construction) also issued a directive in June 2005, which seeks to expand the use of solar energy in residential and commercial buildings and encourages the increased application of solar energy in different townships. In addition, the State Council promulgated a directive in July 2005 which sets out specific measures to conserve energy resources.

The above PRC policies encourage the development and the application of solar power, which will in turn promote the growth of the wafer manufacturing industry and stimulate the demand for the solar wafers. The Directors believe that these PRC policies generally keep encouraging our Group's business and its future growth prospect.

ENVIRONMENTAL PROTECTION

Pursuant to《中華人民共和國環境保護法》(The Environmental Protection Law of the PRC) (the "Environmental Protection Law") effective as of 26 December 1989, the State Administration for Environmental Protection (the "SAEP") shall establish national standards for environmental quality control. The governments of provinces, autonomous regions and municipalities directly under the central government of the PRC may establish their own local standards for environmental quality control for items not specified in the national standards and shall report them to the SAEP for its record.

The Environmental Protection Law requires all enterprises and institutions that may cause environmental pollution and other public hazards shall incorporate and implement environmental protection policies into their plans and establish a responsibility system for environmental protection. These enterprises and institutions shall adopt effective measures to prevent and control the pollution and damage to the environment from waste gas, waste water, waste residues, dust, malodorous gases, radioactive substances, noise, vibration and electromagnetic radiation generated in the course of production, construction or other activities.

Installations for the prevention and control of pollution in a construction project shall be designed, built and operated together with the principal part of the project. No permission shall be given for operating a construction project, until its installations for the prevention and control of pollution are examined and assessed as eligible by the competent department of environmental protection administration which examines and approves the environmental impact statement.

New construction projects, expansion, reconstruction projects and other installations which directly or indirectly discharge pollutants into the water body shall be subject to the State regulations on environmental protection of construction projects according to《中華人民共和國水污染防治法》(The Law of the PRC on Prevention and Control of Water Pollution) amended on 28 February 2008 and came into effect on 1 June 2008 and the《中華人民共和國水污染防治法實施細則》(The Implementation Rules of the Law of the PRC on Prevention and Control of Water Pollution) effective as of 20 March 2000. Enterprises and institutions that

discharge pollutants directly or indirectly into a water body shall report to and register with the local environmental protection department at or above the county level their existing facilities for discharging and treating water pollutants, and the categories, quantities and concentrations of water pollutants discharged under their normal operation conditions, and also submit to the same department technical information concerning prevention and control of water pollution. It is necessary to obtain the pollutant discharge permit for directly or indirectly discharging pollutants into a water body.

Enterprises and institutions that discharge pollutants directly into a water body shall pay a pollutant discharge fee counted on the basis of categories, quantities and concentrations of the water pollutants discharged.

New construction projects, expansion, or reconstruction projects that discharge pollutants into the air shall be subject to state regulations on environmental protection of construction projects according to《中華人民共和國大氣污染防治法》(The Law of the PRC on Prevention and Control of Atmospheric Pollution) amended on 29 April 2000 and effective as of 1 September 2000. Enterprises and institutions that discharge atmospheric pollutants shall report to the local administrative department of environmental protection of their existing discharge and treatment facilities for pollutants and the categories, quantities and concentrations of pollutants discharged under normal operation conditions and submit to the same department their technical information concerning prevention and control of atmospheric pollution.

The PRC Government implements a system of collecting fees for discharging pollutants to the air on the basis of the categories and quantities of the atmospheric pollutants discharged, and establishes reasonable standards for collecting the fees hereinbefore according to the needs of strengthening prevention and control of atmospheric pollution and the State's economic and technological conditions.

According to《中華人民共和國環境噪聲污染防治法》(The Law of the PRC on Prevention and Control of Environmental Pollution by Noise) effective as of 1 March 1997, new construction project, expansion, or reconstruction project shall be subject to the state regulations on environmental protection of construction projects. If noise pollutions are generated due to the use of fixed facilities during industrial production, the industrial enterprise shall report to the competent local administrative department of environmental protection at or above the county level about the categories and quantities of noise discharging facilities, the noise level under normal operation conditions and the conditions of the facilities that prevent and control noise pollution meanwhile the enterprise shall submit to the same department their technical information concerning prevention and control of noise pollution.

Industrial enterprises which discharge noises shall take treatment measures and pay a fee for excess discharge according to State regulations.

As of 1 April 2005, producers, distributors, importers and users of a product shall be responsible for the prevention and control of the solid wastes it generates or discharges under《中華人民共和國固體廢物污染環境防治法》(The Law of the PRC on Prevention and Control of Environmental Pollution by Solid Waste) amended on 29 December 2004.

In order for our expansion plan to comply with the environmental protection laws and regulations mentioned above, our Group will build additional in-house waste treatment facilities which will be able to accommodate with our increase in production capacity.

REGULATORY FRAMEWORK

LABOUR AND PRODUCTION SAFETY

As of 1 January 2008, labour contracts shall be concluded in writing if labour relationships are to be or have been established between enterprises or institutions and the labourers under《中華人民共和國勞動合同法》(The Labour Contract Law of the PRC) (the "Labour Contract Law"). Enterprises and institutions are forbidden to force the labourers to work beyond the time limit and the employers shall pay labourers overtime working compensation in accordance with national regulations. In addition, the labour wages shall not be lower than local standards on minimum wages and shall be paid to the labourers timely. According to《中華人民共和國勞動法》(The Labour Law of the PRC) effective as of 1 January 1995, enterprises and institutions shall establish and perfect its system of work place safety and sanitation, strictly abide by State rules and standards on work place safety and sanitation, educate labourers of work place safety and sanitation. Work place safety and sanitation facilities shall comply with State-fixed standards. The enterprises and institutions shall provide labourers with work place safety and sanitation conditions which are in compliance with State stipulations and relevant articles of labour protection.

Effective as of 1 November 2002, enterprises and institutions shall be equipped with the measures for safe production as provided in the Production Safety Law and other relevant laws, administrative regulations, national standards and industrial standards under《中華人民共和國安全生產法》(The PRC Production Safety Law) (the "Production Safety Law"). Any entity that is not equipped with the measures for safe production is not allowed to engage in production and business operation activities. Enterprises and institutions shall offer education and training programs to the employees thereof regarding production safety. The design, manufacture, installation, use, checking, maintenance, repair and disposal of safety equipment shall be in conformity with the national standards or industrial standards. In addition, enterprises and institutions shall provide personal protective equipments that reach the national standards or industrial standards to the employees thereof, supervise and educate them to use these equipments according to the prescribed rules.

According to《工傷保險條例》(The Regulations on Occupational Injury Insurance) effective as of 1 January 2004,《企業職工生育保險試行辦法》(The Interim Measures concerning the Maternity Insurance for Enterprise Employees) effective as of 1 January 1995,《社會保險費徵繳暫行條例》(The Interim Regulations concerning the Levy of Social Insurance) effective as of 22 January 1999,《社會保險登記管理暫行辦法》(The Interim Measures concerning the Administration of the Registration of Social Insurance) effective as of 19 March 1999 and《住房公積金管理條例》(The Regulations concerning the Administration of Housing Fund) effective as of 3 April 1999 and amended on 24 March 2002, enterprises and institutions in the PRC shall provide their employees with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, occupational injury insurance and medical insurance, as well as housing fund and other welfare plans.

According to 《中華人民共和國就業促進法》 (The Employment Promotion Law of the PRC) (the "Employment Promotion Law") which became effective on 1 January 2008, the State seeks to create more jobs by encouraging various types of enterprises to, inter alia, expand its existing businesses. In addition, the PRC Government will establish an unemployment insurance system to secure the livelihoods of unemployed persons and assist them in finding employment. The PRC Government at and above the county level shall also establish a public employment service system and public employment service agencies to provide free services to laborers such as announcing information on supply and demand of jobs, market wage levels, vocational training and job recommendations.

REGULATORY FRAMEWORK

Please refer to the section headed "Risk Factors — Risks relating to the PRC — New labour laws in the PRC may adversely affect our results of operations" in this document.

PRODUCT QUALITY

According to《中華人民共和國產品質量法》(The Product Quality Law of the PRC) (the "Product Quality Law") effective as of 1 September 1993 and amended on 8 July 2000, all the activities of production and sale of any product within the territory of the PRC are subject to Product Quality Law, and producers and sellers shall set up the system on internal quality management, and be responsible for product quality requirements in accordance with this law. Any behaviours violating the Product Quality Law may cause adverse consequences initiated by relative regulatory administrations. The regulatory administrations may send a warning notice or rectification order, confiscate the proceeds from such behaviours, impose a fine, order the enterprise to cease production and operation, require product recall and even revoke the enterprise's business licence. In more extreme cases where violation of the Criminal Law of the PRC occurred, criminal proceedings may be initiated against the enterprise and its management.

INCOME TAX

According to 《中華人民共和國企業所得税法》 (The Enterprise Income Tax Law of the PRC) enacted on 16 March 2007 and 《中華人民共和國企業所得税法實施條例》 (The Implementation Regulations of Enterprise Income Tax Law of the of the PRC) enacted on 6 December 2007 (collectively the "Income Tax Law"), which both took effect on 1 January 2008, the enterprise income tax for both domestic and foreign-invested enterprises are unified at 25%. For those enterprises established before 16 March 2007 and entitled to preferential income tax treatments by the then tax related laws and administrative regulations, the Income Tax Law provides for a five-year transitional period, during which the applicable enterprise income tax rate shall be converted to the unified rate at 25% gradually.

According to 《國務院關於實施企業所得税過渡優惠政策的通知》 (The Notice of the State Council on the Implementation of the Enterprise Income Tax Transitional Preferential Policy) issued on 26 December 2007 and took effect on 1 January 2008, enterprises that enjoy the "2-year exemption and 3-year half payment", "5-year exemption and 5-year half payment" of the enterprise income tax and other preferential treatments in the form of periodic tax deductions and exemptions in the past may, after the Income Tax Law took effect on 1 January 2008, continue to enjoy the relevant preferential treatments according to the preferential measures and the period set out in the previous tax law, administrative regulations and relevant documents until the expiration of the said period. However, the preferential time period applicable to an enterprise shall start to run from 1 January 2008 if such enterprise has not enjoyed the preferential treatments yet because of its failure to make profits before 1 January 2008. In addition, enterprises which were entitled to a preferential income tax at the rate of 15% will gradually be levied on the unified 25% tax within five years commencing on 1 January 2008. The transitional tax rates applied to the enterprises entitled to the 15% preferential income tax rate are 18% for 2008, 20% for 2009, 22% for 2010, 24% for 2011 and 25% for 2012. Enterprises which previously enjoyed the 24% preferential tax rate are imposed with the unified 25% tax rate from 1 January 2008. Further, the tax preferential treatments applied to enterprises within the designated great western development region in the PRC will continue to be applied.

All of our PRC subsidiaries were incorporated prior to 16 March 2007 and entitled to preferential income treatments, thus they can continue to enjoy these preferential tax treatments until the expiry of the five-year transitional period. However, after such transitional period, our PRC subsidiaries may no longer be subject to preferential tax rates enjoyed by foreign-invested enterprises and the tax rates applied to will be increased to 25%, which could have an adverse effect on our profits.

INTELLECTUAL PROPERTY RIGHTS

According to《中華人民共和國專利法》(The Patent Law of the PRC) (the "Patent Law") amended as of 27 December 2008 and came into effect on 1 October 2009, the patent right for inventions will be protected for 20 years and the patent right for utility models and designs shall be protected for 10 years, commencing on their application dates, respectively. Any persons and entities using a patent without authorities from the patent owner or conducting other activities which infringe upon patent rights will be held liable for compensations to the patent owner, be imposed fines charged by relevant administrative authorities and even face criminal punishments.

The period of validity of a registered trademark shall be ten years, to be counted from the date of approval of the registration under《中華人民共和國商標法》(The Trademark Law of the PRC) (the "Trademark Law") amended as of 27 October 2001 and came into effect on 1 December 2001. The administrative authority for industry and commerce has the power to investigate and handle any act of infringement of the exclusive right to use a registered trademark according to law. Where the case is so serious as to constitute a crime, it shall be transferred to the judicial authority for handling.

HIGH AND NEW TECHNOLOGY

According to《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) (the "Measures"), effective as of 1 January 2008, the eight high and new technology fields supported by the PRC Government include: (1) electronic information technology; (2) biology and new medical technology; (3) aerospace and aeronautical technology; (4) new materials technology; (5) high technology services; (6) new energy and energy conservation technology; (7) resources and environmental technology; and (8) high and new technology used on traditional industries' reconstructure.

The Measures was enacted to elaborate the high-tech enterprises recognition procedures stipulated under the Income Tax Law. Under these laws and regulations, PRC-based enterprises that meet the requirements stipulated in the Measures may apply to the applicable governmental authority for a "High and New Technology Enterprises Certificate" which will be valid for three years from the date of issuance. A PRC-based enterprise that has obtained such certificate and recognised as a high-tech enterprise may apply with the applicable tax authority to obtain applicable tax exemptions and reductions. If our Group can obtain such recognition, we will be qualified to apply to the applicable tax authority for a preferential tax treatment to enjoy an enterprise income tax rate of 15%.

Our PRC subsidiaries can take advantage of such Measures to apply for "High and New Technology Enterprise Certificates" and the relevant preferential tax treatments. In December 2008, Comtec Solar obtained a "High and New Technology Enterprise Certificate" and can enjoy preferential PRC enterprise income tax treatment at a rate of 15% from the year of 2011 onwards, upon the application with the relevant tax bureau.

PROPERTIES

The PRC Ministry of Land and Resources promulgated 《招標拍賣掛牌出讓國有建設用地使用權規定》 (The Regulations on the Grant of State-owned Construction Land Use Rights Through Competitive Bidding, Auction and Listing-for-Sale) (the "Regulations on the Assignment of State-owned Construction Land Use Rights") on 28 September 2007, which became effective on 1 November 2007. The Regulations stipulated the methods and procedures for the acquisition of State-owned land use rights.

According to 《中華人民共和國城鄉規劃法》 (The Urban and Rural Area Planning Law of the PRC) (the "Planning Law") promulgated by the Standing Committee of the National People's Congress on 28 October 2007 and implemented on 1 January 2008, if the land use rights for a project are obtained through grant, the relevant construction entity is required to obtain the Construction Land Planning Permit from the relevant planning administration authority after signing the land grant contract. A construction entity is also required to apply to the department of urban and rural planning for a Construction Works Planning Permit before commencing construction, otherwise penalties will be imposed. Upon completion of each phase of a project, a construction entity is required to submit all relevant information to the relevant state land and resources bureau within six months after the inspection of the project had been completed, failure to do so within the stipulated time will lead to penalties. Approval from the relevant urban and rural planning authority must be obtained for temporary constructions. All temporary constructions must be demolished before the expiry of the approved time limit, otherwise penalties will be imposed.

HISTORY AND CORPORATE STRUCTURE

OUR HISTORY

We trace our origins to 1999 when Mr. Zhang, our Chairman, CEO, executive director and founder, established Comtec Semi on 21 December 1999 in Shanghai, the PRC, with an initial registered capital of US$1 million sourced from his personal savings, to manufacture and sell semiconductor ingots and wafers. Prior to the establishment of our semiconductor business, Mr. Zhang worked as a senior design engineer for approximately four years at a U.S.-based company, Silicon Systems Inc. His duties and responsibilities at Silicon Systems Inc. were to develop and design communication firmware used in silicon chips. Mr. Zhang accumulated from such employment, general industry knowledge and experience in the use of silicon, a basic raw material in the semiconductor production process, which served to set a solid foundation for our semiconductor business.

When Mr. Zhang started our Group's business, our Group purchased all necessary machinery and equipment mainly through auctions from several semiconductor wafer manufacturers in South Carolina and Ohio, the U.S.. At around the same time, our Group acquired the necessary production technology by hiring experienced individuals from semiconductor manufacturers based in the PRC, including our Group's CTO, Mr. Shi Cheng Qi. We expanded our business into the production of monocrystalline solar ingots in 2004 and the production of monocrystalline solar wafers in 2005 and since then, solar products have gradually replaced our semiconductor business to become our principal source of revenues. The change in business focus was mainly driven by the increasing demand for solar wafer products. The manufacture of solar wafers and semiconductor wafers is similar in many respects, including the processing involved in growing ingots and slicing wafers, technical expertise gained from the manufacture of semiconductor wafers is easily transferable to the manufacture of solar wafers.

In order to facilitate our change in business focus, we established Comtec Solar as a sino-foreign equity joint venture in the PRC on 5 July 2005 with a registered capital of US$5 million. At the time of its incorporation, Comtec Solar was owned as to 27% by Comtec Semi and 73% by Mr. Zhang in the name of Comtec Ltd, which is the trade name in the U.S. under which Mr. Zhang conducted business as a sole proprietor. In 2006, the shareholding of Comtec Solar was restructured pursuant to which the entire registered capital of Comtec Solar became wholly-owned by Mr. Zhang (under the trade name of Comtec Ltd).

The experienced individuals hired by our Group when our Group's business first started helped us in developing our initial customer and supplier bases, which have gradually broadened over the years under Mr. Zhang's leadership. Our CTO, Mr. Shi Cheng Qi, who has over 30 years of experience in semiconductor, solar and materials engineering, was responsible for establishing our supplier base. Mr. Zhang was personally responsible for establishing our customer base, who was also assisted by our sales manager, Mr. Wang Yong Sen, who had the relevant experience in the industry. Our Group has not experienced any significant difficulties in pursuing new business partners, whether they are suppliers or customers, given our ability to produce high quality monocrystalline solar wafers and our good reputation in the industry since the commencement of our business. We managed to achieve rapid expansion in our business during the Track Record Period through the establishment of strong long-term relationships with major polysilicon suppliers and manufacturers of solar cells which helped to support our production, accumulation of profits and financial resources from sales and operations as well as private equity investments which helped fund expansion projects, and dedication to recruiting industry expertise and training workers to build up our team.

HISTORY AND CORPORATE STRUCTURE

BUSINESS MILESTONES

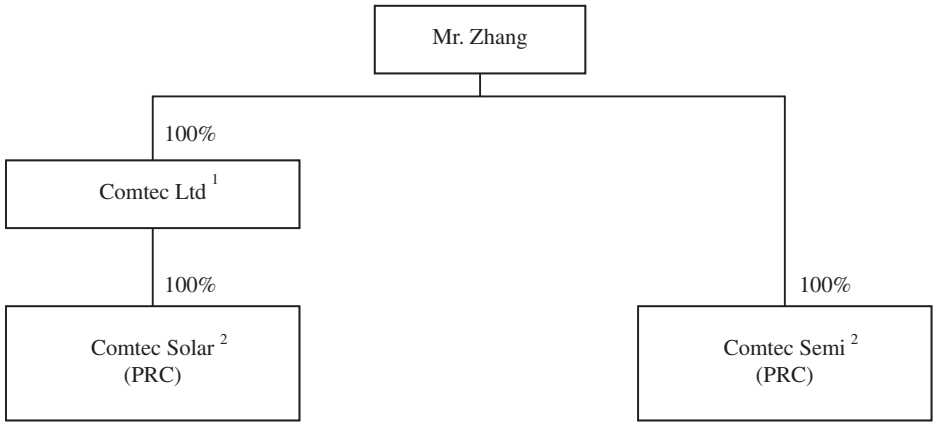
The following table summarises various milestones in the development of our business:

Year	Event
1999	Comtec Semi was established as a wholly foreign-owned enterprise in the PRC in December 1999 by Mr. Zhang to manufacture and sell semiconductor ingots and wafers.
2004	We started to manufacture monocrystalline solar ingots by leveraging our experience from the semiconductor industry.
2005	Comtec Solar was established as a sino-foreign equity joint venture in the PRC in July 2005 by Comtec Semi and Mr. Zhang to produce monocrystalline solar ingots and wafers.
2006	We signed a five-year framework agreement with Suntech in November 2006 to provide them with high efficiency monocrystalline solar wafers. We signed an eight-year contract with Major International Supplier A in 2006 for deliveries of polysilicon from 2008 through 2015 to secure long-term supply of virgin polysilicon, the major raw materials for the production of our monocrystalline solar wafers.
2007	Mass production of larger 156 mm by 156 mm monocrystalline solar wafers commenced in March 2007. We started our mass production of sub-200 micron monocrystalline solar wafers in March 2007. We expanded our monocrystalline solar wafer annual production capacity to 55 MW by the end of 2007.
2008	We started producing 170 micron monocrystalline solar wafer in January 2008. We started a research and development project on developing 210 mm by 210 mm monocrystalline solar wafers for large-scale commercial production. We signed a seven-year supply contract with Major International Supplier B in April 2008 pursuant to which we expect to receive virgin polysilicon supply through 2015. We completed our development project on larger 210 mm by 210 mm monocrystalline solar wafers ready for large-scale commercial production in December 2008.
2009	We completed our research and development of the manufacture of square wafers in April 2009.

HISTORY AND CORPORATE STRUCTURE

CORPORATE REORGANISATION

The chart below illustrates our corporate structure immediately prior to the Corporate Reorganisation:



Note:

1 Comtec Ltd is the trade name in the U.S. under which Mr. Zhang had been carrying on business as a sole proprietor and had been registered with the filing of a fictitious business statement by Mr. Zhang with Alameda County Clerk-Recorder's Office in Alameda County, California, the U.S., on 5 January 2007 due to his change in place of residence from where he conducted his sole proprietorship business. Pursuant to Section 17910 of the California Business Professions Code, every person who regularly transacts business in the state of California, for profit under a trade name is required to file a fictitious business name statement. Prior to its registration with Alameda County in California, Mr. Zhang carried on business as a sole proprietorship in the U.S. under the trade name of Comtec Ltd in various counties in California, including Santa Clara County and Nevada County. Mr. Zhang may not be in compliance with Section 17910 of the California Business & Professions Code as there was no effective registration of the fictitious business name statement during the period from the expiry of the fictitious business name statement filed in Nevada County on 11 January 1999, to the time immediately before the filing of a fictitious business name statement in Alameda County on 5 January 2007. Our legal advisors as to U.S. law, Orrick, Herrington & Sutcliffe, advised that Mr. Zhang therefore may not maintain any action upon or on account of any contract made, or transaction had, in the fictitious business name in any court in California for such period in respect of which he did not file any fictitious business name statement. There is however no general requirement under California law which requires a person to file a fictitious business name statement in respect of a trade name in order to conduct business under such trade name.

As advised by our U.S. legal advisers, Orrick Herrington & Sutcliffe, Mr. Zhang had the power, authority and capacity to conduct business in California during the Track Record Period, and that to their knowledge, no governmental licences, certificates, approvals or permits were required under the applicable laws in the U.S. in connection with the valid execution, delivery and performance of the business contracts by Mr. Zhang under the trade name of Comtec Ltd in accordance with their terms.

Comtec Ltd may be registered as a trade name, or fictitious business name as referred to under California law, if the following criteria and conditions are fulfilled: (i) a fictitious business name statement in respect of such name has been properly completed and filed with the office of the county clerk for the relevant county in which the registrant desires to register such trade name, and (ii) within 30 days after the filing, the registrant should also publish in a newspaper of general circulation in the county where such statement has been filed a notice of such fictitious name filing. If such filing is the first filing in respect of such trade name in such county, as with the filing of a fictitious business statement by Mr. Zhang in Alameda County on 5 January 2007, and the registrant is actually engaged in a trade or business utilising the fictitious business name, the filing of a fictitious business name statement establishes a rebuttable presumption under California law that the registrant has the exclusive right to use such trade name as a trade name in the county in which such statement was filed. In July 2008, Mr. Zhang filed a "statement of abandonment of use of fictitious business name" with Alameda County Clerk-Recorder's Office in Alameda County, California, the U.S..

2. As confirmed by our PRC legal adviser, Commerce & Finance Law Offices, the registered capital of Comtec Solar and Comtec Semi have been fully paid up within the required timeframe.

HISTORY AND CORPORATE STRUCTURE

In order to rationalise our organisational structure, we underwent the Corporate Reorganisation prior to the [●] which involve the following steps:-

(a) **Incorporation of new investment holding entities for our Group**

Most Talent Limited (the former name of Comtec Solar (Cayman)) and New Genuine Limited (the former name of Comtec Semi (Cayman)) were incorporated as exempted companies in the Cayman Islands on 23 April 2007 for the purpose of investment holding by Mrs. Wenba Wu, a nominee shareholder on behalf of Mr. Zhang. The nominee shareholding arrangement was used for these companies for administrative convenience. Mrs. Wenba Wu is an agent of a corporate secretarial company engaged by Mr. Zhang to manage his shareholdings and is independent of, and not connected with, our Directors, chief executives or substantial Shareholders of our Company or any of our subsidiaries or any of their respective associates. Star View (Hong Kong) Limited (the former name of Comtec Solar (HK)) and Winkle (Hong Kong) Limited (the former name of Comtec Semi (HK)) were incorporated in Hong Kong on 12 October 2007. On 6 November 2007, Comtec Solar (Cayman) acquired the entire issued share capital of Comtec Solar (HK) from Bosco Nominees Limited at a nominal consideration and Comtec Solar (HK) became wholly-owned by Comtec Solar (Cayman). On the same date, Comtec Semi (Cayman) also acquired the entire issued share capital of Comtec Semi (HK) from Bosco Nominees Limited at a nominal consideration and Comtec Semi (HK) became wholly-owned by Comtec Semi (Cayman).

(b) **Incorporation of investment vehicle of Mr. Zhang**

To prepare for the [●], Mr. Zhang incorporated an investment vehicle, Fonty, in the BVI to hold his interests in our Company on 5 September 2007.

(c) **Incorporation of our Company**

Our Company was incorporated in the Cayman Islands as the holding company of our Group on 13 November 2007.

(d) **Acquisition of Comtec Solar (Cayman) and Comtec Semi (Cayman) by our Company**

On 13 November 2007, our Company acquired the entire issued share capital of each of Comtec Solar (Cayman) and Comtec Semi (Cayman) held by Mrs. Wenba Wu, a nominee shareholder on behalf of Mr. Zhang, for a nominal consideration.

(e) **Transfer of the entire equity interest in Comtec Semi**

Pursuant to an equity transfer agreement dated 21 November 2007, Comtec Semi (HK) acquired the entire equity interest in Comtec Semi from Mr. Zhang for a consideration of US$4.04 million. The said consideration was determined with reference to the paid-up registered capital of Comtec Semi and was satisfied by the issuance of a promissory note in the amount of US$4.04 million on 31 December 2007 ("Semi Note").

(f) **Transfer of the entire equity interest in Comtec Solar**

Pursuant to an equity transfer agreement dated 21 November 2007, Comtec Solar (HK) acquired the entire equity interest in Comtec Solar from Mr. Zhang for a consideration of US$18.5 million. The said consideration was determined with reference to the paid-up registered capital of Comtec Solar and was satisfied by the issuance of a promissory note in the amount of US$18.5 million on 31 December 2007 ("Solar Note").

(g) **Restructuring of our Company's share capital**

In preparation for the investment by CMTF, we restructured our share capital on 12 March 2008 by increasing our authorised share capital and subdividing the number of our issued shares. After such restructuring, the authorised share capital of our Company was increased to HK$1,000,000 divided into 1,000,000,000 shares of HK$0.001 each. The one Share held by Fonty was subdivided into 10 Shares with a par value of HK$0.001 each.

(h) **Contribution of promissory notes**

On 12 March 2008, Mr. Zhang assigned the Semi Note to Fonty as additional capital contribution. The Semi Note was transferred by Fonty to our Company and in return, our Company issued 47,677,017 Shares to Fonty. The additional shares were issued to Fonty as part of the restructuring of our share capital in preparation for the investment by CMTF and the number of shares were determined with reference to the post-investment shareholding structure of our Company. Our Company then delivered the Semi Note to Comtec Semi (Cayman) and thereafter, Comtec Semi (Cayman) delivered the Semi Note to Comtec Semi (HK) as an intercompany capital contribution of US$4.04 million. Each of Comtec Semi (Cayman) and Comtec Semi (HK) issued one new share to our Company and Comtec Semi (Cayman), respectively, in return for such capital contribution.

On 12 March 2008, Mr. Zhang assigned the Solar Note to Fonty as additional capital contribution. The Solar Note was transferred by Fonty to our Company and in return, our Company issued 218,322,973 Shares to Fonty. The number of shares was determined with reference to the restructuring of our share capital in preparation for the investment by CMTF. Our Company then delivered the Solar Note to Comtec Solar (Cayman) and thereafter, Comtec Solar (Cayman) delivered the Semi Note to Comtec Solar (HK) as an intercompany capital contribution of US$18.5 million. Each of Comtec Solar (Cayman) and Comtec Solar (HK) issued one new share to our Company and Comtec Solar (Cayman), respectively, in return for such capital contribution.

(i) **Investment by CMTF**

On 12 March 2008, the authorised share capital of our Company was increased to HK$1,012,000 by the creation of 12,000,000 new Shares of HK$0.001 each and following the increase, the authorised share capital of our Company was redesignated and reclassified into 1,000,000,000 ordinary shares of HK$0.001 each and 12,000,000 preferred shares of HK$0.001 each. All of the preferred shares were designated as Series A Shares.

Pursuant to a subscription agreement entered into between our Company and CMTF dated 18 March 2008, our Company allotted and issued 11,212,019 Series A Shares to CMTF credited as fully paid.

(j) **Business previously carried on by Mr. Zhang under the trade name of Comtec Ltd**

Prior to the Corporate Reorganisation, Mr. Zhang used Comtec Ltd as a trade name in the U.S. to carry on business as a sole proprietor, which performed sourcing and trading activities for Comtec Semi and Comtec Solar. The Relevant Business mainly had the following two types of business arrangements with us during the Track Record Period:

1. *Purchases of wafers manufactured with imported polysilicon feedstock from one of our Shanghai Subsidiaries and the subsequent re-selling to the other Shanghai Subsidiary.*

Our Group has been able to utilise the procurement function of the Relevant Business and adopted the following mechanism to customs clearance in an effort to maintain a stable and predictable supply of polysilicon to our Group:

(i) either one of our Shanghai Subsidiaries would import raw material polysilicon feedstock and use it to manufacture cylindrical ingots and monocrystalline solar wafers and then sell the cylindrical ingots and monocrystalline solar wafers so manufactured to the Relevant Business; and

(ii) Mr. Zhang, through the Relevant Business, would resell the cylindrical ingots and monocrystalline solar wafers to our other Shanghai Subsidiary, which would then finally sell these products to our PRC domestic customers.

The cylindrical ingots and monocrystalline solar wafers would be delivered from one of our Shanghai Subsidiaries' warehouse to 上海外高橋保税物流園區 (Shanghai Waigaoqiao Bonded Logistics Zone) to carry out custom clearance procedures, and thereafter be redelivered to our other Shanghai Subsidiary's warehouse.

Under this arrangement, Mr. Zhang, through the Relevant Business, would generally settle all payments directly with Comtec Solar or Comtec Semi and thereafter issue an invoice to the other Shanghai Subsidiary.

According to 中華人民共和國海關對加工貿易貨物監管辦法(The PRC Customs Supervision and Administration Processing Trade Goods Procedures, the "**Procedures**"), such arrangement constitutes a processing trade with imported materials. Under the Procedures, processing trade with imported materials refers to business activities of which an enterprise uses foreign exchange to import the materials and parts for manufacturing and then exports the finished products. The processing trade with imported materials is a common protective trade, under which the imported materials and parts except otherwise provided by the PRC laws and regulations are regularly exempted from customs duties at the time of import and subject to bonded supervision and administration (保税監管). After the finished processed products are exported, the competent Customs will carry out record verification and cancellation in accordance with the verified actual quantity of the exported finished products.

The above arrangement within our Group was to facilitate timely custom clearance. Since no customs duty is levied at the time of import under processing trades with imported materials, the relevant Customs will not assess the import price of the raw materials for the purpose of determining the amount of customs duties payable. As a result, the customs processing time for the clearance is generally shorter than what would have been required had the materials been imported as general imports. In the absence of the above arrangement, if our Shanghai Subsidiaries were to import raw polysilicon feedstock and sell the cylindrical ingots and monocrystalline solar wafers they manufactured directly to our PRC domestic customers, the import of polysilicon would instead constitute general imports. Pursuant to 中華人民共和國海關法(The Customs Law of the PRC) and 中華人民共和國海關税則(2005-2008)(The Customs Tariff Code of the PRC), polysilicon imported from the USA under general imports shall be subject to a customs duty at the rate of 4%. On the other hand, as both the PRC and the U.S. are members of the World Trade Organization, cylindrical ingots and monocrystalline solar wafers generally imported are exempted from customs duties.

When conducting such processing trade with imported materials with Comtec Ltd, the Shanghai Subsidiaries truthfully declared the form of trade, port of import and export, price and place of origin of the imported polysilicon and cylindrical ingots and monocrystalline solar wafers for export, as well as other items required under the Procedures. According to 中華人民共和國海關法(The Customs Law of the PRC) and the Procedures, the end customers and their locations are not required to be reported to the Customs. Therefore, although Comtec Ltd resold the cylindrical ingots and monocrystalline solar wafers to the other Shanghai Subsidiary (at a price different from what Comtec Ltd paid to acquire them), such reselling arrangements are separate and independent from the processing trade with imported materials and thus would not affect the legality of the processing trade with imported materials conducted earlier.

2. *Acting as the sourcing and trading arm of the Group.*

The use of Comtec Ltd facilitates quick settlement of prepayments for raw materials and equipment purchased by Comtec Solar and Comtec Semi from overseas.

The Relevant Business performed sourcing functions for our Group prior to the Corporate Reorganisation by purchasing raw materials and equipment from overseas third party suppliers or vendors, and re-selling them to our Shanghai Subsidiaries. Mr. Zhang, through the Relevant Business, would generally settle all payments directly with the overseas third party suppliers or vendors, and thereafter issue invoices to our Shanghai Subsidiaries.

The Relevant Business also served as our overseas sales arm by purchasing ingots or wafers from our Shanghai Subsidiaries, and re-selling these products to overseas third party customers. Mr. Zhang, through the Relevant Business, would generally settle all payments directly with our Shanghai Subsidiaries, and the third party customers would generally settle with Comtec Ltd.

The transactions between the Relevant Business and our overseas third party customers and suppliers which are denominated in currencies other than the RMB are not subject to compliance with SAFE regulations and procedures, which would otherwise be applicable had our Shanghai Subsidiaries transacted with these overseas customer and suppliers directly. The use of Comtec Ltd therefore enabled our Group to settle payments with these overseas third party customers and suppliers more quickly. As mentioned above, after the payments were settled, Comtec Ltd would re-sell the raw materials and equipment to the Shanghai Subsidiaries, and then the Shanghai Subsidiaries would pay

the purchase price directly to Comtec Ltd in accordance with the PRC laws and regulations related to foreign exchange settlement, sale and payment. The Shanghai Subsidiaries had followed the requisite foreign exchange payment procedures and never been punished by the competent foreign exchange administrations during the Track Record Period.

The primary effect of the arrangements in connection to the Relevant Business on the financial results of our Group was the exemption of a 4% customs duty on imported polysilicon.

In addition, Mr. Zhang's equity interest in Comtec Solar was held under his trade name of Comtec Ltd prior to our Corporate Reorganisation and the Relevant Business also sold semiconductor parts sourced from third party suppliers or vendors to Comtec Electronics.

Pursuant to 中華人民共和國海關法 (The Customs Law of the PRC) and other PRC laws and regulations related to customs administration, when conducting processing trades with imported materials, the importers are not obliged to declare the end customers of the goods to the relevant Customs. Additionally, bonded warehouses are legally considered as territories outside of China for Customs clearance purpose. The Shanghai Subsidiaries were in compliance with the PRC customs declaration procedures and had never been found of any misrepresentations which should be punished by the competent Customs during the Track Record Period. Commerce & Finance Law Offices, the PRC legal advisers to our Company, and King & Wood PRC Lawyers, the PRC legal advisers to the [●], both have confirmed that the declarations made by the Shanghai Subsidiaries to the Shanghai Customs did not constitute misrepresentations since上海外高橋保税物流園區 (Shanghai Waigaoqiao Bonded Logistics Zone) was inspected and accepted by the China Customs as a qualified bonded logistics zone and hence, for customs clearance purpose, the bonded warehouses located within are deemed to be territories outside of China.

Our Shanghai Subsidiaries have followed the requisite application procedures for customs reporting and foreign exchange settlements and payments in respect of the above arrangements with the Relevant Business, and our PRC legal advisers, Commerce & Finance Law Office, confirm that the two business arrangements described above are in compliance with the relevant PRC laws and regulations, including but not limited to the applicable taxation, customs-related and foreign exchange laws and regulations.

Mr. Zhang carried on the Relevant Business physically in the U.S. but ceased to do so on 3 July 2008, and has filed a "statement of abandonment of use of fictitious business name" with the clerk of Alameda County, California in the U.S.. Mr. Zhang therefore has since then ceased to carry on any business activity, including any business related to solar wafer production or sale, which would directly or indirectly compete with our Group's business. Comtec Ltd, being only a trade name and not a separate legal entity, does not form part of our Group either before or after the Corporate Reorganisation.

Mr. Zhang has executed a deed of confirmation in respect of Comtec Ltd on 13 June 2008 to confirm the valid existence of Comtec Ltd and the validity of all documents signed under the name of Comtec Ltd. Mr. Zhang has confirmed that all contracts entered into by Comtec Ltd up to its cessation of business had been duly performed. Mr. Zhang and our Group have never been subject to any

proceedings brought by any governmental or regulatory authority in connection with the business carried on by Mr. Zhang under the trade name of Comtec Ltd in any relevant jurisdiction. Mr. Zhang has also confirmed that he has never been subject to any such proceedings, either in his own name or the trade name of Comtec Ltd.

The revenue and profit (loss) generated by the Relevant Business during the year ended 31 December 2005 and the Track Record Period are summarised as follows:

	Year ended 31 December				Six months ended 30 June
	2005	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	63,929	114,582	80,544	4,664	—
Profit (loss) before taxation	19,443	16,397	2,594	(1,629)	—
Profit (loss) for the year/period	10,655	7,380	(11,632)	(6,430)	—

We confirm that all the above business activities carried by Mr. Zhang under the name of Comtec Ltd are related to the Group. The financial results of the Relevant Business during the Track Record Period have been combined into the results of our Group with all intra-group profit or loss resulting from the above arrangements fully eliminated on combination as set out in the accountants' report for the Track Record Period in Appendix I to this document on the basis that such business and our Group were under the common control of Mr. Zhang. Mr. Zhang confirmed that there were no remaining assets, liabilities (except for the tax payable referred to below) or unperformed contracts in connection with the business carried on by him under the trade name of Comtec Ltd at the time he ceased conducting such business. There was, therefore, no transfer of assets, liabilities or contracts from Mr. Zhang to our Group (except for our Group's agreement to bear certain tax payable referred to below) and as Comtec Ltd had no employees, there was also no transfer of employees to our Group. Hence, while Comtec Solar (HK) now performs the business functions previously performed by the Relevant Business, our Group has not assumed any of the liabilities (except for the tax payable referred to below) incurred in connection with such business and to ensure that our Group is protected from any risk of possible exposure in this respect, Mr. Zhang has undertaken to indemnify our Group in respect of any claim against any of our Group members arising out of or in connection with such business. Our Group has, however, agreed to bear the actual tax payable, together with interest and other payment obligations relating to such liabilities, which were derived from the assessable income of the business carried on by Mr. Zhang under the trade name of Comtec Ltd for the year ended 31 December 2005 and during the Track Record Period up to an amount not exceeding RMB41,369,000 (the "Agreed Tax Liabilities") and has made provision for such payment in our accounts.

The Agreed Tax Liabilities represents (a) the cumulative tax payable in the amount of RMB36,499,000 (the "Cumulative Tax Payable"), comprising RMB32,602,000 in U.S. federal tax payable and RMB3,897,000 in California state tax payable, calculated at the prevailing tax rates in the U.S. based on the U.S. Internal Revenue Code and the California Revenue and Taxation Code, in respect of the income, profits or gains earned, accrued or received by Mr. Zhang in carrying on the Relevant Business during the year ended 31 December 2005 and the Track Record Period under the trade name of Comtec Ltd, up until the cessation of such business; and (b) the estimated interests and

late payment charges in the amount of RMB4,870,000 (the "Interest and Late Payment Charges"), calculated based on the unpaid U.S. federal tax and California state tax of the Relevant Business during the year ended 31 December 2005 and the Track Record Period, which will be paid by Mr. Zhang as at the Latest Practicable Date.

The Cumulative Tax Payable as mentioned above includes the tax payable of the Relevant Business for 2005 and 2006, which were unsettled as at 31 December 2007 as such tax payable represent the additional estimated tax liabilities that arose from assessable income derived from the Relevant Business during those years, which were reported on the amended U.S. individual income tax returns for 2005 and 2006 filed by Mr. Zhang on 30 September 2008. The additional amounts of tax liabilities were approximately US$1.1 million and US$1.1 million, equivalent to approximately RMB8.8 million and RMB8.8 million for the year ended 31 December 2005 and 2006, respectively. Our Company confirms that the Internal Revenue Service of the U.S. Department of Treasury has not disputed over Mr. Zhang's original 2005 and 2006 tax returns.

The filing of these amended tax returns was primarily because Mr. Zhang understands that the taxable income of the Relevant Business had been understated in the original calculation of his taxes payable and the tax liabilities resulted from such understated portion of the taxable income of the Relevant Business have not been taken into account for the years 2005 and 2006, which were prepared in the absence of any professional tax advice when they were originally filed. These errors were identified by Mr. Chau, our CFO, during the review of our Group's accounts when he was hired by our Company in late 2007. We have addressed the internal control weakness of our Group and the Relevant Business in connection with the determination of the tax payable related to our business activities by staffing our accounting and finance department with accounting professionals with appropriate experience and using Comtec Solar (HK) to perform the functions previously performed by Comtec Ltd, which means that since then the related financial reporting and tax filing processes are the direct responsibilities of our accounting and finance department. Please refer to the paragraph headed "Business — Internal Control — Financial control" for more information about our internal control measures for the prevention of such errors.

The amended U.S. individual income tax returns for 2005 and 2006 had taken into account adjustments made for the purpose of addressing the understatement of the accounting profits of the Relevant Business and thereby to comply with IFRS. Mr. Zhang has filed such amended U.S. individual income tax returns for 2005 and 2006 and his U.S. individual income tax returns for 2007 on 30 September 2008 and fully paid the respective amounts due under these tax returns on the same day. Mr. Zhang has filed and fully paid all the amounts due under his U.S. individual income tax return for 2008 as at Latest Practicable Date.

The Interest and Late Payment Charges had been estimated and accounted for in our consolidated financial statements in the year or period when they were incurred in accordance with the U.S. Internal Revenue Code and the existing interpretations and practices in the U.S.. Further, such interest was calculated at the applicable rate determined on a quarterly basis, being the sum of (i) the U.S. federal short-term rate of the first month in each calendar quarter, plus (ii) 3%, on the unpaid amount of tax liability from the last date prescribed for payment of the tax until the estimated date of payment in late September; and the estimated late payment penalty was calculated at 0.5% of the unpaid amount due until the estimated date of payment in late September. In December 2008, the Internal Revenue Service of the U.S. Department of Treasury has confirmed their assessment the amount of interests and late payment charges payable by Mr. Zhang in respect of the Cumulative Tax Payable, which does not

exceed the amount of interest and late penalty charges estimated and accounted for in our consolidated financial statements. Our Company confirms that the Internal Revenue Service of the U.S. Department of Treasury has not disputed over Mr. Zhang's amended U.S. individual income tax returns for 2005 and 2006 and his U.S. individual income tax returns for 2007. As at the Latest Practicable Date, the Company confirms that Mr. Zhang has fully paid all interests and late payment charges in respect of the Cumulative Tax Payable.

Comtec Ltd is not required to file any income tax return in the U.S. 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 U.S. individual income tax returns. The profits derived from the Relevant Business during the year ended 31 December 2005 and 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. The taxable income of the Relevant Business for the year ended 31 December 2007 and the six months ended 30 June 2008 also included an 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 U.S. under Section 956 of the U.S. Internal Revenue Code. During the year ended 31 December 2005 and the Track Record Period, Mr. Zhang's taxable income was subject to U.S. federal income tax calculated in accordance with a progressive tax rate table sets out in the U.S. Internal Revenue Code, with 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 rate table sets out in the California Revenue and Taxation Code, with 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. Our Directors confirm that Mr. Zhang had complied with the relevant income tax filing requirements in the U.S..

Other than the Agreed Tax Liabilities set forth above, which have been expressly borne by us, we believe that we will not be exposed to any other liabilities arising from the succession by Comtec Solar (HK) of those business functions previously carried out by Mr. Zhang under the trade name of Comtec Ltd. In any event, to protect our Group against any possible exposure to liabilities in connection with the business carried on by Mr. Zhang under the trade name of Comtec Ltd, falling outside the Agreed Tax Liabilities set forth above, Mr. Zhang has executed a deed of indemnity, whereby he has granted an indemnity in favour of our Group against any claims arising out of or in connection with the business carried on by him under the trade name of Comtec Ltd. Our Group reimbursed Mr. Zhang for such tax liabilities of approximately RMB36,499,000 in September 2008 when Mr. Zhang filed his amended U.S. individual income tax returns for 2005 and 2006 and his individual income tax return for 2007 and the remaining amount in October 2009 when he filed his individual income tax return for 2008. Please refer to the paragraph headed "Other Information — Estate duty and tax indemnity" in Appendix VI to this document for further information.

(k) **Transfer of the business functions of Comtec Ltd to Comtec Solar (HK)**

As part of the reorganisation to rationalise our group structure and business operations prior to the [●], all of the business functions of Comtec Ltd have been taken over by Comtec Solar (HK) after Mr. Zhang ceased to carry on the Relevant Business. The transfer of the business functions of Comtec Ltd to Comtec Solar (HK) did not involve any payment of consideration or require us to comply with any rule or regulation or to obtain any approval in any jurisdiction, and Comtec Solar (HK) has since carried out such business functions in Hong Kong with the support of local employees. For these

reasons and that the sales of wafers from the Shanghai Subsidiaries to Comtec Solar (HK) are, like the sales of wafers from the Shanghai Subsidiaries to the Relevant Business, export sales, the arrangement described above in relation to the expedition of customs clearance, the exemption of customs duty [and quick settlement with suppliers and customers] is therefore not affected by the cessation of the business operation of Comtec Ltd.

(l) **Acquisition of Comtec Solar (Jiangxi)**

Pursuant to our plans to expand our production capacity in 2010, an equity transfer agreement dated 9 May 2008 (the "Equity Transfer Agreement") was entered into between Comtec Solar (HK) and HK Truecolor Technological Industry Limited, an Independent Third Party, Comtec Solar (HK) agreed to acquire from HK Truecolor Technological Industry Limited the entire equity interest in HK Truecolor Technologyical Industry Limited (Nanchang) (真彩(南昌)科技實業有限公司) (the former name of Comtec Solar (Jiangxi)) for a cash consideration of RMB136,000, which was determined by arm's length negotiations taking into account the time and resources which would otherwise be required to set up a similar entity serving the same purposes. To the best knowledge of the Company, Comtec Solar (Jiangxi) was entitled under its then existing business licence, issued in its former name, to conduct the business of manufacture, sale and repair of computer and other related products. To our Directors' best knowledge based on the representation by HK Truecolor Technological Industry Limited and its shareholders, during the period from its establishment until prior to its acquisition by our Group, Comtec Solar (Jiangxi) has only been engaged in the business of trading of an immaterial volume of ink cartridges. Immediately prior to its acquisition by Comtec Solar (HK), Comtec Solar (Jiangxi) has ceased to carry on such business activities which are no longer relevant to its principal activities after the acquisition. According to the approval certificate issued by the People's Government of Jiangxi Province on 29 May 2008 and the business licence issued by Nanchang Administration of Industry and Commerce on 2 June 2008, the business scope of Comtec Solar (Jiangxi) has been changed to manufacture and develop solar power and semiconductor materials (subject to licence if so required by the PRC laws and regulations). Our Directors confirm that the current operations as conducted by Comtec Solar (Jiangxi) are not related to activities which would require specific permit, approval or licence from the PRC Government. Our PRC legal advisers, Commerce & Finance Law Offices, advise that (i) the acquisition of Comtec Solar (Jiangxi) has obtained all the approvals and licences required under the PRC laws and regulations, (ii) Comtec Solar (Jiangxi) is legally authorised to operate within the renewed business scope, and (iii) Comtec Solar (Jiangxi) does not have to apply for other permits, approvals or licences for its current operation.

The assets of Comtec Solar (Jiangxi) at the closing of the acquisition composed of certain equipment, which we determined that their fair value was nil because we were unable to utilise such equipment in our solar wafer business and they represented no value to our Company. These assets were therefore written off at closing of the acquisition. Further, all receivables of Comtec Solar (Jiangxi) were determined to be uncollectible. All liabilities of Comtec Solar (Jiangxi) were fully borne by the vender and thus there were no recorded liabilities on the financial statements of Comtec Solar (Jiangxi) at the closing of the acquisition. The consideration for the acquisition was RMB136,000, which mainly represents the registered capital of Comtec Solar (Jiangxi). Acquiring Comtec Solar (Jiangxi) was also advantageous to our Group as it has been duly and legally established, allowing us to expedite our expansion in the Nanchang Economy and Technological Development Zone.

Comtec Solar (Jiangxi) was acquired as a potential new business vehicle to implement our production capacity expansion plan because it is established in Jiangxi province and thus is eligible to operate in the Nanchang Economy and Technological Development Zone, which we believe would offer us with well-equipped infrastructure and certain potential economic benefits in the form of favourable operating cost due to the fact that a sea, land and air transportation network has been developed in the area, and abundant power resources, water resources, telecommunication resources and human resources with relatively lower costs can be provided. Acquiring Comtec Solar (Jiangxi) was also advantageous to our Group as it has been duly and legally established, allowing us to expedite our expansion in the Nanchang Economy and Technological Development Zone and secure the benefits. In order to satisfy the terms of this equity transfer agreement, both parties must ensure that approvals for the establishment of HK Truecolor Technologyical Industry Limited (Nanchang) have been obtained from the relevant authorities and the transfer of ownership has been effected. We are also in the process of exploring location other than Jiangxi province, such as Nanhui, Shanghai, to implement our production capacity expansion plan. Unless our Group identified a more favourable alternative location by the end of November 2009, we will implement our production capacity expansion to 504 MW in Nanchang Economy and Technological Development Zone, Jiangxi, PRC and Comtec Solar (Jiangxi) will commence its principal activity of the manufacturing of monocrystalline solar ingots and wafers. Otherwise, we will implement our production capacity expansion plan in such more favourable alternative location and Comtec Solar (Jiangxi) will be dissolved and any asset of Comtec Solar (Jiangxi) will be liquidated with proceeds distributed to Comtec Solar (HK), its sole shareholder, in accordance with PRC law.

The risk exposure for our acquisition of Comtec Solar (Jiangxi) is limited to its invested capital, namely its registered capital at the time of the acquisition and our subsequent capital injections. HK Truecolor Technological Industry Limited represented to us that that there were no known liabilities as of the date of our acquisition. In addition, there were no recorded liabilities and contingent liabilities on the financial statements of Comtec Solar (Jiangxi) at the time of our acquisition. In order to protect our shareholder's interest, we have obtained a deed of confirmation on 18 June 2008 from HK Truecolor Technological Industry Limited, its sole shareholder and directors (the "Warrantors"), which provides certain additional representations, warranties and indemnities in our favour against undisclosed liabilities of Comtec Solar (Jiangxi). In addition, Mr. Zhang, our Controlling Shareholder, has agreed to provide us with a personal guarantee and indemnity, under which Mr. Zhang would irrevocably indemnify our Group on demand against all losses, liabilities, damages, costs and expenses whatsoever arising out of any failure by the Warrantors in the due and punctual performance and observance of their obligations under the Deed.

On 2 June 2008, the registered capital of Comtec Solar (Jiangxi) was increased from HK$500,000 to US$30 million. According to the capital verification report in respect of Comtec Solar (Jiangxi) issued in July 2008, 20% of the increased registered capital was paid up and the due date of full payment of the increased registered capital of Comtec Solar (Jiangxi) will be 1 June 2010. As confirmed by our PRC legal advisers, Commerce and Finance Law Offices, the payment of the increased registered capital is within the required timeframe under the PRC laws and regulations. For further information on such acquisition, please refer to the section headed "Business — Production — Manufacturing facilities — Planned expansion" in this document.

(m) **Further investment by CMTF**

On 30 March 2009, the authorised share capital of our Company was further increased to HK$1,026,000 by the creation of 14,000,000 preferred shares of HK$0.001 each, all of which were designated as Series A Shares. Pursuant to a supplemental subscription agreement entered into between our Company and CMTF dated 30 March 2009, our Company allotted and issued an additional 13,587,494 Series A Shares to CMTF credited as fully paid by the capitalization of HK$13,587.49 standing to the credit of the share premium account of our Company.

On 25 September 2009, the 24,799,513 Series A Shares held by CMTF were converted to 24,799,513 ordinary Shares of our Company on the basis of one Series A Share for one Share.

(n) **Reclassification, redesignation and increase in authorized share capital of the Company**

On 2 October 2009, the authorised share capital of the Company of HK$1,026,000 divided into 1,000,000,000 Shares of par value HK$0.001 each and 26,000,000 Series A Preferred Shares of HK$0.001 par value each was reclassified and redesignated to 1,026,000,000 Shares of par value HK$0.001 each. On the same date, the authorized share capital was further increased to HK$7,600,000 by the creation of an additional 6,574,000,000 Shares of par value HK$0.001 each.

(o) **[●]**

BUSINESS

OVERVIEW

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

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

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

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

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

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

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

OUR STRENGTHS

We believe that our key competitive strengths are:

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

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

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

- Data from our customers which was obtained in 2009 indicates that the conversion efficiency rate of solar cells achieved in 2008 which were manufactured using our monocrystalline solar wafers were in the range of 17% to 18%.

- We believe we are one of the first PRC-based manufacturers producing 156 mm by 156 mm monocrystalline solar wafers in large scale. Since the effective area per wafer is larger for larger wafers, more electricity can be generated per wafer for larger wafers than smaller wafers. As wafers are priced in Watt, customers tend to purchase larger wafers at a higher price per wafer.

- We believe we are one of the first PRC-based solar wafer manufacturers producing monocrystalline solar wafers with a thickness of approximately 170 microns in large scale. Thinner wafers require less raw materials to produce and result in higher production yields. However, the thickness of wafers generally has no direct implication to the end users of solar products.

- We have the technical capabilities and equipment that enable us to pull monocrystalline solar ingots with a uniform crystal structure that are up to 2.0 metres long for producing 125 mm by 125 mm wafers and up to 1.6 metres long for producing 156 mm by 156 mm wafers.

- We believe we are currently one of the few solar wafer manufacturers in the PRC using a Meyer Burger inner diameter cropping saw to cut ingots, which results in reduced kerf loss and higher production yield.

- We currently manufacture N-type solar ingots. The production of N-type ingots is more complicated than P-type ingots in that it is more difficult to control the resistivity range in N-type ingots. Solar products manufactured from N-type ingots can generate energy more efficiently than those manufactured from P-type ingots as the conversion efficiency rate of N-type ingots is higher than that of P-type ingots. During the Track Record Period, we sold our N-type solar ingots indirectly to a Japanese company through an intermediary. For each of the three years ended 31 December 2008 and the six months ended 30 June 2009, sales of our N-type solar ingots amounted to RMB11.5 million, RMB6.3 million, RMB22.2 million and nil, respectively and accounted for approximately 8.5%, 1.8%, 2.9% and nil of our total revenues during the relevant period, respectively. We currently sell a small quantity of wafers made from N-type solar ingots to a customer based in the PRC.

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

Cost-effective and efficient manufacturing model

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

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

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

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

Strong relationships with suppliers and customers

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

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

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

Experienced management team

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

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

OUR STRATEGIES

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

Continued focus on manufacturing high quality monocrystalline solar wafers

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

Expand our production capacity while maintaining a low cost production structure

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

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

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

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

Improve manufacturing efficiency through continuous process innovation

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

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

Procure sufficient supplies of quality polysilicon at favourable prices

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

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

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

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

OUR PRODUCTS

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

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

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

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

Production

Manufacturing process

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

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

Ingots pulling

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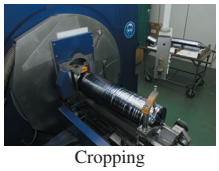

Cropping

↓

Squaring

↓

Slicing

↓

Cleaning

↓

Inspection

Ingot production

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

Wafer production

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

Cleaning and inspection

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

Manufacturing facilities

Current facilities

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

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

- *88 ingot pullers:* 74 CZ ingot pullers for ingot production manufactured by Ferrotec, a well-known supplier of CZ ingot pullers that is based in Japan, and 14 pullers manufactured by various PRC and foreign manufacturers. Pullers are used to pull a single crystal ingot from a crucible which contains molten polysilicon. The Ferrotec CZ ingot pullers we use are semi-automated and require less manual control than most other pullers, which, we believe, reduces the chances for human error in the manufacturing process and increases manufacturing efficiencies and yields. We generally use our 14 non-Ferrotec pullers for the production of 125 mm by 125 mm wafers, as the manufacture of these types of wafers is less technically demanding.

- *4 cropping saws:* Two inner diameter cropping saw and two band saws to cut the ingots. We sourced our cropping saws from Meyer Burger, a leading supplier of high-precision machines for cutting hard and brittle materials such as silicon, sapphire or other crystals into wafers, prisms and other shapes. The use of an inner diameter cropping saw to cut ingots, as compared to certain other methods, reduces kerf loss and has contributed to higher production yields.

- *8 squarers:* One of the eight squarers is a wire squaring saw sourced from HCT Shaping, a developer, manufacturer and marketer of industrial wire sawing machines (wire saws) principally for the semiconductor and the photovoltaic wafer industries. Another four wire squaring saws were manufactured by Nissin, a PRC manufactures. The other squarers are outer diameter saws, two of which were assembled by our Group using various parts purchased by our Group and one of which was manufactured by a PRC manufacturer. Squarers cut the cropped ingots into blocks to be sliced into wafers.

- *16 wire saws:* 16 wire saws sourced from Meyer Burger slice the ingot blocks into wafers. Wire saws use a matrix of wires to simultaneously cut a square ingot into wafers.

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

Planned expansion

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

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

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

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

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

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

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

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

Expansion from 55 MW to 200 MW

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

Expansion from 200 MW to 504 MW

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

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

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

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

- *Rights and Obligations of the Committee*. The Committee will facilitate our acquisition of a foreign invested enterprise in the Nanchang Economy and Technological Development Zone and assist our Group in obtaining the necessary approvals. We therefore acquired Comtec Solar (Jiangxi) with the assistance of the Committee in May 2008. The Committee will grant the use of approximately 500 mu (畝) of land to Comtec Solar (Jiangxi) for the construction and operation of its production facilities (the "Production Site"). The Committee will ensure that the infrastructure of the Production Site including electricity, water, drainage, communication and roads are ready and available and that the Production Site is properly leveled before it is granted to us.

- *Performance Target*. The Production Site will be constructed in two phases within four years after the relevant land use rights grant contract is signed. Upon completion of the first phase of construction, it is expected that Comtec Solar (Jiangxi) will have an annual production capacity of at least 200 MW according to the terms of the framework agreement. If we implement our production capacity expansion from 200 MW to 504 MW in Nanchang Economy and Technological Development Zone, our expectation is that Comtec Solar (Jiangxi) will have an annual production capacity of 304 MW by the end of such production capacity expansion. Upon completion of both phases of construction, it is expected that Comtec Solar (Jiangxi) will have an annual production capacity of 600 MW and will generate approximately RMB14.0 billion in revenue and RMB400.0 million in value added tax per annum.

- *Expiry and termination*. This agreement does not stipulate an expiry date, nor contain a termination clause.

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

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

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

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

Production capacity and utilisation

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

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

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

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

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

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

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

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

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

RAW MATERIALS AND CONSUMABLES

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

Materials

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

- *Virgin polysilicon.* Virgin polysilicon is the principal raw material for the production of solar wafers. Our purchase of virgin polysilicon accounted for 44.4%, 51.9%, 67.8% and 75.9% of our total purchase of raw materials and consumables respectively for each of the three years ended 31 December 2008 and the six months ended 30 June 2009. Since the fourth quarter of 2008, when polysilicon prices experienced a significant decrease, we generally minimise our polysilicon inventory but stocked up polysilicon to take advantage of attractive offers for purchase of polysilicon. The increase in our purchase of polysilicon as a percentage of our total purchase of raw materials and consumables for the six months ended 30 June 2009 was due to our purchase of polysilicon to take advantage of an attractive offer from Major International Supplier A. In the long run, we expect such percentage to decrease as polysilicon prices are now much lower than its historical levels. We source virgin polysilicon from various suppliers, including Major International Supplier A and Major International Supplier B. Please see the section headed "Materials — Polysilicon" for more details regarding our procurement of polysilicon;

- *Recyclable silicon.* We also use recyclable silicon from our own manufacturing process, as well as from a variety of other sources, including semiconductor remelts from semiconductor wafer manufacturing companies. Our purchases of recyclable silicon accounted for 11.3%, 5.6%, 5.3% and 0.5% of our total purchase of raw materials and consumables, respectively, for each of the three years ended 31 December 2008 and the six months ended 30 June 2009;

- *Crucibles.* Crucibles are the container into which polysilicon raw materials are placed for melting and pulling. We source crucibles from a leading domestic crucible manufacturer. Our purchase of crucibles accounted for 6.3%, 2.6%, 3.4% and 3.8% of our total purchase of raw materials and consumables, respectively, for each of the three years ended 31 December 2008 and the six months ended 30 June 2009;

- *Graphite.* Graphite is the material used to create a hot zone into which the crucible is placed. We source graphite from multiple sources based in the PRC and Japan. Our purchase of graphite accounted for 5.4%, 8.1%, 2.7% and 1.0% of our purchase of raw materials and consumables, respectively, for each of the three years ended 31 December 2008 and the six months ended 30 June 2009;

- *Slurry.* Slurry is a fluid comprised of silicon carbide and polyethylene glycol which is used in the wire cutting process. We source our slurry from local PRC suppliers. Our purchase of slurry accounted for 18.0%, 16.9%, 7.6% and 7.5% of our total purchase of raw materials and consumables, respectively, for each of the three years ended 31 December 2008 and the six months ended 30 June 2009; and

- *Other consumables.* Other consumables mainly include wires and other miscellaneous consumables. Wires are used in the wire cutting process for slicing the ingots into wafers. Our purchase of other consumables accounted for 14.5%, 14.9%, 13.3% and 11.4% of our total purchase of raw materials and consumables respectively for each of the three years ended 31 December 2008 and the six months ended 30 June 2009.

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

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

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

Polysilicon

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

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

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

The recent financial crisis and deteriorated economic conditions have adversely impacted the solar power industry sentiment and led to increased volatility of market prices of polysilicon. According to Solarbuzz, the average spot price of virgin polysilicon has decreased from a peak of US$450 per kg in the middle of 2008 to a low of US$150 per kg in the fourth quarter of 2008. According to PHOTON Consulting, the average market spot price of polysilicon for the week ended 2 October 2009 was approximately US$75 per kg, *Solar Updates 2/10/2009*.

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

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

Long-term supply contracts

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

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

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

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

- *Effective period*. The contract took effect on 1 January 2007 and will expire on 31 December 2015.

- *Rights and obligations*. The supplier is required to supply, and we have committed to purchase, a fixed quantity of virgin polysilicon in each calendar year beginning in 2008. Such quantities were determined by arm's length negotiation between the parties, taking into account our requirements for raw materials and the international major supplier's production capacity during the relevant period. If we are unable to fulfill the minimum purchase commitment in any calendar year, the amount of advance payment in respect of that particular calendar year will be forfeited to the supplier. The long-term supply agreement with Major International Supplier A does not expressly stipulate that our Group will be subject to any other liabilities should our Group fail to meet the minimum purchase commitment. We rely on our contractual rights under the long-term supply contract to ensure that the supplier will honour its commitments under the contract.

- *Advance payment*. We are required to make two advance payments, the amounts of which were determined after arm's length negotiation between the parties based on the total purchase price and generally represent a certain fixed percentage of the total purchase price for the minimum quantity of purchases over the contract period. These two advance payments were made in 2006 and 2007, respectively, and we have not suffered any material loss of such advance payments.

- *Pricing and settlement terms*. The virgin polysilicon will be sold at various fixed prices. Such prices are subject to adjustments by a certain fixed amount in accordance with changes in an energy price index. Despite the decrease of market prices of polysilicon, the parties agreed not to adjust the contracted prices to maintain our good commercial relationship. Further, the prices we paid for our purchases of polysilicon under this long-term supply contract were below the prevailing market spot prices for polysilicon during 2008 and the six months ended 30 June 2009 but higher than the market average for long-term contract prices for polysilicon for 2008 and 2009, according to Solarbuzz. We are invoiced for each delivery and each invoice amount is reduced by the advance payments we made on a pro-rata basis. The credit period for our purchases with this supplier is 30 days.

- *Goods return policy*. We may return our purchases of the virgin polysilicon within 5 days of receipt if the shipment does not conform to the quantity ordered or the agreed specifications.

- *Security Interest.* Pursuant to the long term supply contract with this Major International Supplier, our Group granted to Major International Supplier A a continuing security interest in the virgin polysilicon supplied by Major International Supplier A and in the proceeds of sale or insurance of such virgin polysilicon until the entire purchase of such virgin polysilicon and if applicable, all late payments, interest and expenses necessary to enforce such security interest, are paid. Major International Supplier A has the right to take all necessary measures to create, perfect, preserve and enforce the security interest.

- *Termination and renewal*. The contract does not contain any renewal clause, and does not stipulate the circumstance of when the advance payments made can be refunded. It terminates at the end of the contractual period. Other than the forfeiture of any advance payments in accordance with the terms of the contract, the contract does not stipulate any specific compensation or penalty for early termination.

- *Confidentiality*. We are subject to confidentiality obligations under the contract and may not publicly disclose details of the contract without the prior consent of Major International Supplier A. For this reason, we are unable to disclose certain commercially sensitive information, such as the amount and percentage of our total purchases from Major International Supplier A and our annual minimum purchase commitment under the contract, in this document.

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

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

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

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

- *Effective period*. The contract took effect on 2 April 2008 and will expire on 31 December 2015.

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

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

- *Advance payment*. We were required to make two advance payments in 2008. Further, we are required to make one advance payment in 2009 and another one by 30 September 2010 in accordance with an agreed schedule, which were determined after arm's length negotiation between the parties based on the total purchase price and generally represent a certain fixed percentage of the total purchase price of our purchases of virgin polysilicon over the contract period. The outstanding balance of advance payments are generally not refundable, except in limited circumstances, which include termination of the contract by mutual agreement, breach of contract by Major International Supplier B, bankruptcy or insolvency of Major International Supplier B and Major International Supplier B's inability to deliver products to us. We have made the advance payments in accordance with the said schedule, and we have not suffered any material loss with respect to such advance payments made.

- *Pricing and settlement terms*. The virgin polysilicon are sold to us at various fixed prices. Such prices are subject to adjustments with reference to an agreed formula taking into account of Major International Supplier B's average purchase prices of metallurgical silicon and electricity and changes in the exchange rate of the Korean Won (the purchase price will only be adjusted upward if the Korean Won appreciates against the U.S. dollar), and generally track the production cost of Major International Supplier B. Despite the decrease of market prices of polysilicon, no such adjustment to the contracted prices has been made since the commencement of the contractual period as mutually agreed between us and Major International Supplier B. Pursuant to an amendment agreement that we entered into with Major International Supplier B, Major International Supplier B however agreed to lower the prices of virgin polysilicon sold to us under the long-term supply contract. We and Major International Supplier B did not rely on the originally agreed formula to lower the contracted prices, primarily due to the preference of both parties to apply a meaningful approach to price adjustment to reflect changes in the prevailing market conditions for polysilicon as a result of the global financial crisis. The originally agreed formula, however, remains to be a binding term of the long-term supply contract. Based on our communication with Major International Supplier B, we believe it is likely that any future adjustment to the contract prices will be based on mutual negotiation between us and Major International Supplier B. We are invoiced 14 days before each delivery and are expected to pay within seven days before the date of delivery. Each invoice amount will be reduced by the advance payments we made on a pro-rata basis.

- *Goods return policy*. We may return our purchases of the virgin polysilicon within 45 days of receipt if the shipment does not conform to the agreed specifications.

- *Termination and renewal*. Pursuant to the long-term supply contract, the contract may be terminated (i) by mutual agreement; (ii) for breach of the terms and conditions therein; (iii) due to bankruptcy or insolvency in either party; (iv) if, having exerted commercially reasonable efforts, Major International Supplier B believes that it is unable to deliver the products; (v) by Major International Supplier B at its sole discretion if our Group produces polysilicon or acquires a producer of polysilicon; or (vi) if our Group undergoes a change of control. The contract does not expressly stipulate any compensation or penalty specifically for early termination of the contract by any party, except as mentioned above. Nonetheless, except when the contract is terminated due to Major International Supplier B's inability to deliver the products, the expiry or termination of the contract does not relieve the parties of any obligations accruing prior to such termination.

- *Confidentiality*. We are subject to confidentiality obligations under the contract and may not publicly disclose details of the contract without the prior consent of Major International Supplier B. For this reason, we are unable to disclose certain commercially sensitive information, such as the amount and percentage of our total purchases from Major International Supplier B and our annual minimum purchase commitment under the contract, in this document.

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

We have been able to fulfill the minimum purchase requirements under the long-term supply contract with Major International Supplier A since the contract had become effective due to our rapid expansion strategies and the increase in our sales orders. We experienced an increase in our sales volume of our solar products from approximately 7.8 MW in 2006 to approximately 44.3 MW in 2008 and from approximately 18.2 MW for the six months ended 30 June 2008 to approximately 25.8 MW for the six months ended 30 June 2009. As at the Latest Practicable Date, the aggregate annual minimum purchase commitments of our Group under all of our long-term supply contracts are approximately 36,000 kg in 2008, 76,000 kg in 2009, 256,000 kg in 2010, 296,000 kg in 2011 and 366,160 kg from 2012 to 2015. We have purchased approximately 24,000 kg polysilicon, amounted to RMB12.9 million in 2009 up to the Latest Practicable Date. Despite the recent economic turmoil, our Directors believe that we will be able to meet the minimum purchase requirements in the future, including the year ended 31 December 2009 based on our current production capacity because our production volume has not been materially affected by the recent economic turmoil and our rapid expansion plan. As at the Latest Practicable Date, the quantity of polysilicon yet to be purchased under our long-term supply contracts for 2009 was less than one fourth of our estimated polysilicon requirement for the remaining period of 2009 and the purchase of a vast majority of such quantity has been scheduled for 2009. Further, our purchases of polysilicon for the year ended 31 December 2008 and the six months ended 30 June 2009 were approximately 223,608 kg and 205,681 kg, respectively, and we plan to expand our production capacity from 55 MW at the end of 2008, to 200 MW by the end of November 2009 and 504 MW by the end of June 2010. Since our Group's requirements for polysilicon will generally increase in proportion to our capacity expansion, the aggregate minimum purchase commitments as mentioned above are expected to be lower than our Group's requirements for polysilicon in each year.

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

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

Short-term supply contracts

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

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

- *Effective period.* The contract took effect on 7 July 2009 and 29 July 2009, and will expire on 31 December 2009 and 31 October 2009, respectively.

- *Rights and obligations.* Major International Supplier B is required to supply, and we have committed to purchase, fixed quantities of virgin polysilicon in the period from 7 July 2009 to 31 December 2009. We also rely on our contractual rights under these short-term supply contracts to ensure that Major International Supplier B will honour its commitments under the contracts on the other hand. Either party can turn to arbitration institutions for remedies.

- *Advance payment.* We are required to pay for every delivery under these short-term supply contracts in full at least seven days prior to the date of delivery.

- *Pricing and settlement terms.* The virgin polysilicon will be sold at various fixed prices which are lower than the market prices of virgin polysilicon as at the date of these short-term supply contracts. We entered into an amendment agreement to one of these short-term supply contracts in August 2009, which lowered the contracted price for some of the virgin polysilicon that will be delivered to us. The adjusted contract price was lower than the then prevailing market price for polysilicon. Delivery will be made upon payment by us.

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

- *Termination and renewal.* The contracts do not contain any renewal or termination clause.

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

Spot purchases

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

Purchases from our customers

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

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

Recyclable silicon

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

SALES AND MARKETING

Major customers

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

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

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

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

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

Monocrystalline solar wafers

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

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

Long-term sales contract with Suntech

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

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

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

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

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

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

- *Goods return policy.* Suntech is responsible to inspect the goods within 7 days of delivery by us. If Suntech is not satisfied with the quality of the goods delivered, Suntech shall notify us within 30 day of delivery of such dissatisfaction. Upon confirmation by us that the delivered goods do not conform to the agreed specifications, we shall replace such defective goods within 7 days. Whether the delivered goods conform to the agreed specifications is determined by a set of standard tests agreed to by both parties. The long-term sales contract does not have other goods return provision.

- *Termination and renewal*. The agreement will be automatically renewed for one year, unless either party gives written notice to the other to terminate the agreement prior to 30 days before the expiry of the relevant term of the agreement.

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

Short-term sales contracts

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

Monocrystalline Solar Ingots

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

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

Semiconductor products

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

Processing services

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

Pricing

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

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

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

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

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

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

Prior to the fourth quarter of 2008, prices of polysilicon have been rising at a higher rate than prices for our solar products. The average unit price per kg of polysilicon procured by us increased by 77.8% from 2006 to 2007, 99.8% from 2007 to 2008. The average unit price of our solar wafers, in RMB per Watt, increased by 6.1% from 2006 to 2007, and decreased by 2.3% from 2007 to 2008. We experienced a general decrease in our gross profit margin during the Track Record Period, as the prices of polysilicon increased at a higher rate than the prices of our solar products from 2006 to the third quarter of 2008 and as the prices of our solar products fell at a faster rate than prices of polysilicon since the fourth quarter of 2008 when the financial crisis and the global economic downturn started to significantly impact us. Due to the recent financial crisis and the deteriorated worldwide economic conditions, our customers have bargained for lower prices with us and we have had to reduce the selling prices of our solar products since November 2008. As a result, the average unit selling price of our 125 mm by 125 mm solar wafer products decreased from RMB16.6 per Watt for the year ended 31 December 2008, to RMB6.8 per Watt for the six months ended 30 June 2009, and the average unit selling price of our 156 mm by 156 mm solar wafer products decreased from RMB17.8 per Watt for the year ended 31 December 2008, to RMB6.5 per Watt for the six months ended 30 June 2009.

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

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

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

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

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

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

Payment terms

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

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

Marketing

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

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

1. the recent establishment of our Glboal operation to explore market opportunities in the U.S. to further diversify our customer base;

2. our plan to set up a liaison office in U.S. to strengthen our market presence; and

3. our plan to recruit 12 additional sales staff to be based in Shanghai to further strengthen our sales and marketing capability and to solicit more sales orders from our existing and potential customers.

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

1. our participation in two industry trade shows in Germany and the U.S. in May 2009 and July 2009, respectively to increase our exposure in the international market;

2. our participation in two industry trade shows in the PRC and Taiwan in May 2009 and October 2009, respectively to increase our exposure in the Asia market; and

3. having sent our product samples to more than 10 potential customers during 2009 as at the Latest Practicable Date in an effort to attract new customers by impressing such potential customers with the quality of our solar products.

QUALITY ASSURANCE

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

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

to test the different aspects of our solar products, we have adopted methodologies such as, testing the appearance by conducting visual measurements and testing the size, type, resistivity and dislocation by utilising measuring tapes, polarity pens, resistivity instruments and microscopes respectively. We conduct a final inspection of our solar products prior to shipment to our customers. We have experienced a limited level of quality-related product returns from our customers in the past. We will continue to work with our customers to address all quality-related issues quickly and efficiently. The rate of return of our solar products based on total revenue was less than 2% for each of the years ended 31 December 2008 and the six months ended 30 June 2009.

We have received numerous certificates and qualifications including the following:

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

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

Note:

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

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

RESEARCH AND DEVELOPMENT

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

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

Our current research and development projects include:

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

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

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

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

INTELLECTUAL PROPERTY

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

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

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

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

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

COMPETITION

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

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

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

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

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

EMPLOYEES

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

As part of our expansion plan, we plan to hire approximately 200 employees from July to November 2009 and approximately another 495 employees from January to June 2010. Since July 2009, we have hired 147 new employees as at the Latest Practicable Date.

Set forth below is our recruitment plan:

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

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

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

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

According to 《中華人民共和國勞動合同法》(The Labor Contract Law of the PRC) (the "New Labour Law") effective as of 1 January 2008, greater duties are imposed on employers which impacts the cost of an employer's decision to reduce its workforce. Further, it requires certain terminations to be based upon seniority and not merit. If our Group decides to significantly change or decrease our workforce in the PRC, the New Labour Law could adversely affect our ability to enact such changes in a manner that is most advantageous to our circumstances or in a timely and cost effective manner, thus our results of operations could be adversely affected. Our Group has updated our labour contracts according to the New Labour Law, and there is no immediate impact on the operation and financial condition of our Group following the implementation of the New Labour Law.

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

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

ENVIRONMENTAL MATTERS

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

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

In May 2009, Comtec Solar was fined by Shanghai Naihui Bureau of Environmental Protection for RMB40,000 for the over-discharging of polluted water. We settled the fine on 25 May 2009 and we have proper procedures in place for the discharging of polluted water to ensure compliance with the relevant laws and regulations and have instructed our production personnel of these procedures in order to avoid over-discharging of polluted water in the future.

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

We believe that there are no environmental protection laws and regulations which may adversely affect our production in any material respect, and we are currently in compliance in all material aspects with all applicable environmental laws and regulations. However, according to《中華人民共和國水污染防治法》(The Law of the PRC on Prevention and Control of Water Pollution) (the "New Water Pollution Law") amended on 28 February 2008 and effective on 1 June 2008 and other relevant laws and regulations of the PRC and the Shanghai Municipal, any enterprise discharging waste water or pollutants into waters is required to seek approval from the relevant environmental protection authorities, and any discharging of waste water or pollutants without prior approval is strictly prohibited. Under the New Water Pollution Law, a system of more stringent penalties is imposed against enterprises which violate environmental protection laws or standards.

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

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

LABOUR AND SAFETY MATTERS

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

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

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

- we must be sufficiently equipped to ensure safe production in order to engage in production and business operation activities;

- we are required to offer education and training programs to our employees regarding production safety;

- the design, manufacture, installation, use, checking, maintenance, repair and disposal of our safety equipment are required to conform with applicable national or industrial standards; and

- we are required to provide our employees with labour protection equipment that meet applicable standards, to educate them to wear or use such equipment according to the prescribed rules and to supervise them to ensure that they are using such equipment.

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

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

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

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

PROPERTIES

Owned properties

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

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

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

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

Leased properties

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

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

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

Our leased properties contributed to all of our production capacity for the year ended 31 December 2006 and the nine months ended 30 September 2007, and contributed to approximately 8.4 MW on an annualised basis, which represents approximately 15.3% of our total production capacity for the three months ended 31 December 2007, year ended 31 December 2008 and the six months ended 30 June 2009. The revenues and profits contribution from our Group's leased properties during the Track Record Period were generally in proportion to their production capacity contribution. We have transferred the majority of our operations to our owned property since October 2007. As at the Latest Practicable Date, we are not aware that we are being sued by any parties on our rights to occupy the leased properties. In the event that our occupancy of these properties during the lease term is challenged and we are required to evacuate from these premises, we plan to relocate such operations and move our equipment in such leased properties to our owned

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

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

Borrowed properties

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

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

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

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

INSURANCE

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

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

INTERNAL CONTROL

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

- *Board committees.* Audit, remuneration and nomination committees had been set up. All of these committees have at least two-thirds of its members being independent non-executive Directors, who are able to draw on their experience with respect, to the compliance with applicable legal, regulatory, accounting and financing requirements. Our audit committee will oversee our internal control procedures and review our financial reporting processes.

- *Code of conduct.* An employee manual has been adopted to ensure that our staff are in compliance with ethical standards and to maintain our Group's best practices for staff integrity in protecting the commercial interests of our Group. The employee manual sets forth the ethical standards and code of conduct that our employees are required to follow, including areas such as the protection of trade secrets and confidential information, conflict of interests, guidelines on work safety and the appropriate means of communications among our employees and our Group. In addition, it details our personnel management system, including our recruitment process and our policies and procedures regarding training, salaries and benefits, and handling of employees' complaints. Each employee is required to understand the content of the employee manual and agree to comply with the rules and guidelines set forth therein. We have adopted stringent internal policies for our employees in relation to possible infringement of labour discipline. Warning letters would be issued to employees who have violated our guidelines. For repeated violations or more serious violations, our Group has the right to terminate its employment relationship with such employees. During the Track Record Period, our Group has not terminated the employment of any employee for repeated or more serious violations. The employees may be required to pay for any damages that they have caused as a result of their violation of the guidelines. We will also regularly review the employee manual and update it as appropriate from time to time to ensure that changes to our Group's human resources policies and procedures are properly communicated to our employees.

- *Delegation of authority.* Our senior management is comprised of heads of various business units, which are in charge of the actual implementation of corporate strategies, business development and the daily operation of business. Various business units provide support to our senior management for the overall management and performance of our Group. Our CEO and CFO approved and adopted a set of guidelines to delegate roles and responsibilities to each senior manager, who in turn report directly to our CEO. These guidelines will also ensure that business decisions are made and executed with proper approval.

- *Centralised planning and approval process.* The production plans of all the manufacturing facilities of our Group are made and approved centrally by our senior management and the managers of each production facility are responsible for the execution of these production plans. We strive to utilise our resources and optimise operating efficiency by implementing a centralised coordination of the capacities and production schedules of our manufacturing facilities. In addition, our centralised approval process strengthens our control over the operations of our manufacturing facilities and streamlines our production processes. Our CEO, Mr. Zhang, and our CFO, Mr. Chau Kwok Keung, are responsible for supervising our approval process. The head of our manufacturing department, Mr. Wu Cheng Xian, who is a member of the senior management of our Group, also has the authority to approve production plans of our manufacturing facilities.

- *Human capital management.* We have guidelines for our human resources department, which include guidelines on employee recruitment and termination procedures.

- *Financial control.* We have established a set of policies to govern various financial reporting systems with appropriate segregation of duties, which includes accounting policies, inventory stock-take policies, cash and treasury management policies and production costing policies. We adopted and will continue to implement a customer appraisal program in which we review our customers' payment records each month as an internal control measure to monitor our trade receivables and assess each customer's credibility. In addition, our accounting and finance department comprising professionals in the areas of accounting and finance, which is headed by our CFO, will be responsible for preparing tax filings for our Group in the relevant jurisdictions and engaging tax professionals as necessary to ensure compliance with the relevant tax laws and regulations. Mr. James J. Wang, our COO, is responsible for the proper implementation of the customer appraisal program.

- *Information security.* In order to ensure the secure flow of information in our office network, we will continue to enhance the security of our information systems by setting up a firewall and renewing our anti-virus software, and perform on-going risk assessment on information security related matters. Our CEO and CFO are responsible for supervising the on-going risk assessment process.

- *Fixed assets policies.* We have implemented a series of policies to monitor our fixed assets, including policies and procedures relating to additions and disposals of fixed assets, stock-taking, maintenance of fixed assets and determining whether a fixed asset is obsolete. In general, additions of fixed assets need to be approved by our CEO and disposals of fixed assets need to be approved by both our CEO and CFO. Newly acquired fixed assets and facilities must pass our inspection procedures prior to operation. Our management determines the residual value, useful lives and related depreciation charges for our property, plant and equipment. Obsolete fixed assets must be inspected and approved prior to being written off. Prior to disposal or sale, the fixed assets must be examined and the amounts for the assets must be settled to ensure the accuracy of the residual values. Upon stock-taking, the estimated value and useful lives of the fixed assets should be recorded on our book records. Our CFO is responsible for the implementation of our stock-taking policies and procedures. Fixed assets count and fixed assets impairment analysis are performed annually.

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

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

(i) we will continue to review and strengthen our internal control system measures and ensure that they will continue to be adequate and effective in light of our business expansion, and provide a stronger basis for detecting potential breaches in the future;

(ii) we will also regularly review our legal compliance and identify potential areas where improvement can be made to improve the risk awareness of our employees and their understanding of internal control issues;

(iii) in order to continue to enhance our corporate governance and keep abreast of development and changes in the applicable legal, regulatory, accounting and financing requirements, we have engaged and will continue to engage external professionals from time to time, including our compliance adviser, external legal counsel, auditors, internal control consultants and other advisers as necessary, who will report directly to our Board on the status of compliance matters of our Group and any specific compliance related issues; and

(iv) all our Directors had attended the training sessions conducted by our legal advisers on the on-going obligations and duties of a director of a company whose [●], and they will continue to ensure that they are kept current with developments in applicable legal and regulatory requirements which are relevant to their responsibilities as directors of a [●] and attend on-going training sessions if necessary.

LEGAL COMPLIANCE AND PROCEEDINGS

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

The SAFE Notice requires PRC domestic residents who can either be domestic resident legal entities or domestic resident individuals to register with the local SAFE branches before setting up or controlling special purpose companies overseas. As defined in the SAFE Notice, a domestic resident individual is a natural person who holds a resident identity card, a passport or other lawful identity certificate of the PRC, or a natural person who has no legal identity within the PRC but habitually resides inside the PRC due to economic interests. As confirmed by Mr. Zhang, he has no permanent residence within the PRC, does not hold any domestic interest of enterprises established within the PRC, since Comtec Solar, Comtec Semi and Comtec Electronics are incorporated as wholly foreign-owned companies, and became a U.S. national before investing in the PRC. Therefore, our PRC legal advisers, Commerce & Finance Law Offices, advise that the SAFE Notice does not apply to the holding of interests by Mr. Zhang in our subsidiaries established outside of the PRC.

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

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

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

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

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

DIRECTORS

Our board of directors is responsible and has general powers for the management and conduct of our business. The following table sets forth information regarding members of the board of directors of our Company:

Name	Age	Position
John Zhang	46	Chairman, CEO and executive Director
Chau Kwok Keung	33	CFO, company secretary and executive Director
Shi Cheng Qi	66	CTO and executive Director
He Xin	39	Non-executive Director
Leung Ming Shu	33	Independent non-executive Director
Daniel DeWitt Martin	71	Independent non-executive Director
Kang Sun	54	Independent non-executive Director

Executive Directors

Mr. John Zhang, aged 46, was appointed as an executive Director of our Company on 13 November 2007 and he is the chairman of our Board and our CEO, responsible for the overall strategy and operation of our Group. He spent approximately three years from 1996 to 1999 in preparation for the establishment of our Group and founded our Group in December 1999 and principally devotes his time and resources to the development and operation of our Group, particularly in the areas of production, business development and general management. Mr. Zhang has accumulated over ten years of experience in the semiconductor and solar industries from both his founding and development of our Group and his prior professional experience. Prior to founding our Group, Mr. Zhang joined Silicon Systems Inc. which was a semiconductor technology company in California, U.S., in 1992 as an engineer and was responsible for developing and designing communication firmware used in silicon chips. Mr. Zhang graduated from 清華大學 (Tsinghua University) in July 1985 with a Bachelor's degree in Electrical Engineering and from Utah State University with a Master's degree in Electrical Engineering in August 1988.

Mr. Chau Kwok Keung, aged 33, was appointed as our executive Director on 13 June 2008 and he is our CFO and company secretary, responsible for corporate financial and general management. He joined us in November 2007. Mr. Chau has extensive experience in finance and corporate management, which enables him to competently carry out his corporate finance and general management responsibilities in our Group. Prior to joining us, Mr. Chau served in various positions at China.com Inc., a company listed on the Stock Exchange (Stock Code: 8006) from October 2005 to October 2007, including vice president of the finance department, chief financial officer, company secretary and authorised representative. Prior to joining China.com Inc., he was the deputy group financial controller of China South City Holdings Limited from August 2003 to April 2005 and the financial controller of Shanghai Hawei New Material and Technology Co., Ltd. from June 2002 to August 2003. From January 2001 to June 2002 , Mr. Chau Kwok Keung was employed by Andersen & Co. initially as an experienced staff accountant and then he was subsequently promoted to be a senior consultant in the Global Corporate Finance Division of Andersen & Co. in March 2002. Mr. Chau brings extensive financial and general management experience accumulated from the abovementioned prior roles to us. Mr. Chau has been a fellow member of the Association of Chartered Certified Accountants since June 2002, a member of Hong Kong Institute of Certified Public Accountants since July 2005 and a Chartered Financial Analyst of CFA Institute since September 2003. Mr. Chau received a bachelor's degree in Business Administration from the Chinese University of Hong Kong in May 1998.

Mr. Shi Cheng Qi, aged 66, was appointed as our executive Director on 13 June 2008 and he is our CTO, responsible for production, technology and research and development. He joined us in June 2000 to set up the first facility of Comtec Semi and worked as the assistant chief engineer, responsible for the setup of operating standards and departmental policies, and the organisation, implementation and management of technology development plans. From July 2002 to April 2005, he served as a consultant to Comtec Semi and provided our Group with technical consultation and support on its manufacturing process. During this period, he also assisted Mr. Zhang in coordinating and monitoring the activities of our Group's technical team. Mr. Shi re-joined our Group on a full-time basis in April 2005 and has since been responsible for overseeing the technology department, and was formally appointed as our CTO in October 2007. He is in charge of the production technology and equipment design of our Group. Mr. Shi has over 30 years of experience in semiconductor, solar and materials engineering, which was accumulated from the multiple engineering and management positions held by Mr. Shi in the production, technology and research and development departments of 上海半導體材料廠 (Shanghai Semiconductor Materials Factory) in the PRC from 1969 to 2000. He was accredited by 上海市有色金屬總公司 (Shanghai Non-Ferrous Metals Company) as a senior engineer in March 1993 based on the review and evaluation of 高級評審委員會 (senior appraisal committee) of Shanghai Non-Ferrous Metals Company taking into account Mr. Shi's professional expertise, study capabilities, management capabilities and his past professional experience.

Non-executive Director

Mr. He Xin, aged 39, was designated by CMTF and appointed as our non-executive Director on 1 April 2008. The terms of directorship of Mr. He are substantially the same as those of the other Directors. Mr. He is currently an investment manager of the International Business Department at China Merchants Securities Co. Ltd. and he was a senior manager of the Equities Sales & Trading Department at China Merchants Securities Co. Ltd. from 2006 to 2008. Prior to 2006, Mr. He spent approximately seven years from 1997 at Ming River Investments (Australia) Pty. Ltd. as the owners' representative of Mercure Hotel Lawson City West in Sydney. Mr. He has extensive experience in the area of venture capital and business development from his roles mentioned above and therefore he can provide advice to our Group on compliance, corporate governance, development and business strategies. Mr. He obtained a Bachelor's Degree in Mechanic Engineering from the 北京交通大學 (Beijing Jiao Tong University), formerly known as 北方交通大學 (Northern Jiao Tong University), in July 1992, a Master's Degree in International Business from Wollongong University Australia in December 1999, and a Master's of Business Administration from the University of Technology, Sydney in May 2002. Please refer to the section headed "Corporate Investor — Principal terms — Preferential rights" for further information.

Independent non-executive Directors

Mr. Leung Ming Shu, aged 33, was appointed as our independent non-executive Director on 13 June 2008. Mr. Leung is currently the CFO, qualified accountant and company secretary of China ITS (Holdings) Co., Ltd. Mr. Leung is experienced in the areas of corporate finance and accounting from his various roles detailed below. From November 2006 to January 2008, Mr. Leung served as the CFO of Beijing Lingtu Spacecom Technology Co., Ltd, a subsidiary of Beijing Lingtu Software Co., Ltd, a PRC digital mapping and navigation software company. From February 2006 to October 2006, Mr. Leung served as the CFO of Beijing Xinwei Telecom Technology Co., Ltd, a related party of 大唐電信科技股份有限公司 (Datang Telecom Technology Co., Ltd, a company listed on the Shanghai Stock Exchange) which is engaged in the development of a telecommunications standard and the manufacturer of telecommunications equipment. Prior to that, Mr. Leung spent approximately three years from February 2003 at CDC Corporation, a NASDAQ-listed company, as a senior manager in the mergers and acquisitions department, and as the CFO

of China.com Inc., a subsidiary of CDC Corporation and a company listed on the Stock Exchange. Mr. Leung started his professional career at PricewaterhouseCoopers in Hong Kong in auditing in 1998, and subsequently worked at the global corporate finance division of Arthur Andersen & Co. in Hong Kong, which subsequently merged with PricewaterhouseCoopers, until December 2000. From July 2001 to February 2003, he also worked as a business consultant in Market Catalyst International (Hong Kong) Limited, where he advised companies on issues of strategy, organisation and operations. Mr. Leung obtained a First Class Honours Bachelor's degree in accountancy from the City University of Hong Kong in June 1998 and a Master's degree in accountancy from the Chinese University of Hong Kong in November 2001. He is a Fellow of the Association of Chartered Certified Accountants since February 2007 and a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants since March 2006.

Mr. Daniel DeWitt Martin, aged 71, was appointed as our independent non-executive Director on 31 July 2009. Mr. Martin is currently the executive vice president of Semiconductor Equipment & Materials International since 1998. Mr. Martin is mainly responsible for the global standards development activity, and leading Semiconductor Equipment & Materials International into the photovoltaic industry. From July 1984 to March 1996, he worked in Siltec Corporation (Mitsubishi Silicon America) as the vice president of operations, mainly responsible for manufacturing, process engineering, facilities engineering, facilities and equipment maintenance,etc. Mr. Martin graduated from Washington State University in June 1961 and received a bachelor degree in Physical Metallurgy.

Mr. Kang Sun, aged 54, was appointed as our independent non-executive Director on 31 July 2009. Mr. Sun is currently the president and chief executive officer of RayTracker Inc., Pasadena, California, USA and a venture partner of WI Harper Group, San Francisco, California USA. Prior to that, Mr. Kang worked as the president and chief operating office and director of the board of JA Solar Holding Ltd, China, a company listed on NASDAQ (Code: JASO) managing director of new business development at Applied Materials Inc., USA, the vice president of Microfabrica Inc., the vice president of Honeywell International Inc., USA and the general manager of Optical Devices Business, AlliedSignal Inc., USA, respectively. Mr. Sun received a Ph.D. degree in Materials Science from Brown University, USA in 1988, a M.S. degree in Physical Chemistry from University of Georgia, USA in 1983 and a B.S. degree in Polymer Chemistry from 南京大學 (Nanjing University), China in 1978.

Our non-executive Director and independent non-executive Directors provide advice to us on compliance, corporate governance, development and business strategies.

Save a disclosed above, there are no other matters concerning all our Directors' appointment that need to be brought to the attention of the Shareholders and the Stock Exchange and there are no other matters which shall be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

SENIOR MANAGEMENT

Mr. James J. Wang, aged 47, is the COO of our Company. He joined our Group in April, 2009 and is mainly responsible for our business development in the PRC and overseas market. Prior to joining Comtec Solar, he was employed for over 10 years by multiple companies in U.S. and China in various senior business management positions, including Sr. Director of business development at JA Solar (NSDQ: JASO), a solar cell manufacturing company; vice president of China Operations at Legend Semiconductor Manufacturing Corp., an IC chip foundry company; and China director of operations at Lam Research Corporation (NADQ: LRCX), a U.S. semiconductor equipment manufacturing company. James received his master of engineering degree in Precision Mechanical Engineering from Tokyo Institute of Technology, Tokyo, Japan in 1988.

Ms. Jane Wu, aged 41, is our President of Global Operation of our Company. She joined our Group in July 2009 and is mainly responsible for the business development in the U.S. Our main business activities in the U.S. is to explore market opportunities in the U.S. Ms. Wu has more than 15 years experience in business development in the semiconductor industry. Prior to joining our Group, she worked in multiple companies in various positions, including the president in eVillage Solar, a system integration company focusing on commercial, military and utility market; the vice president of business development of JA Solar (NSDQ: JASO), a solar cell manufacturing company; senior management of new business development group in Applied Materials, Inc., a world largest semiconductor, display and solar processing equipment manufacturer, etc. Ms. Jane Wu is a member of board of directors of North America Chinese Semiconductor Association. She received a bachelor degree in Solid State Physics from 上海科學技術大學 (Shanghai University of Science and Technology), which is now 上海大學 (Shanghai University), in July 1990.

Mr. Wu Cheng Xian, aged 62, is the vice general manager and the head of our manufacturing department. He is mainly responsible for stipulating and implementing manufacturing plan, supervising quality control, coordinating manufacturing and the operations of the other departments in our Group. He joined us in October 2008. Mr. Wu has approximately 40 years of experience in the related industry. Prior to joining us, Mr. Wu worked as the vice general manager in 麥斯克電子材料有限公司 (MCL Electronic Materials Co. Ltd.) from October 1999 to September 2008, responsible for daily manufacturing and sales, quality control and human resources management. He worked in 洛陽單晶硅廠 (Luoyang Monocrystalline Silicon Factory), which is now 洛陽單晶硅有限責任公司 (Luoyang Monocrystalline Silicon Co., Ltd.) from August 1968 to September 2008, as the manufacturing department head and then promoted to vice general manager in February 1994, responsible for daily manufacturing and sales of semiconductor materials, quality control and human resources management. Mr. Wu studied in 建德冶金工業學校 (Jiande Metallurgy Industrial School), which is now 嘉興學院 (Jiaxing Institute) since September 1963, majoring in Statistics and graduated in August 1968 with a secondary technical school degree. Mr. Wu received a junior college degree in Statistics in December 1988 by National self-taught examination. Mr. Wu was appraised as the senior economist in November 2006 by 中國有色金屬工業協會 (China Nonferrous Metals Industry Committee) according to nonferrous metals industry credential requirements.

Ms. Yi Xin, aged 33, is the head of our import and export department. She is mainly in charge of importing and exporting and keeping communication documents with our customers. She joined us in July 2002. Ms. Yi has over five years of experience in the trading industry and she is in charge of our imports and exports. Prior to joining us, Ms. Yi Xin worked in the marketing department of 上海智率醫療器械有限公司 (Shanghai Intelligent Medical Apparatus Company Limited) responsible for market survey and analysis from February 2000 to July 2002. Ms. Yi received a junior college degree in economy and trading from 上海冶金高等專科學校 (Shanghai College of Metallurgy), which is now 上海應用技術學院 (Shanghai Institute of Technology) in July 1997.

Ms. Zhu Hao, aged 41, is the head of our human resources and administration department. She is mainly responsible for our daily administrative management, human resources management and coordinating with our suppliers. She joined us in March 2004. Ms. Zhu has approximately seven years of experience in the human resources and administrative functions. Prior to joining us, Ms. Zhu Hao was the office manager of 易學(上海)咨詢有限公司 (Yi Xue (Shanghai) Consulting Co., Ltd.) from May 2000 to October 2001. She was the office manager of 上海優異科技有限公司 (Shanghai Youyi Science and Technology Co., Ltd.) from April 2002 to February 2003. During the period she served as the office manager, she was mainly responsible for human resources management. She was the purchasing clerk of 格蘭吉斯(上海)鋁業有限公司 (Granges Shanghai Aluminum Co., Ltd.) from November 1998 to May 2000. Ms. Zhu majored in economy and management at 華東師範大學 (East China Normal University) and graduated in July 1988.

Mr. Hu Ru Quan, aged 41, is the head of our crystal pulling department. He is mainly responsible for quality control and manufacturing costs control. He has been with us since March 2000 and was not with our Group between March 2006 and July 2006 due to family reasons. Mr. Hu rejoined our Group in July 2006. Mr. Hu has about 15 years of experience in the semiconductor and silicon material industry. Prior to joining us, he worked as the cutting operator and was responsible for cutting wafers in 上海半導體材料廠 (Shanghai Semiconductor Factory) from March 1991 to March 2000. Mr. Hu Ru Quan obtained a junior college diploma in law from 中央廣播電視大學 (China Central Radio and TV University) in July 2007.

Mr. Cheng Yu Wei, aged 57, is the head of our equipment department. He joined us in October 2000. Mr. Cheng has approximately 15 years of experience in the electrical engineering industry. Prior to joining us, he worked in 中南地質勘查局實業公司 (Zhongnan Geological Prospecting Bureau Industrial Company) as an electrical engineer in 1992 and as a vice chief engineer in 1993. From June 1994 to December 1996, Mr. Cheng worked as an engineer in 中南金剛石工業公司 (Zhongnan Diamond Industry Co., Ltd.). Mr. Cheng majored in electrical engineering of 湖北廣播電視大學 (Hubei TV & Radio University) and graduated in July 1987.

COMPANY SECRETARY

Details of the qualifications and experience of Mr. Chau Kwok Keung are set out in the paragraph headed "Executive Directors" in this section. Mr. Chau Kwok Keung is employed on a full-time basis as required under Rule 3.24 of the Listing Rules and he is ordinarily resident in Hong Kong as required under Rule 8.17 of the Listing Rules.

MANAGEMENT CONTINUITY OF OUR GROUP DURING THE TRACK RECORD PERIOD

The business of our Group has been managed and operated under substantially the same management throughout the Track Record Period. In particular, Mr. Zhang, an executive Director of our Company, the chairman of our Board and our CEO, as well as Mr. Shi, our executive Director and CTO, are considered to be the two individuals who are most relevant and responsible for our Group's track record results. Mr. Zhang and Mr. Shi had also been and are continued to be supported by a team of experienced senior managers of various business units. In order to more effectively manage our Group's operation and ensure that business decisions are made and executed with proper approval, Mr. Zhang has personally reviewed and approved guidelines to delegate roles and responsibilities to each of these senior managers. These senior managers directly report to Mr. Zhang.

Mr. Zhang principally devotes his time to the development and operation of our Group, and is responsible for the overall management, strategic development and planning, marketing and major decision making of our Group. During the Track Record Period, except the sole proprietorship business carried on under the trade name of Comtec Ltd and the business operations of Comtec Electronics, Mr. Zhang was not involved in any other business or employment. For each of the years during the Track Record Period, Mr. Zhang spent a majority of his time physically in the PRC to manage the Group's business given that his investment in our Group represents a majority of his personal assets. Mr. Zhang's involvement in the Relevant Business was primarily to support our Group's business, and such business has ceased since July 2008. During the Track Record Period, Mr. Zhang was a director of his wholly-owned company in PRC, Comtec Electronics, whose principal business activities consisted of sales of electronic products, semiconductors and related products, provision of processing services, installation and support services. Despite Mr. Zhang's ownership and directorship in Comtec Electronics, as Comtec Electronics was only a trading company with limited operations, Mr. Zhang did not need to allocate much time or resources to

Comtec Electronics during the Track Record Period. On the basis of the above, we believe that Mr. Zhang's shareholding and directorship in Comtec Electronics did not affect and will not affect his time and other resources allocated to our Group. Since the Relevant Business ceased in July 2008 and Comtec Electronics became dormant in April 2008, Mr. Zhang has been able to devote even more of his time and resources to our Group. It is anticipated that Mr. Zhang will continue to allocate a majority of his time in the PRC after the [●] to manage the Group's business and discharges his duties as a Director of our Company.

Apart from Mr. Zhang, Mr. Shi also played an instrumental role in the continued growth of our Group during the Track Record Period. Mr. Shi joined us in June 2000 to set up the first facility of Comtec Semi and from July 2002 to April 2005, he served as a consultant to Comtec Semi under a temporary consultancy arrangement primarily due to health reasons, which made it unsuitable for him to serve our Group as a full-time employee, and provided our Group with technical consultation and support on its manufacturing process. During this period, he also assisted Mr. Zhang in coordinating and monitoring the activities of our Group's technical team. Our Group's business and operations were not affected by Mr. Shi's absence as a full-time employee, because Mr. Shi continued to keep in close contact with our Group during such period. Mr. Shi rejoined our Group in April 2005 and had since been instrumental in the development of our Group in his position as the head of the technology department throughout the Track Record Period. During his time with our Group, Mr. Shi has been the most senior member of the management team responsible for production technology and design and has been formally appointed as our CTO in October 2007.

RESTRICTED SHARES GRANT TO DIRECTOR

A total of 3,877,058 restricted Shares ("Restricted Shares") were granted to Mr. Chau Kwok Keung, an executive Director, at nil consideration for the purpose of giving him an opportunity to have a personal stake in us and to motivate him to optimise his performance and efficiency, and also to retain him as our employee whose contributions are important to our long-term growth and profitability. While share options are most commonly used in a company's incentive compensation program, restricted share awards are outright grants of shares subject to vesting restrictions, which are intended to induce performance as the grantee will immediately become a shareholder of the company and will be entitled to voting and receiving dividends. We therefore consider that Mr. Chau's economic interest would be more appropriately aligned with that of the other Shareholders of our Company if Mr. Chau's compensation package is structured in a way that will also include the grant of Restricted Shares.

The grant of Restricted Shares to Mr. Chau was approved by written resolutions of the Shareholders dated 2 June 2008 and 3 August 2009 and the Company's Cayman Islands legal advisers, Conyers Dill & Pearman, have advised the Company that Mr. Chau became a legal owner of the Restricted Shares when his name was entered in our share register on the same date in accordance with section 38 of the Companies Law. Immediately after the Corporate Reorganisation, the [●] (assuming the [●] is not exercised) and the [●], the Restricted Shares would represent approximately 1.0% of our total share capital. Under the terms of the grant, the Restricted Shares may not be sold, transferred by gift, pledged or otherwise transferred or disposed prior to the date when the Restricted Shares become vested pursuant to the vesting schedule. All Restricted Shares granted to Mr. Chau shall be vested in the following manner:

(i) Shares representing 1/4th of the Restricted Shares shall vest immediately after our Company reported an annual net profit after tax (based on audited and consolidated financial statements of the relevant financial year in accordance with IFRS) of RMB500 million or more for any financial year ("First Vesting").

(ii) Shares representing the remaining 3/4th of the Restricted Shares shall vest thereafter in equal quarterly instalments of 1/4th of the Restricted Shares at the end of each three-month period after the First Vesting.

Mr. Chau has undertaken to both our Company and the [●] that, amongst others, he will not dispose of or enter into any agreement to dispose of any Restricted Shares at any time prior to the [●] pursuant to Rule 9.09 of the Listing Rules and under no circumstance would such lock-up be released prior to the [●].

Other than the transfer restrictions as set out above, Mr. Chau will not be subject to any other transfer restrictions or lock-up arrangement in respect of the Restricted Shares after the [●].

RESTRICTED SHARES GRANT TO SENIOR MANAGEMENT

Mr. James J. Wang, our COO and Ms. Jane Wu, our President of Global Operation were each granted a total of 2,917,590 restricted Shares by our Company, at nil consideration for the purpose of giving them an opportunity to have a personal stake in us and to motivate them to optimise their performance and efficiency, and also to retain them as our employees whose contributions are important to our long-term growth and profitability. The grant of these restricted Shares was approved by written resolutions of the Shareholders dated 3 August 2008, and the terms of the grant are as follows:

(a) under the terms of the grant, the restricted Shares issued to the members of senior management on 2 June 2008 and 3 August 2008 may not be sold, transferred by gift, pledged or other transferred or disposed prior to the date when the Restricted Shares become vested pursuant to the vesting schedule.

(b) all restricted Shares granted shall be vested in the following manner:

(i) Shares representing 1/4th of the restricted Shares shall vest immediately after our Company reported an annual net profit tax (based on audited and consolidated financial statement of the relevant financial year in accordance with IFRS of RMB500 million or more for any financial year ("First Vesting")).

(ii) Shares representing the remaining 3/4th of the restricted Shares shall vest thereafter in equal quarterly instalments of 1/4th of the restricted Shares at the end of each three-month period after the First Vesting.

[●] SHARE OPTION SCHEME

We have adopted the [●] Share Option Scheme to motivate our employees to optimise their performance, efficiency and future contributions to our Group and to reward them for their past contributions to our Group. The principal terms of the [●] Share Option Scheme were approved by written resolutions of the Shareholders dated 2 June 2008. Options to subscribe for an aggregate of 230,000 Shares were granted on 3 August 2009 at an original subscription price per Share of HK$6.27.

The terms of the [●] Share Option Scheme require, in the event of any alteration to the capital structure of our Company including by way of capitalization of profits or reserves, adjustments to be made to, among other things, the aggregate number of Shares subject to any option that have been granted under the [●] Share Option Scheme but have not, at the time, been exercised. We therefore granted, conditional upon the

completion of the [●], an additional amount of options to subscribe for an aggregate of 344,020 Shares on 2 October 2009. The total number of Shares which may be issued upon the exercise of options granted under the [●] Share Option Scheme is therefore 574,020 Shares (the "Underlying Shares"), representing (i) approximately 0.057% of the issued share capital of our Company immediately after the completion of the [●] and the [●] (without taking into account any Shares which may be allotted and issued upon the exercise of any options which have been granted under the [●] Share Option Scheme or which may be granted under the Share Option Scheme or the exercise of the [●]); and (ii) approximately 0.057% of the issued share capital of our Company immediately after the completion of the [●] and the [●] and assuming that all options granted under the [●] Share Option Scheme are exercised at the same time (without taking into account any Shares which may be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme or the exercise of the [●]). Assuming that all the options granted under the [●] Share Option Scheme had been exercised in full and that 1,000,574,020 Shares, comprising 1,000,000,000 Shares to be in issue immediately after the [●] and the [●] and 574,020 Shares to be issued upon the exercise of all the options granted under the [●] Share Option Scheme, were deemed to have been in issue, but not taking into account any Shares which may be allotted and issued upon the exercise of the [●] or any option which may be granted under the Share Option Scheme, this will have a dilutive effect of approximately 0.057% on the shareholding of each of our shareholders in our Company. As at the Latest Practicable Date, none of the options granted under the [●] Share Option Scheme had been exercised by the grantees.

Pursuant to the [●] Share Option Scheme and the relevant offer letters in respect of the grant of options:

(i) [●]; and

(ii) all options granted under the [●] Share Option Scheme can only be exercised in the following manner: (a) Shares representing 1/12th of the Underlying Shares shall vest on 1 November 2009; and (b) from 1 November 2009 onwards, the remaining 11/12th of the Underlying Shares shall vest in equal quarterly instalments of 1/12th of the Underlying Shares at the end of each there-month period quarterly subject to continued employment with our Company during that period and all other terms and conditions as described in the [●] Share Option Scheme. No option holder shall in any way sell, transfer, assign, charge, mortgage, encumber or create any interest in favour of any third party over or in relation to any options or purport to do so.

Our Directors have undertaken to our Company that they will not exercise options granted under the [●] Share Option Scheme to such extent that the Shares held by the public (as defined in the Listing Rules) after the [●] and the [●] will fall below the required percentage set out in Rule 8.08 of the Listing Rules or such other percentage as approved by the Stock Exchange from time to time.

Please refer to the section headed "[●] Share Option Scheme" in Appendix VI to this document for further details of the [●] Share Option Scheme.

SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Scheme, the purpose of which is to motivate the relevant participants to optimise their future contributions to our Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such participants who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of our Group. Additionally, in the case of the executive Directors and senior management of our Group, to enable our Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions. The principal terms of this scheme are summarised in the paragraph headed "Share Option Scheme" in Appendix VI to this document.

MANAGEMENT PRESENCE IN HONG KONG

Rule 8.12 of the Listing Rules requires that a new applicant applying for [●] must have a sufficient management presence in Hong Kong. This normally means that at least two of its executive directors must be ordinarily residents in Hong Kong. Since we carry on a significant part of our business operations in the PRC and all of our manufacturing facilities are also located in the PRC, our head office and senior management members are and will therefore continue to be based in the PRC. Our Group does not carry on any business nor do we have any other form of presence in Hong Kong. At present, Mr. Chau Kwok Keung, an executive Director, CFO, company secretary and authorised representative of our Company, is the holder of a Hong Kong permanent identity card and will be an ordinary resident in Hong Kong upon [●], but none of the other executive Directors is a Hong Kong resident or based in Hong Kong. We have applied to the Stock Exchange for a waiver from the strict compliance with the requirement under Rule 8.12. For details of the waiver, please refer to the section headed "Waivers from Strict Compliance with the Listing Rules — Management Presence" in this document.

OUR RELATIONSHIP WITH STAFF

We recognise the importance of a good relationship with our employees. The remuneration payable to our employees includes salaries and allowances. We have not experienced any significant problems with our employees or disruption to our operations due to labour disputes, nor have we experienced any difficulties in the recruitment and retention of experienced staff. Our Directors believe that we have a good working relationship with our employees. In addition, we continue to provide training to our staff to enhance their skills and knowledge. The scope of our training covers topics such as the basic knowledge of polysilicon, mechanical drawing, quality standard of solar wafer, operation procedures in polysilicon workshop and solar ingots, and manufacturing safety. Our training programs are designed and conducted by a selected group of employees from our various departments who are either managers or senior engineers with many years of related professional experience. These training sessions are typically conducted on a monthly basis.

We have not experienced any significant problems with our employees or disruption to our operations due to labour disputes, nor have we experienced any difficulties in the recruitment and retention of experienced staff. Our Directors believe that we have a good working relationship with our employees.

BOARD COMMITTEES

Audit committee

We established an audit committee pursuant to a resolution of our Directors passed on 2 October 2009 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C3 of the Code on Corporate Governance Practices set out in Appendix 14 of the Listing Rules. The primary duties of

the audit committee are mainly to make recommendation to the Board on the appointment and removal of external auditor; review the financial statements and material advice in respect of financial reporting; oversee our internal control procedures. At present, our audit committee consists of three members who are Mr. Leung Ming Shu, Mr. Daniel DeWitt Martin and Mr. Kang Sun, all of whom are independent non-executive Directors of our Company. Mr. Leung Ming Shu is the chairman of the audit committee.

Remuneration committee

We established a remuneration committee on 2 October 2009 with written terms of reference in compliance with paragraph B1 of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules. The primary duties of the remuneration committee are to make recommendation to the Board on the overall remuneration policy and structure relating to all Directors and our senior management; review performance based remuneration; ensure none of our Directors determine their own remuneration. The remuneration committee consists of three members, namely Mr. Zhang, Mr. Kang Sun and Mr. Leung Ming Shu, and the latter two of whom are independent non-executive Directors. Mr. Zhang is the chairman of the remuneration committee.

Nomination committee

We established a nomination committee on 2 October 2009. The nomination committee consists of three members, comprising Mr. Zhang, Mr. Daniel DeWitt Martin and Mr. Kang Sun. The chairman of the nomination committee is Mr. Zhang. The primary function of the nomination committee are to make recommendations to the Board regarding candidates to fill vacancies on the Board.

DIRECTORS' AND SENIOR MANAGEMENT REMUNERATION

The remuneration of our Directors and senior management is determined with reference to their experience, responsibility, workload and the time devoted to us. We will also take into account factors including our operating performance, financial position and business development plan. During 2006, 2007, 2008 and the six months ended 30 June 2009, respectively, the aggregate of the remuneration paid and benefits in kind granted to our Directors and senior management by us and our subsidiaries was approximately RMB343,000, RMB683,000, RMB35,339,000 and RMB1,431,000, respectively. No directors' emoluments were paid to Mr. Zhang for each of the three years ended 31 December 2008 and the six months ended 30 June 2009 as a result of the management's discretionary decision. Mr. Chau Kwok Keung is entitled to a pay rise of RMB50,000 per month after the [●] pursuant to his employment agreement as CFO of our Company. Other than the pay rise for Mr. Chau, we currently do not have any plan for a pay rise to our Directors and senior management after the [●], which is however subject to review from time to time, and we estimate that the aggregate remuneration payable to, and benefits in kind receivable by, our Directors (excluding discretionary bonus) and the senior management by us for the year ended 31 December 2009 will be approximately RMB3.9 million. For further information on our Directors' remuneration, please refer to the section headed "Further information about the Directors" in Appendix VI of this document.

No retirement benefit contributions were paid to the Directors during the Track Record Period. Our PRC legal advisers, Commerce & Finance Law Offices, confirmed that pursuant to the relevant PRC laws and regulations, the PRC subsidiaries do not have to make retirement benefit contributions to Mr. Zhang and Mr. Chau as under the relevant PRC laws and regulations, they are not considered to have any labour relationship with our PRC subsidiaries. Commerce & Finance Law Offices also confirmed that our PRC subsidiaries are not obliged to make retirement benefit contributions to Mr. Shi Cheng Qi because Mr. Shi joined the Group

after he had passed the PRC statutory retirement age. In respect of all the other Directors, each of them was appointed as a director of our Company in 2008 or 2009 and retirement benefit contributions are not required to be made with the PRC governmental agencies under the relevant PRC laws and regulations during the Track Record Period. We have not entered into any agreement with our Directors which would specifically require us to make any retirement benefit contributions to them. Our the Cayman Islands legal adviser, Conyers Dill & Pearman, has advised us that subject to any agreement between our Company and our Directors to the contrary, there is no requirement under the Cayman Islands law for us to make any retirement benefit contribution for our Directors during the Track Record Period. Our Hong Kong legal adviser, Orrick, Herrington & Sutcliffe, has also advised us that there is no similar requirement under Hong Kong laws.

COMPLIANCE ADVISER

We appointed Piper Jaffray Asia Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance adviser will advise us on the following matters:

(i) the publication of any regulatory announcement, circular or financial report;

(ii) where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;

(iii) where we propose to use the proceeds of the [●] in a manner different from that detailed in this document or where its business activities, developments or results deviate from any forecast, estimate, or other information in this document; and

(iv) [●].

The term of the appointment shall commence on the [●] Date and end on the date on which we distribute our annual report in respect of our financial results for the first full financial year commencing after the [●] Date and such appointment may be subject to extension by mutual agreement.

SHARE CAPITAL

The authorised share capital of our Company is as follows:

		HK$
Authorised share capital:		
7,600,000,000	Shares	7,600,000

CONTROLLING AND SUBSTANTIAL SHAREHOLDERS

SUBSTANTIAL SHAREHOLDERS

Each of the following persons will, immediately following completion of the [●] and the [●] (without taking into account the Shares which may be issued upon the exercise of the [●] or Shares which may be issued pursuant to the exercise of any options granted under the [●] Share Option Scheme or which may be granted under the Share Option Scheme), have an interest or short position in Shares or underlying Shares which would be required to be disclosed to us and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group:

Name	Capacity/Nature of interest	Number of Shares	Approximate percentage of shareholding
Mr. Zhang [1]	Beneficial owner, interest in controlled corporation, interest of spouse and interest of children	[●]	[●]

Note:

1 Mr. Zhang legally owns the entire issued share capital of Fonty, which beneficially own 564,037,844 Shares. Mr. Zhang is therefore deemed to be interested in all the Shares held by Fonty. Mr. Zhang is also deemed to be interested in 99,829,706 Shares for the purposes of the SFO, which are beneficially owned by Mr. Zhang, Mr. Zhang's spouse and descendents, as beneficiaries of JZ GRAT. Mr. Zhang's child is under the age of 18.

Save as disclosed herein, our Directors are not aware of any person who will, immediately following the [●] and the [●], have an interest or short position in Shares or underlying Shares which would be required to be disclosed to us and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at our general meetings.

CONTROLLING SHAREHOLDERS

Immediately after completion of the [●] and the [●], the Controlling Shareholders will, together, control the exercise of voting rights of approximately [●] of the Shares eligible to vote in the general meeting of our Company (assuming the [●] is not exercised). Save and except for their interest in our Company, neither the Controlling Shareholders have any interest in any other companies as at the Latest Practicable Date which (i) had previously held any interests in our business during the Track Record Period; and (ii) had ceased to hold such interests after the Corporate Reorganisation.

NON-COMPETITION UNDERTAKING

Each of the Controlling Shareholders (the "Covenantor") has entered into a deed of non-competition in favour of our Company, pursuant to which the Covenantor has undertaken to our Company (for himself/itself and for the benefit of his/its subsidiaries) that he/it would not, whether on his/its own or together with any third party, and would procure that his/its associate(s) (except any members of our Group) would not, during the restricted period set out below, directly or indirectly, either on his/its own account or in conjunction with or on behalf of any person, firm or company, among other things, carry on, participate or be interested or engaged in or acquire or hold (in each case whether as a shareholder, partner, principal, agent, director,

employee or otherwise) any business which is or may be in competition with the business of any member of our Group from time to time (the "Restricted Business"). Such non-competition undertaking does not apply to holding shares of a company whose shares are listed on a recognised stock exchange and whose business includes any Restricted Business provided that:

(i) the Restricted Business conducted or engaged in by such company (and assets relating thereto) accounts for less than 10% of its consolidated turnover or consolidated assets, as shown in its latest audited accounts; or

(ii) the total number of the shares held by the Covenantor and/or his/its associate(s) in aggregate does not exceed 5% of the issued shares of that class of the company in question and the Covenantor and/or his/its associate(s) are not entitled to appoint a majority of the directors of that company and at any time there should exist at least another shareholder of that company whose shareholdings in that company should be more than the total number of shares held by the Covenantor and his/its associate(s) in aggregate.

If we decide and offer to invest, participate, be engaged in and/or operate any Restricted Business with the Covenantor and/or his/its associate(s) (or any of them, as the case may be), pursuant to (i) above, the Covenantor and/or his/its associate(s) can invest, participate, be engaged in and/or operate such Restricted Business with us. We will comply with the requirements of the Listing Rules in case of such cooperation with the Covenantor and/or his/its associate(s) (or any of them, as the case may be).

The "restricted period" stated in the Non-competition Deed refers to the period during which (i) our [●]; and (ii) the Covenantor and/or his/its associate(s), individually or jointly, are entitled to exercise or control the exercise of not less than 30% in aggregate of the voting power at general meetings of our Company.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

As at the Latest Practicable Date, neither the Controlling Shareholders nor our Directors carried on, was engaged or had any interest in any business which competes or is likely to compete, either directly or indirectly, with our business which is discloseable under Rule 8.10 of the Listing Rules.

Having considered the following factors, our Directors believe that we are capable of carrying on its business independently of our Controlling Shareholders and their respective associates after the [●].

Management Independence

Our Board comprises three executive Directors, one non-executive Director and three independent non-executive Directors. One of our executive Directors and the chairman of the Board, Mr. Zhang, is a Controlling Shareholder of our Group. Mr. Zhang is also a director of Fonty. We rely on Mr. Zhang for his experience in the monocrystalline solar wafer industry. Despite Mr. Zhang's directorship in Fonty, given the nature of Fonty being an investment vehicle of Mr. Zhang for his ownership in our Company and that Fonty has no business operation of its own other than its ownership of the Shares in our Company, it is not necessary for Mr. Zhang to devote a material amount of time to discharge his duty as a director of Fonty. For these reasons, we believe that Mr. Zhang's directorship in Fonty will not affect his discharge of director duties as a Director of our Company.

Save as disclosed above, no other Controlling Shareholder holds any directorship in our Company.

Each of our Directors is aware of his or her fiduciary duties as a Director which require, among other things, that he or she acts for the benefit and in the best interests of our Group and does not allow any conflict between his or her duties as a Director and his or her personal interests. As stipulated in the Articles of Association, in the event that there is a potential conflict of interest between our Group and our directors or their respective associates arising out of any transaction, the interested Director shall abstain from voting and not be counted in the quorum on any resolution of the Board in respect of such transaction. In addition, we have an independent senior management team to carry out the business decisions of our Group independently.

Having considered the above factors, and in light of the fact that the Controlling Shareholders have signed the Non-competition Deed, our Directors are satisfied that they are able to perform their roles in our Group independently and are of the view that they are capable of managing the business of our Group independently after the [●].

Operational Independence

We have established our own set of organisational structure made up of individual departments, each with specific areas of responsibilities, having independent access to sources of supplies or raw materials for production as well as customers. We have also established a set of internal controls to facilitate the effective operation of our business. For details of our internal controls, please refer to the section headed "Business — Internal Control" in this document.

Prior to the Corporate Reorganisation, Mr. Zhang used Comtec Ltd as a trade name in the U.S. to carry on business as a sole proprietor, which performed sourcing and trading activities for Comtec Semi and Comtec Solar. Mr. Zhang has ceased to carry on the Relevant Business since July 2008. After the said cessation, all of the business functions of Comtec Ltd are succeeded by Comtec Solar (HK). Mr. Zhang has ceased to use his trade name Comtec Ltd to carry on any business activity, including any business related to solar wafer production or sale, which would directly or indirectly compete with our business. Comtec Ltd, being only a trade name and not a separate legal entity, does not form part of our Group after the Corporate Reorganisation.

Comtec Electronics also made purchases, mainly electronic parts, from our Group during the Track Record Period, as Comtec Electronics had not imported such products from other sources. However, such purchases ceased when Comtec Electronics became dormant in April 2008. Comtec Electronics is not included in our Group for the purpose of the [●] and became dormant because it was a trading business mainly focused on electronic products and electronic parts instead of ingots or wafers, which was a different line of business from our Group, and Mr. Zhang would like to focus on the main business of solar wafers and ingots. There is no business plan for Comtec Electronics going forward. Comtec Electronics recorded net losses during the Track Record Period. Our Directors are of the opinion that these losses are immaterial as compared with the scale of operations of our Group.

In addition, our Directors consider that our operations do not depend on the operations of our Controlling Shareholders for the following reasons:

(i) there is no competing business between our Group and any of our Controlling Shareholders;

(ii) there is no connected transaction between any of our Controlling Shareholders or their associates and any member of our Group; and

(iii) we are not relying on any guarantee provided by any of our Controlling Shareholders in respect of bank loans nor have we been given any guarantee for the benefit of any of our Controlling Shareholders.

On the basis of the matters described in this section, we believe that we are capable of carrying on our business independently of our Controlling Shareholders and their respective associates. Our Group, our Controlling Shareholders and their associates do not have any common, nor shared, facilities or resources during the Track Record Period and up to the Latest Practicable Date.

Financial Independence

We have independent internal control and accounting systems, accounting and finance department, treasury function for cash receipts and payments, and access to third party financing. We make financial decisions according to our own business needs.

The amount due to a Director, Mr. Zhang, representing advances from Mr. Zhang to our Group for working capital, was RMB0.8 million, RMB5.0 million, nil and nil as at 31 December 2006, 2007, 2008 and 30 June 2009, respectively. The amount due from Mr. Zhang as at 31 December 2006, 2007 and 2008, representing receivables from him for the increase in paid-in capital of Comtec Solar, was RMB4.9 million, RMB62.1 million, nil, respectively. The amount due from Mr. Zhang as at 30 June 2009 was RMB9.7 million, representing advance by our Group to Mr. Zhang and was non-trade in nature. As at the Latest Practicable Date, the amount due from Mr. Zhang has been fully settled.

During the Track Record Period, an amount of RMB61,000 were due to Comtec Electronics as at 31 December 2006. Our Director and Controlling Shareholder, Mr. Zhang, is the sole shareholder of Comtec Electronics. As at 31 December 2007, an amount of RMB650,000 was due from Comtec Electronics. As at the Latest Practicable Date, the amount due from Comtec Electronics was fully settled in cash by Comtec Electronics.

At 31 December 2006 and 31 December 2007, banking facilities granted to our Group of RMB2.0 million and RMB20.0 million, respectively. The facilities as of 31 December 2006 and 31 December 2007 were secured by personal guarantee from Mr. Zhang, and the personal guarantee from Mr. Zhang had however been released in June 2008. Save and except for such personal guarantee, we are not relying on any guarantee provided by any of our Controlling Shareholders in respect of bank loans nor have we been given any guarantee for the benefit of any of our Controlling Shareholders.

Our Directors confirm that as at the Latest Practicable Date, loans provided by and guarantees from our Controlling Shareholders and their associates to our Group had been settled in full and released.

CORPORATE GOVERNANCE MEASURES

Our Company will adopt the following measures to manage the conflict of interests arising from the competing business and to safeguard the interests of the Shareholders:

(i) the independent non-executive Directors will review, on an annual basis, the compliance with the Non-competition Deed by the Controlling Shareholders under the Non-competition Deed;

(ii) the Controlling Shareholders undertake to provide all information requested by our Company which is necessary for the annual review by the independent non-executive Directors and the enforcement of the Non-competition Deed;

(iii) our Company will disclose decisions on matters reviewed by the independent non-executive Directors relating to compliance and enforcement of the Non-competition Deed of the Controlling Shareholders under the Non-competition Deed in the annual reports of our Company; and

(iv) the Controlling Shareholders will make an annual declaration on compliance with their undertaking under the Non-competition Deed in the annual report of our Company.

CORPORATE INVESTOR

BACKGROUND

On 18 March 2008, we entered into a subscription agreement with a financial investor, CMTF, and issued 11,212,019 Series A Shares to CMTF at a consideration of approximately US$20 million based on the post-investment equity valuation of US$494.5 million, which was determined through arm's length negotiations with reference to future earnings potential of our Company based on our historical and expected growth rate and the dynamics of the solar power industry. On 30 March 2009, we renegotiated the terms of the investment by CMTF in our Company given the economic downturn and therefore entered into a supplemental agreement with CMTF, pursuant to which we issued an additional 13,587,494 Series A Shares to CMTF credited as fully paid by the capitalization of HK$13,587.49 standing to the credit of the share premium account of our Company. As at the Latest Practicable Date, CMTF was holding a total of 24,799,513 ordinary Shares.

The proceeds from the investment by CMTF were approximately US$20 million, which were received by our Company on 18 March 2008. The main benefit of CMTF's investment in our Group was the availability of additional capital to finance the expansion of our production capacity and for our general working capital purposes.

INFORMATION REGARDING CMTF

CMTF is a company incorporated in the Cayman Islands and jointly owned by Tai Fook Fund Managers Limited ("TFML"), an indirect wholly-owned subsidiary of Taifook Securities Group, and by CMTF Asset Management Limited ("CMTF Asset Management"), which is owned as to 51% by China Merchants Securities Investment Management (HK) Co., Limited ("CMSIM") and 49% by TFML. CMTF is an investment fund managed by CMTF Asset Management. Taifook Securities Group is a subsidiary of NWS Holdings Limited, which is the infrastructure and service flagship of New World Development Company Limited and engaged in a diversified range of businesses in China, Hong Kong and Macau. Taifook Securities Group, NWS Holdings Limited and New World Development Company Limited are listed on the Stock Exchange. CMSIM is a wholly-owned subsidiary of China Merchants Securities Holdings (HK) Co., Limited, which is in turn wholly-owned by China Merchants Securities Group, a company principally engaged in the provision of a wide range of financial services in the Greater China Region. China Merchants Securities Group does not directly hold any shares in our Company and is therefore not a shareholder of our Company. CMTF is independent of, and not connected with, the directors, chief executives or substantial shareholders of our Company or any of our subsidiaries or any of their respective associates.

CORPORATE INVESTOR

PRINCIPAL TERMS

The principal terms of the investment by CMTF and the rights of CMTF as a holder of Series A Shares prior to their conversion into ordinary Shares are summarised as follows:

Conversion into ordinary shares

CMTF is entitled to convert their Series A Shares into such number of ordinary shares of HK$0.001 par value in the capital of our Company at the conversion ratio of one to one at any time prior to [●]. Unless CMTF chooses to convert their Series A Shares into ordinary shares of our Company before the completion of the [●], their Series A Shares will be converted automatically into the same number of ordinary shares upon the completion of the [●].

On 25 September 2009, the 24,799,513 Series A Shares held by CMTF were converted to 24,799,513 ordinary Shares of our Company on the basis of one series A Share for one Share.

Upon the completion of the [●], CMTF will be holding a total of 61,893,203 Shares, representing approximately 6.2% shareholding in our Company, assuming the [●] is not exercised and there are no diluting issuances by our Company such as consolidation, subdivision and capitalisation of our Shares.

The price per Share paid by CMTF was approximately US$0.32 (equivalent to approximately HK$2.53) (the "**Entry Price**").

The investment risks that CMTF was subject to when making the investment in our Company back in March 2008 was entirely different from the risks which the investing public may have to bear in the context of the [●]. The Entry Price reflected the illiquidity of the Shares and the historical financial performance of our Company. There was no assurances made to CMTF that a public market will ever exist for the Shares

Redemption of Series A Shares

The Series A Shares held by CMTF are not redeemable, except to give effect to a conversion into ordinary shares of our Company.

Lock-up

Upon our Company's request and pursuant to the terms of a lock-up undertaking, CMTF agrees not to sell, make any short sale of, loan, grant any option for the purchase of, or otherwise dispose of any securities of our Company, however or whenever acquired, without the prior written consent of our Company, as the case may be, for a period of 180 days from the [●] Date. The said lock-up undertaking does not provide for any specific condition under which such lock-up may be released and as of the Latest Practicable Date, there is no plan to release such lock-up.

Transfer restrictions

Should CMTF wish to transfer all or any part of its Series A Shares at any time prior to [●], CMTF shall obtain the prior written consent of our Company, unless it is a transfer to the ultimate beneficial owners of the Series A Shares or a wholly owned subsidiary of the transferor.

Voting rights

CMTF has the same voting rights as holders of ordinary Shares of our Company and votes together with them as a single class on all matters. CMTF is entitled to the number of votes equal to the number of ordinary Shares of our Company into which the Series A Shares that it held could be converted.

Preferential rights

Pursuant to the terms of a shareholders agreement that we entered into with CMTF on 18 March 2008 (the "**Shareholders Agreement**"), Fonty and CMTF agreed to vote or act with respect to their shares which they have control so as to elect one director to our Board, who is to be designated by CMTF or its affiliates. CMTF currently has one representative, Mr. He Xin, on our Board, which comprises seven Directors. The terms of directorship of Mr. He are substantially the same as those of the other Directors. Please refer to the paragraph headed "Further information about the Directors — Particulars of Directors' service contracts" for further information. CMTF has a duty to remove Mr. He, or any other director so designated, upon the termination of the Shareholders Agreement. However, neither CMTF nor our Company have plans to remove Mr. He from our Board upon [●].

CMTF have a right of first offer over the Shares proposed to be sold by our Company in the future. Such right of first offer however does not apply to Shares issued pursuant to the [●].

Our Company is required to provide CMTF with our financial statements periodically and such other information as it reasonably request from time to time in fulfillment of the regulatory requirements or compliance purpose, subject to CMTF continues to hold at least five percent (5%) of our existing share capital. In addition, our Group is required to provide CMTF with the bank statements of all of our bank accounts to CMTF and to notify CMTF if our bank balances fall below a specified minimum amount.

Upon the completion of the [●], the Shareholders Agreement shall terminate and the foregoing preferential rights of CMTF as a holder of Series A Shares shall cease to have effect. CMTF will thereafter have no special rights which are not generally available to other shareholders.

FINANCIAL INFORMATION

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.

FINANCIAL INFORMATION

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税法》 (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税法實施細則》(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税法實施細則》(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税法》(The Enterprise Income Tax Law of the PRC) and 《中華人民共和國企業所得税法實施條例》(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.

FINANCIAL INFORMATION

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	%	RMB'000	%
							(unaudited)			
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	%	RMB'000	%
							(unaudited)			
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.

PERIOD TO PERIOD COMPARISONS OF RESULTS OF OPERATIONS

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.

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.

FINANCIAL INFORMATION

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.

FINANCIAL INFORMATION

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.

FINANCIAL INFORMATION

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.

FUTURE PLANS

FUTURE PLANS

Please refer to the section headed "Business — Our Strategies" in this document for a detailed description of our future plans.

The following is the text of a report, prepared for the purpose of incorporation in this document, received from our auditors and reporting accountants, Deloitte Touche Tohmatsu.

Deloitte.
德勤

德勤・關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

[DATE]

The Directors
Comtec Solar Systems Group Limited
ICBC International Capital Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") regarding Comtec Solar Systems Group Limited, formerly known as Comtec Silicon Group Limited, (the "Company"), its subsidiaries and the Relevant Business (defined below, together with the Company and its subsidiaries hereinafter collectively referred to as the "Group") for each of the three years ended 31 December 2008 and the six months ended 30 June 2009 (the "Relevant Periods") for inclusion in the document of the Company dated 19 October 2009 (the "Document").

The Company was incorporated as an exempted company and registered in the Cayman Islands with limited liability under the Companies Law of the Cayman Islands on 13 November 2007. Pursuant to a group reorganisation as more fully explained in the paragraph headed "Corporate Reorganisation" in Appendix VI to the Document (the "Group Reorganisation"), the Company became the holding company of its subsidiaries on 31 December 2007.

The direct and indirect interests in the following subsidiaries comprising of the Group held by the controlling shareholder, Mr. John Zhang ("Mr. Zhang"), as at 31 December 2006 and held by the Company as at 31 December 2007, 31 December 2008, 30 June 2009 and the date of this report, are as follows:

Name of company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital at the date of this report	Attributable equity interest of the Group					Principal activities
			As at 31 December			As at 30 June	Date of this	
			2006	2007	2008	2009	report	
Comtec Semiconductor (Cayman) Limited (formerly known as New Genuine Limited) ("Comtec Semi (Cayman)")*	Cayman Islands 23 April 2007	US$2 *(Note 1)*	N/A	100%	100%	100%	100%	Investment holding

Name of company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital at the date of this report	Attributable equity interest of the Group					Principal activities
			As at 31 December			As at 30 June	Date of this	
			2006	2007	2008	2009	report	
Comtec Semiconductor (Hong Kong) Limited (formerly known as Winkle (Hong Kong) Limited) ("Comtec Semi (HK)")	Hong Kong 12 October 2007	HK$2 *(Note 1)*	N/A	100%	100%	100%	100%	Investment holding, provision of sourcing, invoicing and support services
Comtec Solar (Cayman) Limited (formerly known as Most Talent Limited) ("Comtec Solar (Cayman)")*	Cayman Islands 23 April 2007	US$2 *(Note 1)*	N/A	100%	100%	100%	100%	Investment holding
Comtec Solar (Hong Kong) Limited (formerly known as Star View (Hong Kong) Limited) ("Comtec Solar (HK)")	Hong Kong 12 October 2007	HK$2 *(Note 1)*	N/A	100%	100%	100%	100%	Investment holding, provision of sourcing, invoicing and support services
Jiangxi Comtec Solar Technology Co., Ltd. (formerly known as 真彩(南昌)科技實業有限公司 HK Truecolor Technologyical Industry Limited (Nanchang)) 江西卡姆克太陽能科技有限公司 ("Comtec Solar (Jiangxi)"))#	The People's Republic of China (the "PRC") 22 March 2006	USD6,064,000 *(Note 2)*	N/A	N/A	100%	100%	100%	Manufacturing and sales of semiconductors and solar products
Shanghai Comtec Semiconductor Co., Ltd. 上海卡姆丹克半導體有限公司 ("Comtec Semi")#	PRC 21 December 1999	US$4,040,000 *(Note 3)*	100%	100%	100%	100%	100%	Manufacturing and sales of semiconductors, solar wafers and related products
Shanghai Comtec Solar Technology Co., Ltd. 上海卡姆丹克太陽能科技有限公司 ("Comtec Solar")#	PRC 5 July 2005	US$18,500,000 *(Note 4)*	100%	100%	100%	100%	100%	Manufacturing and sales of solar wafers and related products

* Directly held by the Company

\# Wholly foreign-owned enterprise

Notes:

1. The issued and fully paid share capital remained unchanged from their respective date of incorporation/establishment to the end of each reporting period.

2. The issued and fully paid registered capital at 31 December 2008 and 30 June 2009 was US$64,000 and US$6,064,000, respectively.

3. The issued and fully paid registered capital at 31 December 2006, 31 December 2007, 31 December 2008 and 30 June 2009 was US$3,360,000, US$4,040,000, US$4,040,000 and US$4,040,000, respectively.

4. The issued and fully paid registered capital at 31 December 2006, 31 December 2007, 31 December 2008 and 30 June 2009 was US$5,000,000, US$18,500,000, US$18,500,000 and US$18,500,000, respectively.

The Company, its subsidiaries and the Relevant Business (as defined below) have adopted 31 December as their financial year end date.

Comtec Ltd is a trade name used by Mr. Zhang, the controlling shareholder and director of the Company. Comtec Ltd was registered as a trade name with Alameda County in California in the U.S. with Alameda County Clerk — Recorder's Office on 5 January 2007. Prior to its registration with Alameda County in California, Mr. Zhang carried on business as a sole proprietorship in the U.S. under the trade name of Comtec Ltd in various counties in California, including Santa Clara County and Nevada County, due to changes in his place of residence. The principal operations of Comtec Ltd from 1 January 2006 to 30 June 2008 were (1) the purchase of wafers manufactured with imported polysilicon feedstock from either one of Comtec Semi and Comtec Solar (the "Shanghai Subsidiaries") and then re-selling the wafers back to another Shanghai Subsidiary; (2) acting as the Group's arm of sourcing and sales of goods to outsider customers, including Shanghai Comtec Electronics Co., Ltd. ("Comtec Electronics"), which is a company wholly owned by Mr. Zhang during the Relevant Periods ((1) and (2) are collectively referred to as the "Relevant Business"); and (3) holding of entire equity interest in Comtec Solar on behalf of Mr. Zhang prior to the Group Reorganisation. On 30 June 2008, Comtec Solar (HK) has assumed the Relevant Business while Comtec Ltd ceased all operations on 30 June 2008 (the "Cessation"). All assets and liabilities, except for bank balance and taxation payable, have been settled before Comtec Ltd ceased its business on 30 June 2008. The remaining bank balance of Comtec Ltd, after settlement of current account with the shareholder, has been distributed to Mr. Zhang as a dividend on 30 June 2008. Since the taxation payable was derived from the assessable income of the Relevant Business conducted by Mr. Zhang with trade name of Comtec Ltd, the Group reimbursed Mr. Zhang for such tax liabilities of approximately RMB36,499,000 in September 2008 when Mr. Zhang filed his amended U.S. individual income tax returns for 2005 and 2006 and his individual income tax return for 2007 and of RMB4,801,000 in October 2009 when he will file his individual income tax return for 2008. Comtec Ltd, not being a separate legal entity, did not form part of the "to-be-listed" group comprising the Company and its subsidiaries.

The Company, its subsidiaries and the Relevant Business have been under the common control by Mr. Zhang throughout the Relevant Periods or since their respective date of incorporation, establishment or acquisition where this is a shorter period. For the purpose of this report, the Financial Information has been prepared to present the combined financial information of the Company, its subsidiaries and the Relevant Business for the Relevant Periods.

The statutory financial statements of Comtec Semi and Comtec Solar for each of the three years ended 31 December 2008 were prepared in accordance with relevant accounting principles and financial regulations applicable to enterprises established in the PRC (the "PRC GAAP") and were audited by Shanghai Acumen Certified Public Accountants Co., Ltd., a firm of certified public accountants registered in the PRC.

The statutory financial statements of Comtec Solar (Jiangxi) were prepared in accordance with the PRC GAAP and were audited by:

Periods covered	Certified Public Accountants registered in the PRC
Date of establishment to 31 December 2006 and the year ended 31 December 2007	Jiangxi Hua Wei Certified Public Accountants Co., Ltd.
Year ended 31 December 2008	Beijing Zhonglihong Certified Public Accountants Co., Ltd.

The statutory financial statements of Comtec Semi (HK) and Comtec Solar (HK) from their respective date of incorporation to 31 December 2008 were prepared in accordance with the Hong Kong Financial Reporting Standards and were audited by Joyce M.C Li & Co., a firm of certified public accountants registered in Hong Kong.

No statutory financial statements for the six months ended 30 June 2009 were prepared for Comtec Semi, Comtec Solar, Comtec Solar (Jiangxi), Comtec Semi (HK) and Comtec Solar (HK) as there is no such statutory requirement.

No audited financial statements have been prepared for the Company, Comtec Semi (Cayman) and Comtec Solar (Cayman) since their respective dates of incorporation because there is no statutory requirement to do so. For the purpose of this report, we have, however, reviewed all the relevant transactions of these companies since their respective dates of incorporation or establishment to the date of this report and carried out such procedures as we considered necessary for inclusion of the financial information relating to these companies. There is no statutory audit requirement for Comtec Ltd as the Relevant Business was conducted under the trade name of Comtec Ltd by Mr. Zhang.

For the purpose of this report, the directors of the Company have prepared the consolidated financial statements of the Group for the Relevant Periods (the "Underlying Financial Statements") in accordance with accounting policies which conform with International Financial Reporting Standards ("IFRS") and such Underlying Financial Statements have been audited by Deloitte Touche Tohmatsu CPA Ltd. in accordance with the International Standards on Auditing.

We have examined the Underlying Financial Statements in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The Financial Information set out in this report has been prepared from the Underlying Financial Statements, on the basis set out in note 1 of section E below. No adjustments have been made by us to the Underlying Financial Statements in preparing our report for the inclusion in the Document.

The Underlying Financial Statements are the responsibility of the directors of the Company who approved their issue. The directors of the Company are also responsible for the contents of the Document in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, on the basis of preparation set out in note 1 of Section E below, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Company as at 31 December 2007, 31 December 2008 and 30 June 2009 and of the Group as at 31 December 2006, 31 December 2007, 31 December 2008 and 30 June 2009, and of the consolidated results and consolidated cash flows of the Group for the Relevant Periods.

The comparative consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the six months ended 30 June 2008 together with the notes thereon have been extracted from the Group's financial information for the same period (the "30 June 2008 Financial Information") which was prepared by the directors of the Company solely for the purpose of this report. We have reviewed the 30 June 2008 Financial Information in accordance with the Hong Kong Standard on Review Engagement 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Equity" issued by the HKICPA. Our review of the 30 June 2008 Financial Information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we could become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the 30 June 2008 Financial Information. Based on our review, nothing has come to our attention that causes us to believe that the 30 June 2008 Financial Information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in the preparation of the Financial Information which conform with IFRS.

A CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Notes	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	6	135,416	349,064	762,103	331,184	184,253
Cost of sales		(68,243)	(190,166)	(530,802)	(168,114)	(165,653)
Gross profit		67,173	158,898	231,301	163,070	18,600
Other income	7	12,484	15,874	47,133	23,436	4,052
Other expenses	8	—	—	(80,285)	(14,578)	(1,468)
Distribution and selling expenses		(532)	(635)	(1,401)	(708)	(1,155)
Administrative and general expenses		(5,172)	(11,181)	(23,888)	(12,379)	(9,417)
Interest expenses in relation to bank loans wholly repayable within five years		(356)	(808)	(6,295)	(795)	(4,232)
Profit before taxation	9	73,597	162,148	166,565	158,046	6,380
Taxation	11	(9,762)	(14,797)	(35,086)	(29,638)	(1,950)
Profit for the year/period, attributable to the owners of the Company		63,835	147,351	131,479	128,408	4,430
		RMB cents	RMB cents	RMB cents	RMB cents	RMB cent
Earnings per share — Basic	13	18.14	27.06	23.54	30.30	0.62
— Diluted	13	N/A	N/A	23.54	30.30	N/A

B. CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		The Group				The Company		
		At 31 December			At 30 June	At 31 December		At 30 June
	Notes	2006	2007	2008	2009	2007	2008	2009
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets								
Property, plant and equipment	14	48,770	219,673	245,615	267,645	—	—	—
Prepaid lease payments — non-current	15	4,929	4,828	15,531	15,370	—	—	—
Investments in subsidiaries	16	—	—	—	—	—	174,564	185,004
Deposits paid for acquisition of property, plant and equipment	14	8,838	3,897	22,931	54,723	—	—	—
Advance to suppliers	17	45,346	81,177	183,305	180,811	—	—	—
Amounts due from subsidiaries	19	—	—	—	—	—	186,126	196,620
Deferred tax assets	20	59	22	6,551	4,816	—	—	—
		107,942	309,597	473,933	523,365	—	360,690	381,624
Current assets								
Inventories	21	37,488	33,647	33,083	63,784	—	—	—
Trade and other receivables	22	5,582	43,903	92,824	55,104	—	2,242	3,165
Bills receivable	22	—	—	—	35,604	—	—	—
Advance to suppliers	17	1,948	15,739	45,538	34,285	—	—	—
Prepaid lease payments — current	15	101	101	322	322	—	—	—
Amount due from a shareholder	23	4,851	62,056	—	9,727	—	—	—
Amounts due from subsidiaries	19	—	—	—	—	—	7,503	5,451
Amount due from a related company	24	—	650	—	—	—	—	—
Taxation recoverable	29	—	—	6,470	—	—	—	—
Bank balances and cash	25	75,770	150,088	165,091	145,077	—	13,990	1,879
		125,740	306,184	343,328	343,903	—	27,735	10,495
Current liabilities								
Trade and other payables	26	11,557	97,265	108,788	130,947	—	23,192	23,544
Customers' deposits received	27	93,215	148,971	202	207	—	—	—
Amount due to a shareholder	28	835	5,000	—	—	—	—	—
Amount due to a related company	24	61	—	—	—	—	—	—
Amounts due to subsidiaries	19	—	—	—	—	—	—	—
Taxation payable	29	17,723	31,698	5,103	4,801	—	—	—
Short-term bank loans	30	2,000	20,000	140,000	163,500	—	—	—
		125,391	302,934	254,093	299,455	—	23,192	23,544
Net current assets (liabilities)		349	3,250	89,235	44,448	—	543	(13,049)
Total assets less current liabilities		108,291	312,847	563,168	567,813	—	361,233	368,575
Capital and reserves								
Paid-in capital/share capital	31	67,607	—	239	239	—	239	239
Preferred share capital	32	—	—	11	22	—	11	22
Reserves	34	40,684	148,201	559,667	564,086	—	360,983	368,314
Total equity		108,291	148,201	559,917	564,347	—	361,233	368,575
Non-current liabilities								
Deferred tax liabilities	20	—	—	3,251	3,466	—	—	—
Promissory notes	35	—	164,646	—	—	—	—	—
		—	164,646	3,251	3,466	—	—	—
		108,291	312,847	563,168	567,813	—	361,233	368,575

C. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Paid-in capital/ share capital	Preferred share capital	Share premium	Share options reserve	Restricted shares reserve	Special reserve	Statutory/ discretionary surplus reserve	Retained profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (note 33(b))	RMB'000 (note a)	RMB'000 (note b)	RMB'000	RMB'000
At 1 January 2006	33,280	—	—	—	—	—	694	5,552	39,526
Total comprehensive income for the year	—	—	—	—	—	—	—	63,835	63,835
Capitalisation of retained profits (note 37(a) of Section E)	5,249	—	—	—	—	—	—	(5,249)	—
Capital contributions	29,078	—	—	—	—	—	—	—	29,078
Transfer	—	—	—	—	—	—	618	(618)	—
Dividends paid	—	—	—	—	—	—	—	(24,148)	(24,148)
At 31 December 2006	67,607	—	—	—	—	—	1,312	39,372	108,291
Total comprehensive income for the year	—	—	—	—	—	—	—	147,351	147,351
Capitalisation of retained profits (note 37(a) of Section E)	48,439	—	—	—	—	—	—	(48,439)	—
Capital contributions	59,612	—	—	—	—	—	—	—	59,612
Transfer	—	—	—	—	—	—	5,403	(5,403)	—
Dividends paid	—	—	—	—	—	—	—	(2,407)	(2,407)
Special reserve arising on Group Reorganisation (note a below)	(175,658)	—	—	—	—	175,658	—	—	—
Deemed distribution to Mr. Zhang upon Group Reorganisation (note a below)	—	—	—	—	—	(164,646)	—	—	(164,646)
At 31 December 2007	—	—	—	—	—	11,012	6,715	130,474	148,201
Total comprehensive income for the year	—	—	—	—	—	—	—	131,479	131,479
Issue of new shares of the Company	239	11	305,097	—	(9,575)	—	—	—	295,772
Recognition of equity-settled share-based payments	—	—	—	41,932	—	—	—	—	41,932
Transfer	—	—	—	(41,932)	—	—	16,307	25,625	—
Deemed distribution to Mr. Zhang upon the cessation of the Relevant Business (note c below)	—	—	—	—	—	—	—	(6,411)	(6,411)
Dividends paid	—	—	—	—	—	—	—	(51,056)	(51,056)
At 31 December 2008	239	11	305,097	—	(9,575)	11,012	23,022	230,111	559,917
Total comprehensive income for the period	—	—	—	—	—	—	—	4,430	4,430
Issue of new shares of the Company	—	11	(11)	—	—	—	—	—	—
Transfer	—	—	—	—	—	—	25,703	(25,703)	—
At 30 June 2009	239	22	305,086	—	(9,575)	11,012	48,725	208,838	564,347
UNAUDITED									
At 1 January 2008	—	—	—	—	—	11,012	6,715	130,474	148,201
Total comprehensive income for the period	—	—	—	—	—	—	—	128,408	128,408
Issue of new shares of the Company	239	11	305,097	—	(9,575)	—	—	—	295,772
Recognition of equity-settled share-based payments	—	—	—	3,300	—	—	—	—	3,300
Transfer	—	—	—	—	—	—	16,307	(16,307)	—
Deemed distribution to Mr. Zhang upon the cessation of the Relevant Business (note c below)	—	—	—	—	—	—	—	(6,411)	(6,411)
Dividends paid	—	—	—	—	—	—	—	(51,056)	(51,056)
At 30 June 2008	239	11	305,097	3,300	(9,575)	11,012	23,022	185,108	518,214

Note:

a. Special reserve arising on Group Reorganisation/deemed distribution to Mr. Zhang upon Group Reorganisation

On 13 November 2007, the Company acquired the entire issued share capital of each of Comtec Solar (Cayman) and Comtec Semi (Cayman) which were previously held by Mr. Zhang. Comtec Solar (Cayman) and Comtec Semi (Cayman) hold the entire issued share capital of each of Comtec Solar (HK) and Comtec Semi (HK), respectively. During the year ended 31 December 2007, Comtec Semi (HK) and Comtec Solar (HK) acquired the entire equity interest in Comtec Semi and Comtec Solar from Mr. Zhang and Comtec Ltd, respectively, by the issuance of two promissory notes with an aggregate amount of United States Dollars ("USD") 22.54 million, equivalent to approximately RMB164,646,000, which is based on the paid-up capital of Comtec Semi and Comtec Solar on 21 November 2007 (see note 35 of section E for details).

The difference between the nominal value of the shares acquired and the acquisition consideration is treated as special reserve arising on Group Reorganisation and recorded in special reserve.

The issuance of two promissory notes is accounted for as a deemed distribution to Mr. Zhang upon Group Reorganisation and deducted from special reserve.

b. Statutory/discretionary surplus reserve

In accordance with relevant laws and regulations for foreign investment enterprises in the PRC, the PRC subsidiaries are required to transfer 10% of their profit after taxation reported in their statutory financial statements prepared under the PRC GAAP to the statutory surplus reserve. Allocation shall be approved by the shareholders. The appropriation to statutory surplus reserve may cease if the balance of the statutory surplus reserve has reached 50% of the PRC subsidiaries' registered capital.

The PRC subsidiaries may, upon the approval by a resolution, convert their surplus reserves into capital in proportion to their then existing shareholdings. However, when converting the PRC subsidiaries' statutory surplus reserve fund into capital, the balance of such reserve remaining unconverted must not be less than 25% of the registered capital.

c. Deemed distribution upon the cessation of the Relevant Business

The amount represents the bank balance of Comtec Ltd that has been distributed to Mr. Zhang as a dividend on 30 June 2008.

D. CONSOLIDATED STATEMENTS OF CASH FLOWS

	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
Operating activities					
Profit before taxation	73,597	162,148	166,565	158,046	6,380
Adjustments for:					
Interest income	(120)	(331)	(2,988)	(1,155)	(891)
Interest expenses	356	808	6,295	795	4,232
Allowance for (reversal of) doubtful debts	40	(40)	—	—	—
Depreciation of property, plant and equipment	3,676	8,325	20,835	10,251	10,878
Foreign exchange gain	—	—	(4,456)	(4,456)	—
Impairment loss on goodwill	—	—	136	136	—
Written-off of property, plant and equipment	—	1,918	7	5	—
Write-down of inventories	—	—	43,412	—	—
Impairment of advance to suppliers	—	—	8,984	—	—
Share-based payment expenses	—	—	41,932	3,300	—
Release of prepaid lease payments	25	101	138	51	161
Operating cash flows before movements in working capital	77,574	172,929	280,860	166,973	20,760
(Increase) decrease in inventories	(5,763)	3,841	(42,848)	(33,552)	(30,701)
(Increase) decrease in trade and other receivables	(3,843)	(38,281)	(48,921)	25,345	37,720
Increase in bills receivable	—	—	—	(9,443)	(35,604)
(Increase) decrease in advance to suppliers	(46,527)	(49,622)	(140,911)	(33,522)	13,747
Decrease in trade and other payables	3,692	27,886	17,905	15,561	981
Increase (decrease) in customers' deposits received	84,501	55,756	(148,769)	(123,841)	5
Cash from (used in) operations	109,634	172,509	(82,684)	7,521	6,908
Tax paid	(1,051)	(785)	(71,429)	(10,972)	—
Tax refunded	—	—	—	—	6,168
Net cash from (used in) operating activities	108,583	171,724	(154,113)	(3,451)	13,076

	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
Investing activities						
Interest received		120	331	2,988	1,155	891
Proceeds from disposals of property, plant and equipment		—	91	448	72	—
Acquisition of a subsidiary	36	—	—	(136)	(136)	—
Prepaid lease payments		(895)	—	(11,062)	—	—
Increase in pledged bank deposits		—	—	—	(13,300)	—
Deposits paid and purchase of property, plant and equipment		(28,429)	(118,474)	(72,648)	(21,466)	(43,522)
Advance to a shareholder		—	—	—	—	(9,727)
Net cash used in investing activities		(29,204)	(118,052)	(80,410)	(33,675)	(52,358)
Financing activities						
(Repayment to) advance from a related company		(6,416)	(711)	650	650	—
Bank loans raised		2,000	20,000	140,000	22,643	143,500
(Repayment to) advance from a shareholder		(2,713)	4,165	(411)	(411)	—
Capital contributions		24,227	2,407	140,384	140,384	—
Interest paid		(356)	(808)	(6,295)	(795)	(4,232)
Dividends paid		(24,148)	(2,407)	—	—	—
Repayment of bank loans		(5,000)	(2,000)	(20,000)	(20,000)	(120,000)
Payment of transaction costs attributable to issue of new shares		—	—	(4,802)	(4,802)	—
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 beginning of the year/period		8,797	75,770	150,088	150,088	165,091
Cash and cash equivalents at end of the year/period, represented by bank balances and cash		75,770	150,088	165,091	250,631	145,077

E. NOTES TO THE FINANCIAL INFORMATION

1. CORPORATION INFORMATION AND BASIS OF PRESENTATION OF FINANCIAL INFORMATION

The Company is a limited company incorporated in the Cayman Islands. Its registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The Company is an investment holding company. The principal activities of the Company's subsidiaries and the Relevant Business are the manufacturing and sales of solar wafers, semiconductors and related products.

Pursuant to the Group Reorganisation, the Company became the holding company of the companies now comprising the Company and its subsidiaries on 31 December 2007. The Company, its subsidiaries and Comtec Ltd, a trade name used by Mr. Zhang in carrying out business in the United Sates as a sole proprietorship, have been under the common control by Mr. Zhang throughout the Relevant Periods 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 Group comprising the Company and its subsidiaries resulting from the Group Reorganisation and the Relevant Business conducted by Comtec Ltd is regarded as a continuing entity. Accordingly, the Financial Information of the Group has been prepared on the basis as if the Company has always been the holding company of the companies and business comprising the Group throughout the Relevant Periods, using the principle of merger accounting as set out in note 3 below.

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 the Group have been prepared by using the principles of merger accounting as if the current group structure had been in existence throughout the Relevant Periods 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 the 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 and business comprising the Group as if the current group structure had been in existence as at those dates.

Although the Relevant Business was not formerly transferred to the Company and its subsidiaries, it has been included in the Financial Information for the Relevant Periods as the directors consider that the historical financial information of the Group should include all relevant activities that have been a part of the Group's history of the manufacturing and sales of solar wafers, semiconductors and related products. Accordingly, the Financial Information reflected all of the Group's activities in the manufacturing and sales of solar wafers, semiconductors and related products, including those sourcing, invoicing and support services carried out by Comtec Ltd.

The Financial Information is presented in Renminbi ("RMB"), the currency of the primary economic environment in which the principal subsidiaries of the Company operate (the functional currency of the principal subsidiaries).

2. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has consistently applied all of the new and revised standards and interpretations issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB that are effective for financial year beginning on 1 January 2009 in the preparation of its Financial Information throughout the Relevant Periods.

At the date of this report, the IASB has issued the following new and revised International Accounting Standards ("IASs"), IFRSs and IFRICs which are not yet effective in respect of the Relevant Periods. The Group has not early adopted the following new and revised standards or interpretations that have been issued but are not yet effective:

IFRSs (Amendments)	Amendment to IFRS 5 as part of Improvements to IFRSs issued in 2008[1]
IFRSs (Amendments)	Improvements to IFRSs issued in 2009[2]
IAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
IAS 32 (Amendment)	Classification of Right Issues[3]
IAS 39 (Amendment)	Eligible Hedged Items[1]
IFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[4]
IFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[4]
IFRS 3 (Revised)	Business Combinations[1]
IFRIC 17	Distributions of Non-cash Assets to Owners[1]
IFRIC 18	Transfer of Assets from Customers[5]

[1] Effective for annual periods beginning on or after 1 July 2009

[2] Amendments that are effective for annual periods beginning on or after 1 July 2009 or 1 January 2010, as appropriate.

[3] Effective for annual periods beginning on or after 1 February 2010

[4] Effective for annual periods beginning on or after 1 January 2010

[5] Effective for transfers on or after 1 July 2009

The adoption of IFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after 1 January 2010. IAS 27 (Revised) will affect the Group's accounting treatment for changes in the Group's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The directors of the Company anticipate that the application of the other new or revised standards and interpretations will have no material impact on the results and the financial position of the Group.

3. PRINCIPAL ACCOUNTING POLICIES

The Financial Information has been prepared on the historical cost convention and in accordance with the accounting policies set out below which are in conformity with IFRS. These policies have been consistently applied throughout the Relevant Periods.

In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and the Hong Kong Companies Ordinance.

Basis of consolidation

The Financial Information incorporates the financial information of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the 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 Relevant Periods 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 into line with those used by other members of the 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.

Purchase accounting for business combinations other than common control combinations

The acquisitions of subsidiaries under business combination other than common control combinations are accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 "Business Combinations" are recognised at their fair values at their acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Goodwill

Goodwill arising on an acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a business is presented separately in the consolidated statements of financial position.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated statements of comprehensive income. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's statements of financial position at cost less any identified impairment loss.

Revenue recognition

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

Revenue from sales of goods is recognised when goods are delivered and title has 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

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.

Leasing

Leases are classified as finance leases wherever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Prepaid lease payments

Upfront prepayments made for the land use rights and leasehold land are initially recognised on the statements of financial position as lease prepayments and are expensed in the statements of comprehensive income on a straight-line basis over the periods of the respective lease.

Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency).

In preparing the financial statements of the individual group entities, transactions in currencies other than the entity's functional currency (foreign currency) are recorded at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are re-translated at the rates prevailing at the end of each reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are re-translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Exchange differences arising on the settlement of monetary items, and on the re-translation of monetary items, are included in profit or loss for the period/year.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the year/period in which they are incurred.

Retirement benefit costs

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund are charged as expenses when employees have rendered service entitling them to the contributions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from profit as reported in the statements of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deterred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Impairment losses

At the end of each reporting period, the Group reviews the carrying amounts of its 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.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Financial instruments

Financial assets and financial liabilities are recognised on the statements of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's and the Company's financial assets are classified as loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade day basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of each reporting period subsequent to initial recognition, loans and receivables (including trade and other receivables, bills receivable, amount due from a shareholder, amount due from a related company, amounts due from subsidiaries and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one of more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

Objective evidence of impairment could include:

— significant financial difficulty of the issuer or counterparty; or

— default or delinquency in interest or principal payments; or

— it becoming probable that the borrower will enter bankruptcy or financial reorganisation.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities including trade and other payables, amount due to a shareholder, amount due to a related company, amounts due to subsidiaries, short-term bank loans and promissory notes are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded as the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss. If the Group retains substantially all the risks and rewards of ownership of transferred assets, the Group continues to recognise the financial assets and recognised collateralised borrowings of proceeds received.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

Provision for onerous contracts

When the unavoidable costs of meeting the obligations under a contract exceed the economic benefits expected to be received under this contract, the present obligation under the contract shall be recognsied and measured as a provision. Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the end of each reporting period, and are discounted to present value where the effect is material.

Share-based payment transactions

Equity-settled share-based payment transactions

Share options and restricted shares granted

The fair values of services received in exchange for awards of share options determined by reference to the grant-date fair value of those share options is recognised as expense over the vesting period on a straight-line basis with a corresponding increase in shares option 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, the 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 are cancelled during the vesting period, the Group accounts for the cancellation as an acceleration of vesting, and recognises 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 be transferred to retained profits.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements and estimates about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and judgements are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(a) Useful lives and residual value of property, plant and equipment

The Group's management determines the residual value, useful lives and related depreciation charges for its 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 and may vary significantly as a result of technical innovations and keen competition from competitors, resulting in higher depreciation charge and/or write-off or write-down of technically obsolete assets when residual value or useful lives are less than previously estimated.

(b) Impairment of advance to suppliers and provision for onerous contracts

As detailed in note 17, the Group makes non-cancellable advance payments to raw material suppliers under long-term and short-term purchase agreements which are to be offset against future purchases. In the event when the economic benefits expected to be received under these purchase agreements are less than the unavoidable costs of meeting the contractual obligations; or the financial conditions of these suppliers deteriorate, the Group would impair advance payments to these suppliers and make necessary provision for the present obligation under the agreements. The Group does not require collateral or other security against its advance to suppliers. The Group performs ongoing evaluation of impairment of advance to suppliers and provision for commitment that may become onerous due to a change of market conditions and the financial conditions of its suppliers. The evaluation takes into account the projected revenue, related expenses, capital spending and other costs. When the advance would not be settled as expected, the Group would impair the advance to suppliers and make necessary provision for the present obligation under the agreements.

During the year ended 31 December 2008, the Group recognised an impairment of advance to a supplier of approximately RMB8,984,000 (year ended 31 December 2006, year ended 31 December 2007, six months ended 30 June 2008 and 30 June 2009: nil, nil, nil and nil).

(c) Write-down of inventories

Inventories are valued at the lower of cost and net realisable value. The Group regularly inspects and reviews its inventories to identify slow-moving and obsolete inventories. When the Group identifies items of inventories which have a net realisable value that is lower than its carrying amount or are slow-moving or obsolete, the Group would write down of inventories in that year/period. During each of the three years ended 31 December 2008 and the six months ended 30 June 2008 and 30 June 2009, write-down of inventories to net realisable value of nil, nil, approximately RMB43,412,000, nil and nil was recognised, respectively.

5. FINANCIAL INSTRUMENTS

The Group's major financial instruments include trade and other receivables, bills receivable, amount due from (to) a shareholder, amount due from a related company, pledged bank deposits, bank balances and cash, trade and other payables, amount due to a related company, certain customers' deposits received from customers as at 31 December 2007 (see note 27), short-term bank loans and promissory notes. The Company's major financial instruments include balances with subsidiaries, other receivables, bank balances and cash and other payables. Details of these financial instruments are disclosed in respective notes. The Group's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Categories and carrying amounts of financial instruments

The carrying amounts of financial assets and financial liabilities are as follows:

	The Group				The Company	
	Year ended 31 December			At 30 June	At 31 December	At 30 June
	2006	2007	2008	2009	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets						
Amount due from a subsidiary	—	—	—	—	128,902	121,796
Trade and other receivables	4,524	43,268	89,710	45,067	—	—
Bills receivables	—	—	—	35,604	—	—
Amount due from a shareholder	4,851	62,056	—	9,727	—	—
Amounts due from subsidiaries	—	—	—	—	30,745	32,681
Amount due from a related company	—	650	—	—	—	—
Bank balances and cash	75,770	150,088	165,091	145,077	13,990	1,879
Total loans and receivables	85,145	256,062	254,801	235,475	173,637	156,356
Financial liabilities						
Trade and other payables	8,038	85,125	80,314	103,340	221	1,844
Customers' deposits received	—	140,961	—	—	—	—
Amount due to a shareholder	835	5,000	—	—	—	—
Amount due to a related company	61	—	—	—	—	—
Amounts due to subsidiaries	—	—	—	—	8,394	—
Short-term bank loans	2,000	20,000	140,000	163,500	—	—
Promissory notes	—	164,646	—	—	—	—
Total liabilities measured at amortised costs	10,934	415,732	220,314	266,840	8,615	1,844

Note: At 31 December 2007, the Company did not have any financial assets and financial liabilities.

Currency risk

The primary economic environment which most of the principal subsidiaries of the Company operate is the PRC and their functional currency is RMB. However, these principal subsidiaries sometimes collect their trade receivables and settle their purchases of materials, machinery and equipment supplies and certain expenses in foreign currencies. 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 USD during the year ended 31 December 2007.

Details of the Group's bank balances and cash, trade and other receivables, trade and other payables, customers' deposits received, and promissory notes and the Company's balances with subsidiaries, bank balances and cash that are denominated in foreign currencies, mainly in Hong Kong dollars ("HK$"), Swiss franc ("CHF"), USD and European dollars ("Euro") as at 31 December 2006, 31 December 2007, 31 December 2008 and 30 June 2009 are set out in respective notes.

The Group and the Company currently do not have a foreign currency hedging policy but the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Sensitivity analysis

This sensitivity analysis details the Group's and the Company's sensitivity to a 5% appreciation and depreciation in each relevant foreign currency against functional currency, RMB. 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. The sensitivity analysis includes only outstanding foreign currencies denominated monetary items and adjusts their translation at the end of the year/period end for a 5% change in foreign currency rates. A positive (negative) number below indicates an increase (decrease) in profit for the year/period where the relevant foreign currencies strengthen 5% against RMB. For a 5% weakening of the relevant foreign currency against RMB, there would be an equal and opposite impact on the profit for the year/period.

	The Group				The Company		
	Year ended 31 December			Six months ended 30 June	Year ended 31 December		Six months ended 30 June
	2006	2007	2008	2009	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
CHF impact	—	—	—	929	—	—	—
Euro impact	—	(36)	419	87	—	419	6
Hong Kong dollars ("HK$") impact	—	—	11	(78)	—	—	—
USD impact	1,730	(17,984)	374	(723)	—	7,310	6,884

Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances, short-term bank loans and promissory notes (see notes 25, 30 and 35 for details of these bank balances, short-term bank loans and promissory notes, respectively) and the Company is exposed to cash flow interest rate risk in relation to variable-rate bank balances (see note 25 for details of bank balances). The management monitors interest rate exposures and will consider hedging significant interest rate risk should the need arise.

Sensitivity analysis

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 each reporting period 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, short-term bank loans and promissory notes.

A 10 basis points increase or decrease on variable-rate bank balances and 100 basis points increase or decrease on variable-rate bank loans 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 balances 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.

	The Group				The Company		
	Year ended 31 December			Six months ended 30 June	Year ended 31 December		Six months ended 30 June
	2006	2007	2008	2009	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Increase in profit for the year/period	76	150	250	145	—	14	2

The profit for the year/period would be decreased by an equal and opposite amount 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.

Decrease in profit for the year/period	—	(1,846)	(1,400)	(1,635)	—	—	—

The profit for the year/period would be increased by an equal and opposite amount if interest rate on variable-rate bank loans and promissory notes had been 100 basis points lower and all other variables were held constant.

Credit risk

The Group's principal financial assets are trade and other receivables, bills receivable, amount due from a shareholder, amount due from a related company and bank balances and cash and the Company's principal financial assets are amounts due from subsidiaries and bank balances and cash. The Group's and the Company's maximum exposure to credit risk which will cause a financial loss to the Group and the Company due to failure to discharge an obligation by the counterparties arising from the carrying amount of the respective recognised financial assets as stated in the Group's consolidated statements of financial position and the Company's statements of financial position.

The Group's credit risk is primarily attributable to the trade and other receivables and bills receivable. In order to minimise the credit risk, the Group's management continuously monitors the credit quality and financial conditions of the customers and the level of exposure to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual advance balance at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Company's credit risk is primarily attributable to the amounts due from subsidiaries. In order to minimise the credit risk, the Company's management continuously monitors the credit quality and financial conditions of the subsidiaries and the level of exposure to ensure that follow-up action is taken to recover overdue debts. In addition, the Company reviews the recoverable amount of each individual advance balance at the end of each reporting period to ensure that adequate impairment losses are made. In this regard, the directors of the Company consider that the Company's 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.

The credit risk of the Group is concentrated as receivables from the Group's top five major customers at 31 December 2006, 31 December 2007, 31 December 2008 and 30 June 2009 amounted to approximately RMB4,022,000, RMB42,236,000, RMB27,285,000 and RMB23,399,000, respectively, and accounted for 100%, 98.7%, 94.8% and 61.8% of the Group's total trade receivables. The Group's bills receivable from the Group's top five major customers at 30 June 2009 amounted to approximately RMB31,326,000 and accounted for 88.0% (31 December 2006, 31 December 2007 and 31 December 2008: nil, nil and nil) of the Group's total bills receivable. Also, as at 31 December 2008, the Group has an amount due from a supplier of approximately RMB55,774,000. In order to minimise the credit risk, the directors of the Company continuously monitor the level of exposure by frequent review of the credit evaluation of the financial condition and credit quality of its customers and supplier to ensure that prompt actions will be taken to lower exposure.

Liquidity risk management

The directors of the Company have built an appropriate liquidity risk management framework for the management of the Group's short-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining banking facilities and by continuously monitoring forecasted and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities which have drawn up based on the undiscounted cash flows on financial liabilities based on the earliest date on which the Group or the Company can be required to pay. The tables include both interest and principal cash flows:

	Weighted average effective interest rate	Less than 6 months	6 months to 1 year	1 year to 2 years	Total undiscounted cash flows	Carrying amounts
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2006						
Financial liabilities						
Non-interest bearing instruments		8,934	—	—	8,934	8,934
Fixed interest bearing instruments	6.14	61	2,031	—	2,092	2,000
		8,995	2,031	—	11,026	10,934
At 31 December 2007						
Financial liabilities						
Non-interest bearing instruments		231,086	—	—	231,086	231,086
Variable interest bearing instruments	6.12	752	20,251	172,487	193,490	184,646
		231,838	20,251	172,487	424,576	415,732

	Weighted average effective interest rate	Less than 6 months	6 months to 1 year	1 year to 2 years	Total undiscounted cash flows	Carrying amounts
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2008						
Financial liabilities						
Non-interest bearing instruments		80,314	—	—	80,314	80,314
Variable interest bearing instruments	4.21	145,386	—	—	145,386	140,000
		225,700	—	—	225,700	220,314
At 30 June 2009						
Financial liabilities						
Non-interest bearing instruments		103,340	—	—	103,340	103,340
Variable interest bearing instruments	7.53	103,628	61,593	—	165,221	163,500
		206,968	61,593	—	268,561	266,840
THE COMPANY						
At 31 December 2008						
Financial liabilities						
Non-interest bearing instruments		8,615	—	—	8,615	8,615
At 30 June 2009						
Financial liabilities						
Non-interest bearing instruments		1,844	—	—	1,844	1,844

The Company did not have any financial liabilities as at 31 December 2007.

Note: At 31 December 2006, the interest rate was based on the rates outstanding at the end of that reporting period. At 31 December 2007, 31 December 2008 and 30 June 2009, the weighted average effective interest rate is based on the variable interest rates of the bank loans and the promissory notes outstanding at the end of each reporting period.

Fair value

The fair value of the Company's and the Group's financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices or rates from observable current market transactions as input.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Financial Information approximate their fair values.

Capital risk management

The Group and the Company manages its capital to ensure that the group entities and the Company will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt, which includes the bank loans, and equity attributable to owners of the Company, which includes the share capital, share premium, special reserve and retained profits, as disclosed in the Financial Information. The capital structure of the Company consists of equity of the Company, which includes share capital, share premium and retained profits, as disclosed in Financial Information.

Management of the Group and the Company reviews the capital structure regularly. The Group and the Company considers the cost of capital and the risks associated with each class of capital, and will balance its overall capital structure through the payment of dividends, issuance of new shares as well as raising of bank loans.

6. REVENUE AND SEGMENT INFORMATION

Revenue represents the net amounts received and receivable for goods sold to outside customers during the Relevant Periods.

Mr. Zhang, the chief operating decision maker of the Group, regularly reviews revenue analysis by major products and the Group's profit for the year/period to make decisions about resources allocation. As no other discrete financial information is available for the assessment of performance of different business activities, no segment information is presented other than entity-wide disclosures.

Entity-wide disclosures

Revenue analysed by major products

The Group is currently operating two major products, namely manufacturing and sales of solar wafers and related products and manufacturing and sales of semiconductors.

The following tables sets forth a breakdown of the Group's revenue from manufacturing and sales of solar wafers and related products and manufacturing and sales of semiconductors for the Relevant Periods and the six months ended 30 June 2008:

	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	%
Manufacturing and sales of solar wafers and related products:										
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	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
Sub-total	119,910	88.6	320,552	91.9	725,466	95.2	305,066	92.1	169,520	92.0
Manufacturing and sales of semiconductors:										
Semiconductor products	9,895	7.3	27,369	7.8	32,272	4.2	22,592	6.8	9,046	4.9
Others (note)	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

Note: Included revenue from sale of materials, such as monocrystalline silicon and recyclable silicon.

Revenue reported above represents revenue generated from external customers. There were no sales between the solar wafers and the semiconductors operating units during the Relevant Periods and the six months ended 30 June 2008.

Assets analysed by major products

	At 31 December			At 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Manufacturing and sales of solar wafers and related products	15,250	54,346	51,939	110,342
Manufacturing and sales of semiconductors	4,771	2,506	1,173	3,646
Total	20,021	56,852	53,112	113,988

The above assets include mainly trade receivables, bills receivables and inventories which can be allocated to different products.

The above products were produced from the same production facilities, which are located in the PRC.

Revenue and assets analysed by place of domicile of group entities

The analysis of the Group's revenue from external customers attributed to the country of domicile of the relevant group entities, which is the PRC, and to other foreign countries during the Relevant Periods and the six months ended 30 June 2008 is as follows:

	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
Place of domicile of group entities:					
Mainland China	112,936	332,322	659,938	299,324	159,505
Other foreign countries:					
Taiwan	—	—	25,086	10,577	6,702
Japan	11,511	6,337	23,028	10,150	—
Thailand	—	4,947	49,383	7,139	5,483
Germany	—	—	92	—	11,346
Other countries *(note)*	10,969	5,458	4,576	3,994	1,217
Total revenue	135,416	349,064	762,103	331,184	184,253

All of the Group's non-current assets, including property, plant and equipment, prepaid lease payments, deposits paid for acquisition of property, plant and equipment and advance to suppliers, are located in the group entities' country of domicile, the PRC, at the end of each reporting period.

Note: The customers located in other countries are mainly from other Asian countries and the U.S.

Information about major customers

Details of the customers accounting for 10% or more of total revenue are as follows:

	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
Customer A	*	*	*	*	49,404
Customer B	47,125	187,745	164,776	64,805	33,718
Customer C	*	*	157,545	52,929	*
Customer D	*	*	84,073	40,941	*
Customer E	*	35,005	*	*	*

* Less than 10%

All of the above customers trade in solar wafers and related products with the Group.

7. OTHER INCOME

	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
Foreign exchange gain	46	3,774	2,154	—	—
Interest income	120	331	2,988	1,155	891
Processing service fees *(note)*	12,318	11,769	41,485	22,281	3,032
Others	—	—	506	—	129
	12,484	15,874	47,133	23,436	4,052

Note: Revenue from processing service represents amounts received and receivable for wafer processing services provided to outside customers.

8. Other Expenses

	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 *(Note)*	—	—	29,369	11,278	1,468
	—	—	80,285	14,578	1,468

Note: The amount mainly represented the legal and professional expenses incurred for the [●].

9. PROFIT BEFORE TAXATION

	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
Profit before taxation has been arrived at after charging:					
Directors' remuneration (note 10)	66	291	21,788	2,292	735
Other staff costs	4,041	6,991	7,153	4,802	4,552
Other staff's retirement benefits scheme contributions	355	820	835	678	462
Share-based payments expense for other staff	—	—	21,546	1,706	—
Total staff costs	4,462	8,102	51,322	9,478	5,749
Allowance for (reversal of) doubtful debts	40	(40)	—	—	—
Auditor's remuneration	20	47	106	76	75
Cost of inventories recognised as expense	68,243	190,166	530,802	168,114	165,653
Depreciation of property, plant and equipment	3,676	8,325	20,835	10,251	10,878
Foreign exchange losses — net	—	—	—	2,412	1,987
Impairment loss on goodwill (included in administrative expenses)	—	—	136	136	—
Write-off of property, plant and equipment	—	1,918	7	6	—
Release of prepaid lease payments	25	101	138	51	161
Research and development expenses	—	—	1,079	—	1,683
Operating lease rentals in respect of rented premises	595	957	945	510	440

During the year ended 31 December 2008, included in costs of inventories recognised as expense was write-down of inventories to net realisable values of approximately RMB43,412,000 (year ended 31 December 2006, 31 December 2007, six months ended 30 June 2008 and 30 June 2009: nil, nil, nil and nil).

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

The emoluments paid or payable to each of the seven directors during the Relevant Periods and the six months ended 30 June 2008 were as follows:

	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
Non-executive directors	—	—	—	—	—
Independent non-executive directors	—	—	—	—	—
Executive directors					
— fees	—	—	—	—	—
— basic salaries and allowance	66	291	1,402	698	735
— share-based payments expense in relation to					
(i) share options vested	—	—	10,898	1,594	—
(ii) effect of cancellation of share options (note 33)	—	—	9,488	—	—
	66	291	21,788	2,292	735

	Fees	Basic salaries and allowance	Share-based payments expense	Retirement benefit scheme contribution	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
For the year ended 31 December 2006					
Executive directors:					
Mr. Zhang (Note 1)	—	—	—	—	—
Mr. Shi Cheng Qi (Note 3)	—	66	—	—	66
	—	66	—	—	66
For the year ended 31 December 2007					
Executive directors:					
Mr. Zhang (Note 1)	—	—	—	—	—
Mr. Chau Kwok Keung (Note 2)	—	220	—	—	220
Mr. Shi Cheng Qi (Note 3)	—	71	—	—	71
	—	291	—	—	291
For the year ended 31 December 2008					
Executive directors:					
Mr. Zhang (Note 1)	—	—	—	—	—
Mr. Chau Kwok Keung (Note 2)	—	1,320	17,342	—	18,662
Mr. Shi Cheng Qi (Note 3)	—	82	3,044	—	3,126
Non-executive directors:					
Mr. He Xin (Note 4)	—	—	—	—	—
Independent non-executive directors:					
Mr. Leung Ming Shu (Note 4)	—	—	—	—	—
Mr. Lawrence Lee (Notes 4 and 5)	—	—	—	—	—
Dr. Wu Po Chi (Notes 4 and 5)	—	—	—	—	—
	—	1,402	20,386	—	21,788

	Fees	Basic salaries and allowance	Share-based payments expense	Retirement benefit scheme contribution	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
For the six months ended 30 June 2008 (unaudited)					
Executive directors:					
Mr. Zhang (Note 1)	—	—	—	—	—
Mr. Chau Kwok Keung (Note 2)	—	660	1,356	—	2,016
Mr. Shi Cheng Qi (Note 3)	—	38	238	—	276
Non-executive directors:					
Mr. He Xin (Note 4)	—	—	—	—	—
Independent non-executive directors:					
Mr. Leung Ming Shu (Note 4)	—	—	—	—	—
Mr. Lawrence Lee (Notes 4 and 5)	—	—	—	—	—
Dr. Wu Po Chi (Notes 4 and 5)	—	—	—	—	—
	—	698	1,594	—	2,292
For the six months ended 30 June 2009					
Executive directors:					
Mr. Zhang (Note 1)	—	—	—	—	—
Mr. Chau Kwok Keung (Note 2)	—	660	—	—	660
Mr. Shi Cheng Qi (Note 3)	—	75	—	—	75
Non-executive directors:					
Mr. He Xin (Note 4)	—	—	—	—	—
Independent non-executive directors:					
Mr. Leung Ming Shu (Note 4)	—	—	—	—	—
Mr. Lawrence Lee (Notes 4 and 5)	—	—	—	—	—
Dr. Wu Po Chi (Notes 4 and 5)	—	—	—	—	—
	—	735	—	—	735

The five highest paid individuals included one, two, two, two and two director(s) of the Company, for the year ended 31 December 2006, 31 December 2007, 31 December 2008 and the six months ended 30 June 2008 and 30 June 2009, respectively. Details of whose emoluments are set out above. The emoluments of the remaining individuals during the Relevant Periods are as follows:

	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
Employees					
— basic salaries and allowances	187	197	483	114	432
— retirement benefits scheme contributions	10	17	73	12	48
— share-based payments expense	—	—	8,275	647	—
	197	214	8,831	773	480

The emoluments of the five highest paid individuals were within the following bands:

	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
				(Unaudited)	
Nil to HK$1,000,000	5	5	—	4	5
HK$2,000,001 to HK$2,500,000	—	—	—	1	—
HK$2,500,001 to HK$3,000,000	—	—	1	—	—
HK$3,500,001 to HK$4,000,000	—	—	3	—	—
HK$21,000,001 to HK$21,500,000	—	—	1	—	—

During the Relevant Periods and the six months ended 30 June 2008, no bonus was paid or payable to the directors nor the other five highest paid individuals.

During the Relevant Periods and six months ended 30 June 2008, no emoluments were paid by the Group to the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the Relevant Periods and the six months ended 30 June 2008.

Notes:

1. No emoluments were paid to Mr. Zhang during the year ended 31 December 2006, 31 December 2007 and 31 December 2008 and the six months ended 30 June 2008 and 30 June 2009. In the opinion of the directors, it was a result of the management's discretionary decision.
2. Mr. Chau Kwok Keung is employed by the Company which is a the Cayman Islands entity and not any of the PRC subsidiaries of the Group. Commerce & Finance Law Offices, the Company's legal adviser as to PRC law, confirmed that the PRC subsidiaries are not responsible for making retirement benefit contributions for Mr. Chau Kwok Keung as he is not in labour relationship with any of the PRC subsidiaries under the relevant laws and regulations of the PRC. The Company's Cayman Islands legal adviser, Conyers Dill & Pearman, has advised that subject to any agreement between the Company and Mr. Chau Kwok Keung to the contrary, there is no requirement under the Cayman Islands law for the Company to make any retirement benefit contribution for Mr. Chau Kwok Keung during the Relevant Periods. The management consulted its legal adviser and represented that there is no similar requirement under Hong Kong laws. The addresses and others particulars of Commerce & Finance Law Officers and Conyers Dill & Pearman are disclosed in section "Directors and parties involved in the [●]" to the Document.
3. The Company's PRC legal advisers, Commerce & Finance Law Offices, confirmed that the PRC subsidiaries are not obliged to make retirement benefit contributions for Mr. Shi Cheng Qi to the relevant PRC social insurance authorities under the relevant laws and regulations of the PRC because Mr. Shi Cheng Qi joined the Group after he had passed the PRC statutory retirement age.
4. The director was appointed as a director of the Company in 2008 and retirement benefit contributions are not required to be made with the PRC governmental agencies under the relevant PRC laws and regulations during the year ended 31 December 2008 and the six months ended 30 June 2009. The Company has not entered into any agreement with the director which would specifically require the Company to make any retirement benefit contributions for him. The Cayman Islands legal adviser, Conyers Dill & Pearman, has advised that subject to any agreement between the Company and the director to the contrary, there is no requirement under the Cayman Islands law for the Company to make any retirement benefit contribution for the director during the year ended 31 December 2008 and the six months ended 30 June 2008. The management consulted its legal adviser and represented that there is no similar requirement under Hong Kong laws.
5. The director was resigned on 5 May 2009.
6. Mr. Daniel Dewitt Martin and Mr. Kang Sun were appointed as independent non-executive directors on 31 July 2009.

11. TAXATION

	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
Current tax:					
Hong Kong Profits Tax	—	—	—	—	—
PRC Enterprise Income Tax — Current year/period	804	534	33,563	22,656	—
The U.S.					
Federal income tax	7,133	14,055	4,801	4,801	—
California state income tax	1,884	171	—	—	—
	9,821	14,760	38,364	27,457	—
Deferred taxation (note 20):					
— Current year/period	(59)	37	(3,278)	2,181	1,950
	9,762	14,797	35,086	29,638	1,950

No Hong Kong Profits Tax has been provided as the group entities either have no relevant assessable profits or incurred tax losses for the Relevant Periods and the six months ended 30 June 2008.

PRC income tax is calculated at the applicable tax rates in accordance with the relevant laws and regulations in the PRC.

Taxation on assessable profits of Comtec Ltd, which carried out the Relevant Business in the Relevant Periods, has been calculated at mainly federal tax rate of approximately 35% and California state tax of approximately 9% prevailing in the U.S., in which it operates, based on existing legislation, interpretations and practices, mainly the Internal Revenue Code, as amended in 1986 and California Revenue and Taxation Code.

Comtec Semi and Comtec Solar were registered as foreign invested enterprises of a production nature established in Shanghai Nanhui District which is the Coastal Economic Open Zone in the PRC and where the Group's operations are substantially based during the Relevant Periods, therefore enjoyed a preferential PRC Enterprise Income Tax rate of 24% up to 31 December 2007. In addition, as Comtec Semi and Comtec Solar are foreign invested enterprises of production nature scheduled to operate for a period of no less than ten years, from the first profit making year, they are exempted from income tax for two years, followed by a 50% enterprise income tax reduction in the following three years which is approved by Shanghai Nanhui National Tax Bureau in accordance with The Foreign Invested Enterprises Income Tax Law of the PRC and The Implementation Rules for Foreign Invested Enterprises and Foreign Enterprises Income Tax Law of the PRC promulgated on 30 June 1991 and as effective on 1 July 1991. As a result, 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, and are then entitled to a 50% reduction in enterprise income tax for three years thereafter until 2007 and 2010, respectively. Thus, Comtec Semi enjoyed a 50% reduction of enterprise income tax during the year ended 31 December 2006 and 31 December 2007. Comtec Solar enjoyed tax holiday during the year ended 31 December 2006 and 31 December 2007. Effective from 1 January 2008, the domestic income tax rate of Comtec Semi, Comtec Solar and Comtec Solar (Jiangxi) changed to 25% upon the introduction of the New Law and Implementation Regulations (as defined below). Under the New Law and Implementation Regulations, Comtec Solar continued to enjoy a 50% reduction of domestic income tax rate during the year ended 31 December 2008 and the six months ended 30 June 2009.

Comtec Solar (Jiangxi), which was acquired by the Group on 29 May 2008, was registered as production oriented enterprise in Nanchang which is a coasted open area of the PRC, and, therefore enjoyed a preferential PRC Enterprise Income Tax rate of 24% since its establishment to 31 December 2007. During the year ended 31 December 2008 and six months ended 30 June 2009, no assessable profits were derived from Comtec Solar (Jiangxi).

On 16 March 2007, the Law of People's Republic of China on Enterprise Income Tax (the "New Law") was promulgated by Order No.63 of the President of the People's Republic of China. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law (the "Implementation Regulations"). The New Law and Implementation Regulations unified enterprise income tax rate at 25% effective from 1 January 2008. Enterprises that were previously entitled to exemptions or reductions from the standard income tax rate for a fixed term (such as those income tax exemption and income tax reduction as discussed above) would continue to enjoy such treatment until the fixed terms expires, but not beyond 2012.

Upon the promulgation and implementation of the New Law, dividends paid out of the net profits derived by the Company's PRC operating subsidiaries to non-PRC residents in financial years since 1 January 2008 are subject to applicable PRC withholding tax in a rate of 10% or lower rates as provided in tax treaties in accordance with relevant tax laws in the PRC. Under the relevant tax treaty, withholding tax rate on distribution to Hong Kong resident companies is 5% provided that requirements under such tax treaty between the PRC and Hong Kong, Administrative Measures for Non-resident Enterprises to Enjoy Treatment under Tax Treaties and the Notice of the State Administration of Taxation on issues relating to the administration of the dividend provision in tax treaties, are satisfied. Withholding tax has been provided for based on the anticipated dividends to be distributed by the PRC entities to non-PRC residents which is around 30% of the earnings of these entities.

The deferred tax balance has already reflected the tax rates that are expected to apply to the respective periods when the asset is realised or the liability is settled.

The taxation for the Relevant Periods and the six months ended 30 June 2008 is reconciled to profit before taxation as follows.

	Year ended 31 December			Six month ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Profit before taxation	73,597	162,148	166,565	158,046	6,380
Tax at domestic income tax rate (Note 1)	17,663	38,916	41,642	39,512	1,595
Tax effect of expenses not deductible for tax purpose (Note 2)	53	471	22,462	2,548	1,876
Tax effect of income not taxable for tax purpose	(45)	—	(337)	—	—
Tax effect of deemed taxable income for the Relevant Business operation in the U.S. (Note 3)	—	9,265	3,494	3,494	—
Effect of tax exemptions granted to PRC subsidiaries	(11,606)	(37,112)	—	—	—
Effect of different tax rates for the Relevant Business operating in the U.S.	4,435	4,332	1,828	1,828	—
Effect of a 50% tax reduction granted to PRC subsidiaries	(738)	(1,075)	(37,254)	(20,089)	(1,736)
Withholding income tax provision on dividends from the PRC	—	—	3,251	2,345	215
Taxation for the year/period	9,762	14,797	35,086	29,638	1,950

Notes:

(1) The domestic income tax of 24% for the year ended 31 December 2006 and 31 December 2007 and 25% for the year ended 31 December 2008 and the six months ended 30 June 2008 and 30 June 2009 represent the applicable income tax rate of Shanghai Nanhui in the PRC of which the Group's operations are substantially based throughout the Relevant Periods and the six months ended 30 June 2008.

(2) During the year ended 31 December 2008, the six months ended 30 June 2008 and 30 June 2009, the amount mainly represented share-based payments expense, legal and professional expenses incurred for the [●] and other expenses that are not tax-deductible in nature.

(3) Under Section 956 of the Internal Revenue Code, as amended in 1986, the amount due to Comtec Solar by Comtec Ltd arose in the course of the operation of the Relevant Business from 1 January 2007 to 30 June 2008 (date of cessation of business of Comtec Ltd) was deemed to be dividend income and was subject to income tax in the U.S.

12. DIVIDENDS

During the year ended 31 December 2006, 31 December 2007 and 31 December 2008 and the six months ended 30 June 2008 and 30 June 2009, Mr. Zhang made cash drawings from the sole proprietorship of Comtec Ltd of approximately RMB24,148,000, RMB2,407,000, nil, nil and nil, respectively.

Deemed distribution to Mr. Zhang during the year ended 31 December 2007 represents the issuance of two promissory notes by the Group with an aggregate amount of USD22.54 million (which is equivalent to approximately RMB164,646,000) for the acquisition of the entire equity interest of Comtec Semi and Comtec Solar from Mr. Zhang for the year then ended.

Deemed distribution to Mr. Zhang of approximately RMB6,411,000 during the year ended 31 December 2008 and the period ended 30 June 2008 represents remaining bank balance of Comtec Ltd, after settlement of current account with a shareholder, that is distributed as dividend on 30 June 2008.

Pursuant to a shareholders' resolution on 30 June 2008, the Company declared a dividend of approximately RMB51,056,000 to a shareholder.

The rates of distribution and the number of shares ranking for distribution are not presented as such information is not meaningful for the purpose of this report.

13. EARNINGS PER SHARE

The calculation of the basic earnings per share for the Relevant Periods and the six months ended 30 June 2008 is based on the following data.

	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
Profits					
Profit for the year/period attributable to owners of the Company for the purpose of basic earnings per share	63,835	147,351	131,479	128,408	4,430
Number of shares					
Weighted average number of ordinary and preferred shares for the purpose of basic earnings per share	351,864,892	544,591,802	558,573,401	423,739,701	711,668,277

The number of shares for the purposes of basic earnings per share has been determined assuming the capitalisation issue as detailed in Appendix VI of the Document occurred on the first day of the Relevant Periods and the six months ended 30 June 2008.

Except for the liquidation preference and the mandatorily convertible feature of the preferred shares automatically upon the [●] as mentioned in (ii) of note 32, the preferred shares share similar characteristics of ordinary shares of the Company. Such preference shares are considered as ordinary shares for the purpose of calculation of basic earnings per share.

The calculation of diluted earnings per share does not take into account share options as in the opinion of the directors, the exercise price of the Group's share options was higher than the average fair values of shares of the Company during the year ended 31 December 2008 and the six months ended 30 June 2008. Therefore, the Group's share options did not have dilutive effect on the earnings per share of the Group for the year and period then ended and no diluted earnings per share has been presented. No diluted earnings per share for the year ended 31 December 2006, year ended 31 December 2007 and the six months ended 30 June 2009 was presented as there were no potential ordinary shares outstanding.

14. PROPERTY, PLANT AND EQUIPMENT AND DEPOSITS PAID FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment

The Group	Buildings	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST						
At 1 January 2006	1,157	30,144	459	1,680	1,641	35,081
Additions	11	9,820	294	438	14,004	24,567
Transfers	—	6,595	—	—	(6,595)	—
At 31 December 2006	1,168	46,559	753	2,118	9,050	59,648
Additions	—	93,144	206	682	87,205	181,237
Transfers	30,121	64,927	—	—	(95,048)	—
Disposals	—	(2,551)	(200)	(167)	(702)	(3,620)
At 31 December 2007	31,289	202,079	759	2,633	505	237,265
Additions	2,247	2,699	329	1,593	40,364	47,232
Transfers	—	5,573	—	—	(5,573)	—
Disposals	—	(11)	—	(1,174)	—	(1,185)
At 31 December 2008	33,536	210,340	1,088	3,052	35,296	283,312
Additions	786	19	32	—	32,071	32,908
Transfers	—	1,561	—	—	(1,561)	—
At 30 June 2009	34,322	211,920	1,120	3,052	65,806	316,220
DEPRECIATION						
At 1 January 2006	133	6,658	147	264	—	7,202
Provided for the year	63	3,040	185	388	—	3,676
At 31 December 2006	196	9,698	332	652	—	10,878
Provided for the year	64	7,847	63	351	—	8,325
Eliminated on disposals	—	(1,356)	(105)	(150)	—	(1,611)
At 31 December 2007	260	16,189	290	853	—	17,592
Provided for the period	1,612	18,607	97	519	—	20,835
Eliminated on disposals	—	(8)	—	(722)	—	(730)
At 31 December 2008	1,872	34,788	387	650	—	37,697
Provided for the period	715	9,840	48	275	—	10,878
At 30 June 2009	2,587	44,628	435	925	—	48,575
CARRYING VALUES						
At 31 December 2006	972	36,861	421	1,466	9,050	48,770
At 31 December 2007	31,029	185,890	469	1,780	505	219,673
At 31 December 2008	31,664	175,552	701	2,402	35,296	245,615
At 30 June 2009	31,735	167,292	685	2,127	65,806	267,645

The above items of property, plant and equipment, other than construction in progress, are depreciated on a straight-line basis over the following estimated useful lives:

Buildings	20 years
Plant and machinery	10 years
Furniture, fixtures and equipment	5 years
Motor vehicles	5 years

The Group's buildings are located on land in the PRC which is under a lease term of 50 years.

As at 30 June 2009, the Group pledged its buildings and construction in progress having net book values of approximately RMB31,735,000 (31 December 2006, 31 December 2007 and 31 December 2008: nil, nil and RMB31,664,000) and RMB31,512,000 (31 December 2006, 31 December 2007, 31 December 2008: nil, nil and nil), respectively, to a bank to secure banking facilities granted to the Group.

Deposits paid for acquisition of property, plant and equipment

The Group

Balance represents amounts paid before the property, plant and equipment were delivered to the Group. The amounts are transferred to the property, plant and equipment upon delivery of the assets to the Group.

15. PREPAID LEASE PAYMENTS

Prepaid lease payments

	At 31 December			At 30 June
The Group	**2006**	**2007**	**2008**	**2009**
Carrying value	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
At beginning of the year/period	—	5,030	4,929	15,853
Additions during the year/period	5,055	—	11,062	—
Charged to consolidated statements of comprehensive income for the year/period	(25)	(101)	(138)	(161)
At end of the year/period	5,030	4,929	15,853	15,692
Less: Amount to be amortised within one year	(101)	(101)	(322)	(322)
Non-current portion	4,929	4,828	15,531	15,370

The land use rights in the PRC are under medium-term lease.

Included in additions to prepaid lease payments in 2006 was a deposit paid for acquisition of such land lease of RMB4,160,000 which was paid by the Group in 2005 before the land use right certificate was obtained.

16. INVESTMENTS IN SUBSIDIARIES

	The Company		
	At 31 December		At 30 June
	2007	**2008**	**2009**
	RMB'000	**RMB'000**	**RMB'000**
Unlisted investments, at cost	—	174,564	185,004

The balances at 31 December 2008 and 30 June 2009 included deemed contribution arose from imputed interest on non-current amounts with subsidiaries.

17. ADVANCE TO SUPPLIERS

The Group

From time to time, the Group makes advance payments to raw material suppliers prior to delivery of raw materials by these suppliers. Except for the two purchase agreements with major suppliers detailed below, the advance payments are for purchases in the next twelve months from the end of each reporting period and are therefore classified as current assets.

In November 2006 and April 2008, the Group entered into purchase agreements with two major suppliers, independent parties not connected or related to the Group, whereby the Group is committed to purchase a minimum quantity of raw materials (to be used in the manufacture of its products) each year during the period from 1 January 2008 to 31 December 2015 and from 1 January 2009 to 31 December 2015 (the "Supply Period") at pre-determined prices. According to the terms of the agreement, the Group made advances of approximately Euro4,400,000 (which was equivalent to approximately RMB45,346,000), Euro4,343,680 (which was equivalent to approximately RMB44,739,000) and USD18,936,000 (which was equivalent to approximately RMB128,724,000), respectively, to these suppliers during the year ended 31 December 2006, 31 December 2007 and 31 December 2008. At 31 December 2006, 31 December 2007, 31 December 2008 and 30 June 2009, the Group had outstanding advance payments of approximately Euro4,400,000 (which was equivalent to approximately RMB45,346,000), Euro8,743,680 (which was equivalent to approximately RMB90,085,000), the aggregate amount of Euro8,044,000 and USD18,936,000 (which was equivalent to an aggregate amount of approximately RMB218,344,000) and the aggregate amount of Euro 7,143,000 and USD18,936,000 (which was equivalent to an aggregate amount of approximately RMB203,658,000) with these suppliers, respectively. The advances are unsecured, interest-free and will be offset with part of the invoiced amounts in the manner discussed below, on an annual basis before expiry of the agreements in 2015.

Pursuant to the terms of the agreement, during each year of the Supply Period, the amount of advances made in respect of the agreed contract quantity in that particular year, which is around 20% to 26% of the annual purchases to be made by the Group from these suppliers, would be utilised to reduce the invoiced amount of purchases up to those annual agreed quantity. The total minimum amount of raw materials to be purchased by the Group from the two major suppliers during the Supply Period is approximately RMB1,475,491,000.

Total future minimum purchases remaining under the agreements, net of advance paid to these major suppliers at the reporting date, amounted to approximately RMB329,513,000, RMB284,774,000, RMB1,234,507,000 and RMB1,227,211,000 at 31 December 2006, 31 December 2007, 31 December 2008 and 30 June 2009, respectively. For the arrangement with one of the major suppliers, if the minimum purchase requirement is not met in a particular year/period, advances amounting to 20% to 26% of that minimum purchase commitment would be forfeited. Pursuant to terms of this purchase agreement, the Group granted to this supplier a continuing security interest in the raw materials supplied by such supplier and the proceeds of sale or insurance of such raw materials with the entire purchase of such raw materials and if applicable, all late payments, interest and expenses necessary to enforce such security interest. The supplier has the right to take all necessary measures to create, perfect, preserve and enforce the security interest. At 31 December 2008 and 30 June 2009, the Group did not have any outstanding trade payable with this supplier.

For the arrangement with the other major supplier, the Group is obliged to purchase at least the minimum amount as set out in the agreement. If the Group fails to accept deliveries for a certain number of times in any calendar year, the Group's payment obligations for the minimum purchase commitment may be accelerated in that particular year and the Group will be liable to pay to the supplier the difference between the actual purchase and the minimum purchase commitment in that year.

These purchase agreements do not expressly stipulate that the Group will be subject to any other liabilities should the Group fails to meet the minimum purchase commitment.

Subsequent to 30 June 2009, the Group entered into a supplementary agreement with one of the major suppliers to revise the purchase price and quantity of raw materials to be delivered during each year of the Supply Period, while the total minimum

purchase commitment throughout the contract period remains unchanged. The directors estimated that the amount of advances expected to be settled by the offset of the purchases of the agreed contract quantity in the next twelve months from 30 June 2009 will be decreased by approximately RMB7,200,000 as these purchase quantity will be deferred to other years during the Supply Period in accordance with the terms of the supplemental agreement.

The Group's minimum annual purchase commitment during the remaining Supply Period, taking into account the amended terms of the supplementary agreement, is as follows:

Year ending 31 December	Amount equivalent to RMB
2009	RMB49,152,000
2010	RMB260,773,000
2011	RMB204,901,000
2012	RMB235,966,000
2013	RMB229,710,000
2014	RMB225,034,000
2015	RMB249,780,000
	RMB1,453,316,000

At the end of each reporting period, the directors of the Company 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 and classify it as current asset at the end of each reporting period. The remaining balance is classified as non-current asset in the consolidated statements of financial position.

18. GOODWILL

The Group

	RMB'000
COST	
At 1 January 2006, 31 December 2006 and 31 December 2007	—
Arising on acquisition of a subsidiary	136
At 31 December 2008, 1 January 2009 and 30 June 2009	136
IMPAIRMENT	
At 1 January 2006, 31 December 2006 and 31 December 2007	—
Impairment loss recognised in the year	136
At 31 December 2008, 1 January 2009 and 30 June 2009	136
CARRYING VALUES	
At 1 January 2006, 31 December 2006 and 31 December 2007	—
At 31 December 2008 and 30 June 2009	—

During the year ended 31 December 2008, the goodwill of RMB136,000 was arisen and allocated to cash generating unit ("CGU") of a subsidiary, operating in Jiangxi Province in the PRC, which principal activities were the manufacture and sales of computer related products and provision of repair and maintenance service. During the year ended 31 December 2008, the directors of the Company determined that an impairment loss of RMB136,000 was recognised in the consolidated statement of comprehensive income.

19. BALANCES WITH A SUBSIDIARY/SUBSIDIARIES

	The Company	
	At 31 December	At 30 June
	2008	2009
	RMB'000	RMB'000
Amounts due from subsidiaries included in non-current assets (note i)	186,126	196,620
Amounts due from subsidiaries included in current assets (note ii)	7,503	5,451

The amounts due from subsidiaries were neither past due nor impaired and had good credit quality at 31 December 2008 and 30 June 2009.

Notes:

(i) The amounts are unsecured, interest-free and has no fixed repayment term. In the opinion of the directors of the Company, the amounts will not be repaid within twelve months from the end of reporting period and are classified as non-current asset. Imputed interest on the non-current amount was calculated at benchmark rate issued by the People's Bank of China.

(ii) The amounts are unsecured, interest-free and repayable on demand. In the opinion of the directors of the Company, the amounts expect to be recovered within one year from the end of each reporting period. Imputed interest on the current amount was calculated at benchmark rate issued by the People's Bank of China.

20. DEFERRED TAX

The Group

The following is the deferred tax assets (liabilities) recognised by the Group and movements thereon during the Relevant Periods.

	Write-down of inventories	Allowance for advance to suppliers	Tax losses	Withholding tax on undistributed dividends	Unrealised profit on inventories	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2006 and 31 December 2006	—	—	—	—	—	—
Credit to consolidated statement of comprehensive income for the year	—	—	—	—	59	59
At 31 December 2006	—	—	—	—	59	59
Charge to consolidated statement of comprehensive income for the year	—	—	—	—	(37)	(37)
At 31 December 2007	—	—	—	—	22	22
Credit to consolidated statement of comprehensive income for the year	5,428	1,123	—	(3,251)	(22)	3,278
At 31 December 2008	5,428	1,123	—	(3,251)	—	3,300
(Charge) credit to consolidated statement of comprehensive income for the period	(4,750)	(1,123)	4,138	(215)	—	(1,950)
At 30 June 2009	678	—	4,138	(3,466)	—	1,350

For the purposes of presentation in the consolidated statements of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balance for financial report presentation purposes.

	The Group			
	At 31 December			At 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred tax assets	59	22	6,551	4,816
Deferred tax liabilities	—	—	(3,251)	(3,466)
	59	22	3,300	1,350

At 31 December 2008 and 30 June 2009, except for the deferred tax liabilities provided for the undistributed profits of certain PRC operating subsidiaries of approximately RMB65,020,000 and RMB69,320,000, respectively, deferred tax liabilities of approximately RMB7.4 million and RMB8.1 million have not been recognised in respect of the aggregate amount of temporary differences associated with undistributed earnings of the PRC operating subsidiaries for approximately RMB148.9 million and RMB162.7 million as the Group is in a position to control the timing of the reversal of the temporary differences and the Group has determined that this portion of the profits derived from those PRC operating subsidiaries will be retained by those subsidiaries and not distributed in the foreseeable future. Therefore, it is probable that such differences will not reverse nor be subject to withholding tax in the foreseeable future.

21. INVENTORIES

	The Group			
	At 31 December			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
	37,488	33,647	33,083	63,784

22. TRADE AND OTHER RECEIVABLES AND BILLS RECEIVABLE

	The Group				The Company		
	At 31 December			At 30 June	At 31 December		At 30 June
	2006	2007	2008	2009	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	4,250	42,788	28,772	37,865	—	—	—
Less: Allowance for doubtful debts	(228)	—	—	—	—	—	—
	4,022	42,788	28,772	37,865	—	—	—
Utility deposits	502	480	550	338	—	—	—
Value-added-tax receivables	—	—	4,814	13,456	—	—	—
Other receivables and prepayments	1,058	635	58,688	3,445	—	2,242	3,165
	5,582	43,903	92,824	55,104	—	2,242	3,165
Bills receivable	—	—	—	35,604	—	—	—

The Group requests prepayment from customers before delivery of goods and allows a credit period of 7 to 30 days only on a case-by-case basis. The following is an aged analysis of trade receivables at the end of each reporting period:

	The Group			
	At 31 December			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

The following is an aged analysis of bills receivable at the end of each reporting period:

	The Group			
	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

During the six months ended 30 June 2009, the Group factored bills receivable of approximately RMB 7,500,000 (31 December 2006, 31 December 2007 and 31 December 2008: nil, nil and nil) to a bank with full recourse and the bills receivable were fully matured and recovered in July 2009. Details of the transaction are set out in note 30.

No interest is charged on the trade receivables and bills receivable. The Group has provided fully for all receivables age over 365 days as historical experience indicates that such amount may not be recoverable. Trade receivables and bills receivable age 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.

At the end of each reporting period, the Group's bills receivable are not past due nor impaired while the Group's trade receivables that age over 30 days are past due at the reporting date for which the Group has not provided as they were fully settled subsequent to the reporting dates. The Group's trade receivables and bills receivable that are neither past due nor impaired at 31 December 2006, 31 December 2007, 31 December 2008 and 30 June 2009 have no default history and of good credit quality.

Movement in the allowance for doubtful debts:

	Year ended 31 December			Six months ended 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Balance at beginning of the year/period	334	228	—	—
Increase (decrease) in allowance recognised in consolidated statement of comprehensive income	40	(40)	—	—
Written-off of trade receivables	(146)	(188)	—	—
Balance at end of the year/period	228	—	—	—

As at 31 December 2007, 31 December 2008 and 30 June 2009, the Group and the Company did not have allowance for doubtful debts. As at 31 December 2006, included in the allowance for doubtful debts of the Group was impairment of RMB228,000 recognised in respect of individually fully impaired trade receivables which had been placed in severe financial difficulties. The Group did not hold any collateral over these balances.

In determining the recoverability of the trade and bills receivables, the Group reassesses any change in the credit quality of the trade receivables since the credit was granted and up to the reporting date. After reassessment, the directors believe that no further allowance is required.

The Group's trade and other receivables and bills receivable that were denominated in USD, foreign currency of the relevant group entities, were re-translated in RMB and stated for reporting purposes as:

	The Group			
	At 31 December			At 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Trade and other receivables denominated in USD	—	5,574	—	—

Included in other receivables at 31 December 2008 is approximately RMB55,774,000 (31 December 2006, 31 December 2007 and 30 June 2009: nil, nil and nil) refundable advance payment to a supplier, which was unsecured, interest-free and had no fixed repayment terms. The amount was repaid by the supplier in January 2009. The amount was neither past due nor impaired and had good credit quality at 31 December 2008.

23. AMOUNT DUE FROM A SHAREHOLDER

The Group

Details of the amount due from a shareholder of the Group are as follows:

	As at 31 December			At 30 June	Maximum amount outstanding during the Year ended 31 December			Six months ended 30 June
Name of shareholder	2006	2007	2008	2009	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Mr. Zhang	4,851	62,056	—	9,727	4,851	62,056	62,056	9,727

The amount is unsecured, interest-free and repayable on demand.

Amount due from a shareholder at 31 December 2006 and 2007 represented receivables from Mr. Zhang for the increase in paid-in capital of Comtec Solar, contributed by Comtec Ltd on behalf of Mr. Zhang, during the year then ended and was non-trade in nature. The amount was fully settled by 30 June 2008.

Amount due from a shareholder at 30 June 2009 represented advance by the Group to the shareholder and was non-trade in nature.

24. AMOUNT DUE FROM (TO) A RELATED COMPANY

The Group

Details of the amount due from (to) a related company of the Group are as follows:

	As at 31 December			At 30 June	Maximum amount outstanding during the Year ended 31 December			Six months ended 30 June	Equity interests of Comtec Electronic held by the director and shareholder of the Company as at 31 December 2006, 31 December 2007, 31 December 2008 and 30 June 2009
Name of related company	2006	2007	2008	2009	2006	2007	2008	2009	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Comtec Electronics	(61)	650	—	—	—	650	650	—	100%

The amount was unsecured, interest-free and repayable on demand. The director and shareholder of the Company, Mr. Zhang, has beneficial interest in this related company.

Amount due from (to) a related company at 31 December 2006 and 31 December 2007 represented advances from (to) the related company to (from) the Group and was non-trade in nature.

25. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and the Company and short-term bank deposits with an original maturity of three months or less which carry interest at market rates ranging from 0.10% to 1.15% per annum, 0.10% to 1.71% per annum, 0.10% to 1.71% per annum and 0.10% to 1.53% per annum at 31 December 2006, 31 December 2007, 31 December 2008 and 30 June 2009, respectively.

The Group's bank balances and cash that were denominated in CHF, Euro, HK$ and USD, and the Company's bank balances and cash that were denominated in Euro and USD, the foreign currencies of the relevant group entities and the Company, were re-translated in RMB and stated for reporting purposes as:

	The Group				The Company		
	At 31 December			At 30 June	At 31 December		At 30 June
	2006	2007	2008	2009	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Bank balances and cash denominated in							
CHF	—	—	—	18,589	—	—	—
Euro	8	5,264	8,817	1,742	—	8,379	125
HK$	—	—	432	283	—	—	—
USD	39,562	8,133	46,583	63,135	—	5,611	1,754

Certain bank balances and cash of approximately RMB36,200,000, RMB136,691,000, RMB109,259,000 and RMB61,328,000 at 31 December 2006, 31 December 2007, 31 December 2008 and 30 June 2009, respectively were denominated in RMB which is not a freely convertible currency in the international market. The exchange rate of RMB is determined by the Government of the PRC and the remittance of these funds out of the PRC is subject to exchange restrictions imposed by the Government of the PRC.

26. TRADE AND OTHER PAYABLES

	The Group				The Company		
	At 31 December			At 30 June	At 31 December		At 30 June
	2006	2007	2008	2009	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	2,236	22,327	23,898	25,755	—	—	—
Value-added tax payables	1,462	5,553	688	—	—	—	—
Payables for acquisition of property, plant and equipment	4,976	62,798	56,416	77,585	—	—	—
Other payables and accrued charges	2,883	6,587	27,786	27,607	—	20,886	23,544
	11,557	97,265	108,788	130,947	—	20,886	23,544

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

	The Group			
	At 31 December			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

The average credit period on purchases of goods is 30 days to 90 days.

Included in the Group's other payables were payables of employees' emoluments of approximately RMB562,000, RMB1,975,000, RMB2,826,000, RMB2,422,000, payables of rental and utility charges of approximately RMB518,000, RMB767,000, RMB215,000 and RMB256,000, interest and other charges of approximately RMB826,000, RMB2,875,000, RMB4,870,000, RMB4,870,000, respectively, at 31 December 2006, 31 December 2007, 31 December 2008 and 30 June 2009.

Included in the Company's other payables were payables of legal and professional fees and other general office supplies of approximately nil, RMB221,000 and RMB1,844,000, respectively, at 31 December 2007, 31 December 2008 and 30 June 2009 which are mainly denominated in HK$.

The Group's trade and other payables that were denominated in HK$, USD and Euro, the foreign currencies of the relevant group entities, were re-translated in RMB and stated for reporting purposes as:

	The Group			
	At 31 December			At 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Trade and other payables denominated in				
HK$	—	—	221	1,844
Euro	—	10,825	—	—
USD	4,976	62,798	56,416	77,585
	4,976	73,623	56,637	79,429

27. CUSTOMERS' DEPOSITS RECEIVED

The Group

Included in customers' deposits received is the amount of approximately RMB91,362,000, RMB140,961,000, nil and nil at 31 December 2006, 31 December 2007, 31 December 2008 and June 2009, respectively which represent deposits received from a major customer pursuant to a framework agreement between the Group and the customer for the sales of the Group's products during the contractual period from 1 January 2007 to 31 December 2011. The advances are unsecured, interest-free and will be offset against the invoiced amount from sales of the products to this customer before expiry of the agreement in 2011 in accordance with the terms of framework agreement.

Pursuant to the terms of a supplementary agreement entered into by the Group with this customer dated 24 October 2007, the Group agreed to repay the outstanding deposits of approximately RMB140,961,000 to such customer. This amount was denominated in USD, foreign currency of the relevant group entity, and remained outstanding as at 31 December 2007. The amount was repaid by the Group in May 2008. After the repayment of such customers' deposits received, the framework agreement between the Group and the customer for sale of Group's products was still effective which the customer is no longer required to pay deposits to the Group for every purchase of the Group's products. The prices and settlement terms for the sales of the Group's products will be subject to further agreement between the Group and this customer on an order-to-order basis. The Group agreed to sell products to this customer with a credit period of seven days in 2008 and 2009.

Other customers' deposits received are unsecured, interest-free and will be settled by the delivery of products by the Group.

28. AMOUNT DUE TO A SHAREHOLDER

The Group

The amount due to a shareholder at 31 December 2006 and 31 December 2007, which represented advances from Mr. Zhang to the Group for operating cash flows of the Group was non-trade in nature, unsecured, interest-free and was fully repaid during year ended 31 December 2008.

29. TAXATION RECOVERABLE/TAXATION PAYABLE

	The Group			
	At 31 December			At 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Taxation recoverable				
PRC Enterprise Income taxes	—	—	6,470	—
Taxation payable				
PRC Enterprise Income taxes	212	—	302	—
U.S.:				
— federal taxes	13,785	27,801	4,801	4,801
— California state taxes	3,726	3,897	—	—
	17,723	31,698	5,103	4,801

30. SHORT-TERM BANK LOANS

	The Group			
	At 31 December			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
	2,000	20,000	140,000	163,500

The short-term bank loans carry fixed interest rates at 6.12% per annum at 31 December 2006 and variable interest rate based on the benchmark interest rate issued by the People's Bank of China at 31 December 2007, 31 December 2008, and 30 June 2009 respectively.

At 30 June 2009, the Group factored bills receivable of approximately RMB7,500,000 to a bank with full recourse. The finance charges in relation to factorisation of the bills receivable were borne by the debtors of factored receivables as agreed by the Group and the debtors. The related bank loans of approximately RMB7,500,000 are fully matured in July 2009 and are classified as current liabilities as at 30 June 2009.

31. PAID-IN CAPITAL/SHARE CAPITAL

The paid-in capital of the Group at 31 December 2006 represented the sum of fully paid and registered capital of Comtec Semi and Comtec Solar contributed by their equity holder which is the same as the owner of the Company.

The share capital of the Group at 31 December 2007, 31 December 2008 and 30 June 2009 represented the issued and fully paid capital of ordinary shares of the Company.

Authorised:	**Number of shares**	**Amount**
		HK$'000
Ordinary shares		
Ordinary shares of HK$0.01 each at 13 November 2007 and 31 December 2007	25,000,000	250
Increase by subdivision of 1 share of HK$0.01 each into 10 shares of HK$0.001 each	225,000,000	—
Increase in authorised share capital of the Company	750,000,000	750
Increase in authorised share capital of the Company	12,000,000	12
Redesignation and reclassification into preferred shares of HK$0.001 each (note 32)	(12,000,000)	(12)
Ordinary shares of HK$0.001 each at 31 December 2008 and 30 June 2009	1,000,000,000	1,000

Issued and fully paid:	**Number of shares**	**Amount**
		HK$'000
Ordinary shares		
Ordinary share of HK$0.01 each at 13 November 2007 and 31 December 2007	1	—
Increase by subdivision of 1 share of HK$0.01 each into 10 shares of HK$0.001 each	9	—
Issue of ordinary share of HK$0.001 each on 12 March 2008	265,999,990	266
Issue of ordinary shares of HK$0.001 each on 2 June 2008 (note 32)	959,468	1
Ordinary shares of HK$0.001 each at 31 December 2008 and 30 June 2009	266,959,468	267

	At 31 December		**At 30 June**
	2007	**2008**	**2009**
	RMB'000	**RMB'000**	**RMB'000**
Presented as RMB:			
Ordinary shares	—	239	239

The movements in the Company's authorised and issued ordinary share capital during the period from 13 November 2007 (date of incorporation) to 30 June 2009 are as follows:

(a) Upon incorporation, the authorised share capital of the Company was HK$250,000 divided into 25,000,000 ordinary shares of HK$0.01 each of which one subscriber share was allotted and issued at par on 13 November 2007.

(b) On 12 March 2008, the authorised share capital was subdivided from 25,000,000 shares of HK$0.01 each to consist of 250,000,000 share of HK$0.001 each, and increased from HK$250,000 to HK$1,000,000 by creation of 750,000,000 additional shares upon issue to rank pari passu in all respects with the existing shares of a par value of HK$0.001 each.

(c) On the same day, as consideration for a capital contribution from Fonty Holdings Limited ("Fonty"), the immediate and ultimate holding company of the Company, 265,999,990 shares of HK$0.001 each were allotted and issued to Fonty credited as fully paid.

(d) On 16 March 2008, the authorised share capital was increased from HK$1,000,000 to HK$1,012,000 by creation of 12,000,000 additional shares of HK$0.001 each and following the increase, the Company redesignated and reclassified the shares into 1,000,000,000 ordinary shares of HK$0.001 each and 12,000,000 preferred shares of HK$0.001 each. Details of the preferred shares are set out in note 32.

(e) On 2 June 2008, the Company issued 959,468 new shares of ordinary shares upon the issuance of Restricted Shares which the owner has the same rights as holding of ordinary shares of the Company except that the Restricted Shares may not be sold, transferred by gift, pledged or transferred or disposed prior to the date when the Restricted Shares become vested pursuant to the vesting schedule set out in 33(b), to a director of the Company, credited as fully paid. Details of the Restricted Shares are set out in note 33(b).

All the shares issued by the Company during the period subsequent to date of incorporation of the Company, except for the preferred shares and the Restricted Shares, rank pari passu with the then existing shares in all respects. Preferred shares carry same rights as ordinary shares except for preference at liquidation and the restrictions as set out in the articles of association of the Company. Restricted Shares carry the same right as other ordinary shares except for the restrictions and cancellation option of the Company as detailed in note 33(b).

32. PREFERRED SHARE CAPITAL

Details of the preferred shares of the Company are set out below:

Authorised:	**Number of shares**	**Amount**
		HK$'000
Preferred shares		
At 13 November 2007 and 31 December 2007	—	—
Redesignation and reclassification from ordinary shares of HK$0.001 each to preferred shares of HK$0.001 each (Note 31)	12,000,000	12
Preferred shares of HK$0.001 each at 31 December 2008	12,000,000	12
Increase in authorised preferred shared capital of the Company	14,000,000	14
Preferred shares of HK$0.001 each at 30 June 2009	26,000,000	26

Issued and fully paid:	**Number of shares**	**Amount**
		HK$'000
Preferred shares		
On 13 November 2007 and 31 December 2007	—	
Issue of preferred shares of HK$0.001 each on 18 March 2008	11,212,019	11
Preferred shares of HK$0.001 each at 31 December 2008	11,212,019	11
Issue of preferred shares of HK$0.001 each on 30 March 2009	13,587,494	14
Preferred shares of HK$0.001 each at 30 June 2009	24,799,513	25

	At 31 December		At 30 June
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Presented as RMB:			
Preferred shares	—	11	22

(i) Each preferred share is entitled to be converted into one ordinary share of HK$0.001 par value in the capital of the Company at any time.

(ii) Each preferred share will be converted automatically into one ordinary shares upon the [●], unless the preferred shares are converted into ordinary shares of the Company before the [●].

(iii) The preferred shares are not redeemable.

(iv) Prior written consent of the Company should be obtained before any transfer, unless it is a transfer to the ultimate shareholder of CMTF (defined below), the shareholder of the preferred shares.

(v) The owner of the preferred shares have the same voting rights as holding ordinary shares of the Company.

(vi) The owner of the preferred shares has a right of first offer over the ordinary shares proposed to be sold by the Company in the future. Such right of first offer however does not apply to the ordinary shares issued pursuant to the [●].

The movements in the Company's authorised and issued preferred share capital during the period from 13 November 2007 (date of incorporation) to 30 June 2009 are as follows:

(a) As disclosed in note 31(d), the Company redesignated and reclassified the ordinary shares into 1,000,000,000 ordinary shares of HK$0.001 each and 12,000,000 preferred shares of HK$0.001 each on 16 March 2008.

(b) On 18 March 2008, the Company allotted and issued 11,212,019 preferred shares of HK$0.001 each to CMTF Private Equity One ("CMTF"), which is an exempted limited partnership established under the laws of the Cayman Islands and independent party not connected or related to the Group, for a consideration of USD1.738 per share which was mutually agreed by the Group and CMTF, resulting to an aggregate amount of US$20,000,000 (equivalent to approximately RMB140,384,000).

(c) On 30 March 2009, the authorised preferred share capital of the Company was increased from HK$12,000 to HK$26,000 by creation of 14,000,000 additional preferred shares of HK$0.001 each. Following the increase, 13,587,494 additional preferred shares were issued to CMTF at nil consideration pursuant to a supplementary agreement entered into by the Company and CMTF on 30 March 2009 in relation to the subscription of shares mentioned in (b) above. The issue of such preferred shares was credited as fully paid by a transfer from share premium.

33. SHARE-BASED COMPENSATION

(a) **Share options to employees and others**

The Company's share option scheme (the "[●] Share Option Scheme") was adopted pursuant to a resolution passed on 2 June 2008 for the primary purpose of giving the grantees an opportunity to have personal stake in the Company and motivating the grantees to optimise their performance and efficiency, and retaining the grantees whose contributions are important to the Group's long-term growth and profitability. Under the [●] Share Option Scheme, the board of directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

At 2 June 2008, the number of shares in respect of which options had been granted under the [●] Share Option Scheme was 4,813,740, representing 1.73% of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the [●] Share Option Scheme is not permitted to exceed 3% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

Option granted must be taken up within 30 days from the date of grant, upon payment of HK$1.00. Subject to the vesting conditions as detailed below, options may be exercised at any time from the grant date of the share options to the 10th anniversary of the date of grant. The exercise price of the shares in the Company shall be a price, which is HK$12.34 per share, determined by the Board of directors of the Company with reference to future earnings potential of the Company and notified to the eligible participants. No further options will be offered or granted under the [●] Share Option Scheme after the [●].

Set out below are details of the outstanding options granted under the [●] Share Option Scheme on 2 June 2008:

		Number of options granted on 2 June 2008 and remained outstanding at 30 June 2008
(1)	Directors:	
	Mr. Chau Kwok Keung	1,990,240
	Mr. Shi Cheng Qi	350,000
(2)	Employees and others	2,473,500
		4,813,740

Notes:

(1) All options under the [●] Share Option Scheme were granted on 2 June 2008 at an exercise price of HK$12.34 per share.

(2) All holders of options granted under the [●] Share Option Scheme may only exercise their options in the following manner:

(i) 1/12th of the share options will vest on 1 September 2008 and become exercisable; and

(ii) From 1 September 2008 onwards, for the remaining 11/12th share options, 1/12th of the granted share options will vest at the end of each three-month period, on a quarterly basis.

(3) The options will be lapsed automatically and not be exercisable (to the extent not already exercised) when the grantees ceased to be employees of the Group.

The estimated fair values of the share options granted on 2 June 2008 was RMB41,932,000. These fair values were calculated using the Binomial model. The inputs into the model are follows:

Fair value of ordinary share	HK$13.67
Exercise price	HK$12.34
Expected volatility	68.6%
Suboptimal exercise multiple	3
Staff turnover rate	5%
Risk-free rate	4.195%
Expected dividend yield	nil

The risk-free rate was based on market yield of China International Government Bond with maturity date at 20 March 2018 at valuation date on 2 June 2008. Expected volatility was determined by using the historical volatility of entities with the business in which the Group is engaged. The suboptimal exercise multiple used in the model represents the estimated ratio of future share price over the exercise price when the grantees will exercise the options and has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

Pursuant to a board resolution dated 30 December 2008, the Company cancelled all share options.

The Group recognised the total expense of approximately RMB3,300,000 and RMB41,932,000 for the six months ended 30 June 2008 and the year ended 31 December 2008, respectively, in relation to share options granted by the Company.

During the six months ended 30 June 2009, no share options were granted, exercised, cancelled or lapsed.

(b) Restricted Shares to a director

	Number of shares	Fair values of Unvested Restricted Shares (as defined below)
		RMB'000
At 13 November 2007 and 31 December 2007	—	—
Granted on 2 June 2008	959,468	9,575
At 31 December 2008, 1 January 2009 and 30 June 2009	959,468	9,575

A total of 959,468, restricted shares ("Restricted Shares") representing 0.36% of the shares of the Company in issue on 2 June 2008, were granted to a director of the Company, Mr. Chau Kwok Keung, on 2 June 2008 at nil consideration. The terms of the grant are as follows:

(1) Under the terms of the grant, the Restricted Shares issued may not be sold, transferred by gift, pledged or transferred or disposed prior to the date when the Restricted Shares become vested as discussed in (2) below.

(2) Subject to the continued employment of the director with the Company, all Restricted Shares granted shall become vested (subject to cancellations by the Company before vesting) in the following manner:

(i) 2/12th of the Restricted Shares shall vest immediately after the closing of the [●] ("First Vesting"); and

(ii) the remaining 10/12th of the Restricted Shares shall vest thereafter in equal quarterly instalments of 1/12th of the Restricted Shares at the end of each three-month period quarterly after the First Vesting.

(3) In the event of the [●] does not complete on or before one year from 2 June 2008, the Company shall immediately cancel all the Restricted Shares held by the director which have not yet been vested ("Unvested Shares") unless the board of the directors of the Company in its discretion otherwise determines in which event the Restricted Shares shall not be forfeited. Pursuant to a board resolution passed on 1 June 2009, the board of directors determined that the Restricted Shares would not be forfeited till 1 June 2010.

(4) In the event of the director's voluntary resignation for any reason prior to the date when the Restricted Shares become vested as discussed in (2) above, the Company shall upon the effective date of such resignation (the "Resignation Date") immediately cancel all of the Unvested Shares. All such Unvested Shares shall be immediately forfeited and cancelled by the Company without any payment to the director. He shall be entitled to remain as the legal and beneficial owner of all the Restricted Shares vested in accordance with (1) above as of the Resignation Date.

(5) If the Company terminates his employment prior to the [●], all Restricted Shares held by the director become vested immediately, subject to the right of the Company to cancel the Restricted Shares as mentioned in (3) above. However, after the [●], in the event of the termination of the director's employment by the Company for any reason (including death or disability), with or without cause, all Unvested Shares shall upon the date of such termination immediately be vested and not subject to cancellation by the Company.

The fair values of the Restricted Shares of approximately RMB9,575,000 were estimated with the fair value of the ordinary shares after taking into account the weighted average fair values of put option. The put option represents the marketability discount of the Restricted Shares and will give the holder of the Restricted Shares the right to sell the underlying shares at any time during the term of the option up to the expiry as mentioned in (2) above. The fair value of the ordinary shares was determined with reference to the valuation of the Group's business carried out on the grant date by American Appraisal China Limited, an independent valuer not connected nor related to the Group. The valuation was determined by reference to the Income Approach using the discounted cashflow method. The weighted average fair value of the Restricted Shares of approximately HK$9.98, approximately 27% of marketability discount of each ordinary share, was calculated using the Black-Scholes pricing model with the inputs below:

Fair value and exercise price of ordinary share	HK$13.67
Expected volatility	60.3% to 76.0%
Expected life	0.47 to 2.97 year
Risk-free rate	3.300% to 3.740%
Expected dividend yield	nil

The risk-free rate was based on market yield of China International Government Bond with maturity at 10 December 2008, 17 April 2009, 6 June 2009, 23 August 2009, 6 December 2009, 19 February 2010, 26 April 2010, 20 August 2010, 19 November 2010, 14 April 2011 and 25 May 2011 at the valuation date on 2 June 2008. Expected volatility was determined by using the historical volatility of entities with the business in which the Group is engaged. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

During the year ended 31 December 2008, the six months ended 30 June 2008 and 30 June 2009, the Group did not recognise any expenses in relation to the Restricted Shares granted by the Company since the Restricted Shares have not yet become vested. During the year ended 31 December 2008, the six months ended 30 June 2008 and 30 June 2009, no Restricted Shares granted to the director of the Group were cancelled.

During the six months ended 30 June 2009, the terms of Restricted Shares were modified as mentioned in (3) above. In the opinion of the directors, the fair values of the Restricted Shares immediately after modification were the same as those immediately before modification.

34. RESERVES OF THE COMPANY

Other than ordinary and preferred share capital, the other reserves of the Company consist of share premium, restricted shares reserve, special reserve, share options reserve and the retained profits.

	The Company				
	Share premium	Share options reserve	Restricted shares reserve	Retained profits	Total
	RMB'000	RMB'000 (note b)	RMB'000 (note a)	RMB'000	RMB'000
At 13 November 2007 (date of incorporation) and 31 December 2007	—	—	—	—	—
Total comprehensive income for the year	—	—	—	74,585	74,585
Issue of new shares	305,097	—	(9,575)	—	295,522
Recognition of equity-settled share-based payments	—	41,932	—	—	41,932
Transfer	—	(41,932)	—	41,932	—
Dividends declared	—	—	—	(51,056)	(51,056)
At 31 December 2008	305,097	—	(9,575)	65,461	360,983
Total comprehensive income for the period	—	—	—	7,342	7,342
Issue of new preferred shares for nil consideration	(11)	—	—	—	(11)
At 30 June 2009	305,086	—	(9,575)	72,803	368,314

Notes:

a. **Restricted shares reserve**

On 2 June 2008, the Company issued 959,468 Restricted Shares to a director of the Company, at nil consideration. The Group recognised the fair values of the Restricted Sharers in the restricted shares reserve in accordance with the accounting policy for Restricted Shares in note 3. Details of the transaction are set out in note 33 (b).

b. **Share options reserve**

Share options reserve comprises the fair values of share options granted to the directors, employees and others of the Group by the Company. The Group recognised the fair values of the share options in accordance with the accounting policy for the share-based payment transactions in note 3.

35. PROMISSORY NOTES

The Group

The amounts represent two promissory notes payable to Mr. Zhang issued for the Group Reorganisation:

(a) Pursuant to an equity transfer agreement dated 21 November 2007, Comtec Semi (HK) acquired the entire equity interest in Comtec Semi from Mr. Zhang for a consideration of US$4.04 million (equivalent to approximately RMB29,511,000) and the said consideration was satisfied by the issuance of a promissory note in the amount of US$4.04 million on 31 December 2007.

(b) Pursuant to an equity transfer agreement dated 21 November 2007, Comtec Solar (HK) acquired the entire equity interest in Comtec Solar from Comtec Ltd, the sole proprietorship of Mr. Zhang, for a consideration of US$18.5 million (equivalent to approximately RMB135,135,000) and the said consideration was satisfied by the issuance of a promissory note in the amount of US$18.5 million on 31 December 2007.

The promissory notes are unsecured, denominated in USD, interest-bearing at monthly federal short-term rate used in the Internal Revenue Code of 1986 of the U.S. and repayable on 31 March 2009. As a result, the promissory notes are classified as non-current liabilities at 31 December 2007.

Pursuant to an assignment agreement dated on 12 March 2008, Mr. Zhang assigned the promissory notes to Fonty Holdings Limited ("Fonty"), the parent and ultimate holding company of the Company, as additional capital contribution to Fonty's capital. On the same day, Fonty and the Company entered into an assignment agreement which Fonty assigned the promissory notes to the Company and 265,999,990 new shares of the Company were issued to Fonty in return for the assignment. The promissory notes were cancelled upon the assignment on 12 March 2008. Details of the transaction are set out in note 37(c).

36. ACQUISITION OF A SUBSIDIARY

Pursuant to an equity transfer agreement dated 9 May 2008 entered into between Comtec Solar (HK) and HK Truecolor Technology Industry Limited ("HK Truecolor Technology"), an independent party not connected nor related to the Group, Comtec Solar (HK) agreed to acquire from HK Truecolor Technology the entire equity interests in Comtec Solar (Jiangxi) for a consideration of RMB136,000. In the opinion of the directors, the consideration was determined based on mutually agreed prices between the Group and HK Truecolor Technology. The transactions was completed on 29 May 2008. The said consideration was satisfied in cash on 30 May 2008.

The net assets acquired are as follows:

	Carrying amount before combination	Fair value adjustments	Fair value
	RMB'000	RMB'000	RMB'000
Net assets acquired:			
Property, plant and equipment	380	(380)	—
Other receivables	147	(147)	—
Other payables	(21)	21	—
	506	(506)	—
Goodwill			136
Total satisfied by cash			136
Net cash outflow arising on acquisition of Comtec Solar (Jiangxi):			
Cash consideration paid			(136)

The Group plans to carry out expansion of production capacity in the Nanchang Economy and Technology Development Zone. Given its accessible location in central China, the Group believes the acquisition would offer it with well-equipped infrastructure as Comtec Solar (Jiangxi) was established in Nanchang Economy and Technology Development Zone. Management of the Group considered that the excess cost over net assets acquired mainly represents business registration of Comtec Solar (Jiangxi). The management of the Group considered that the fair value of such business registration would not be measured reliably due to its nature and therefore not recognised separately from goodwill.

Comtec Solar (Jiangxi) did not contribute significantly to the Group's cash flow, turnover and profit for the year ended 31 December 2008 since the date of acquisition to 31 December 2008.

The contribution to the Group's turnover and profit for the year ended 31 December 2008 by Comtec Solar (Jiangxi) would be insignificant had the transaction been completed on 1 January 2008.

On 29 May 2008, the registered capital of Comtec Solar (Jiangxi) was increased from HK$500,000 (which is equivalent to approximately RMB440,000) to USD30,000,000 (which is equivalent to approximately RMB205,773,000). The due date of full payment of the increased registered capital of Comtec Solar (Jiangxi) will be 1 June 2010. On 4 July 2008, the paid-in capital was increased by approximately USD6,000,000 (which is equivalent to approximately RMB41,155,000) to approximately USD6,064,000 (which is equivalent to approximately RMB41,594,000).

37. MAJOR NON-CASH TRANSACTIONS

During the Relevant Periods, the major non-cash transactions are as follows:

(a) During the year ended 31 December 2006 and 31 December 2007, retained profits of approximately RMB5,249,000 and RMB48,439,000, respectively were capitalised as capital of the PRC operating subsidiaries of the Company;

(b) During the year ended 31 December 2006 and 31 December 2007 the increase in paid-in capital of Comtec Solar of approximately RMB4,851,000 and RMB57,205,000, respectively were settled by capitalisation of the current account with Mr. Zhang;

(c) During the year ended 31 December 2007, promissory notes with an aggregate amount of USD 22.54 million (equivalent to approximately RMB164,646,000) were issued by Comtec Semi (HK) and Comtec Solar (HK) for the acquisition of Comtec Semi and Comtec Solar to Mr. Zhang. Details of the transactions are set out in note 35;

(d) On 12 March 2008, the Company issued 265,999,990 new shares in return for the assignment of the promissory notes with the carrying amount of RMB160,190,000. Details of the transaction is set out in note 35;

(e) On 30 June 2008, the Company declared a dividend of approximately RMB51,056,000 to a shareholder pursuant to shareholders' resolution on that date, in which approximately RMB49,214,000 was settled through a current account with that shareholder, Mr. Zhang; and

(f) On 30 June 2008, the amount due from a shareholder was partly settled by the offset of amount due to this shareholder with carrying amount at approximately RMB12,842,000.

38. OPERATING LEASE COMMITMENTS

The Group as lessee

At the end of each reporting period, the Group was committed to make the following future minimum leases payments in respect of rented premises under non-cancellable operating leases which fall due as follows:

	At 31 December			At 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
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
	5,782	5,493	7,855	7,256

Operating lease payments represented rentals payable by the Group for certain of its office properties and factory premises. Except for the lease for the Group's factory with a term of 20 years, leases are negotiated for an average term from one to two years.

The Company has no significant operating lease commitments at the end of each reporting period.

39. CAPITAL COMMITMENTS

	The Group			
	At 31 December			At June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Capital expenditure contracted for but not provided in the Financial Information in respect of the acquisition of property, plant and equipment	39,219	1,805	117,883	119,315
Capital expenditure authorised for but not contracted for in respect of acquisition of property, plant and equipment	—	—	480,444	1,385,248
	39,219	1,805	598,327	1,504,563

The Company has no significant capital commitments at the end of each reporting period.

40. RETIREMENT BENEFITS SCHEMES

The Group participates in a Mandatory Provident Fund Scheme which was established under the Mandatory Provident Fund Ordnance in December 2000 (the "MPF Scheme"). The assets of the scheme are held separately from those of the Group and are invested in funds under the control of independent trustees. The Group contributes 5% of relevant payroll costs to the MPF Scheme, which contribution is matched by employees.

The employees of the PRC subsidiaries are members of the state-managed retirement benefits scheme operated by the PRC government. The PRC subsidiaries are required to contribute 22% of payroll costs to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

41. RELATED PARTY TRANSACTIONS

During the Relevant Periods and the six months ended 30 June 2008, the Group has the following significant transactions with related parties:

		Year ended 31 December			Six months ended 30 June	
Name of related party	Nature of transaction	2006	2007	2008	2008	2009
		RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Comtec Electronics	Sales of goods	1,574	1,143	616	616	—

Notes:

i Comtec Electronics is a company which principal activities are sales of electronic products, semiconductors and related products, provision of processing services, installation and support services. Mr. Zhang, the director and the controlling shareholder of the Company, has a significant beneficial interest in Comtec Electronics.

ii In the opinion of the directors, the above transactions will not continue after [●]. Comtec Electronics has ceased its operations in April 2008.

During the year ended 31 December 2007, promissory notes with an aggregate amount of USD 22.54 million (equivalent to approximately RMB164,646,000) were issued by Comtec Semi (HK) and Comtec Solar (HK) for the acquisition of Comtec Semi and Comtec Solar to Mr. Zhang. Details of the transactions are set out in note 35.

Details of the balances with related parties at the end of each reporting period are set out in notes 23, 24 and 28, which represented by (a) amount due from a shareholder, Mr. Zhang, (b) amount due from (to) a related company, which is Comtec Electronics and (c) amount due to a shareholder, who is Mr. Zhang. The directors have confirmed that all balances with the related parties which are non-trade nature were fully settled subsequent to 30 June 2009.

At 31 December 2006 and 31 December 2007, facilities granted to the Group of RMB2,000,000 and RMB20,000,000, respectively, were secured by personal guarantee from Mr. Zhang, a director and the controlling shareholder of the Company. The personal guarantee from Mr. Zhang was released upon the repayment of the bank loans in June 2008.

Compensation of key management personnel

The remuneration of directors and other members of key management during the Relevant Periods and the six months ended 30 June 2008 were as follows:

	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
Basic salaries and allowances .	328	644	2,247	953	1,365
Retirement benefits scheme contributions	15	39	76	20	66
Share-based payments expense.	—	—	33,016	2,582	—
	343	683	35,339	3,555	1,431

Key management represents the directors and other senior management personnel disclosed in the Document. The remuneration of key management is determined with reference to the performance to individuals and market trends.

F. ULTIMATE HOLDINGS COMPANY

The Company's ultimate holding company is Fonty Holdings Limited, a company which is incorporated in the British Virgin Islands.

G. DIRECTORS' REMUNERATION

Save as disclosed herein, no remuneration has been paid or is payable to the Company's directors by the Company or any of its subsidiaries during the Relevant Periods.

Under the arrangement presently in force, the aggregate amount of the directors' fees and emoluments, for the year ending 31 December 2009 is estimated to be approximately RMB2,413,000.

H. SUBSEQUENT EVENTS

a. Pursuant to a board resolution of the Company passed on 3 August 2009, the vesting conditions of the 959,468 Restricted Shares as set out in note 33(b) of section E granted by the Company to a director was changed and details of which are set out in paragraph headed "Further information about the Directors — Restricted Shares grant to Director" of Appendix VI of the Document;

b. On 3 August 2009, the Company granted 8,752,770 Restricted Shares and 230,000 share options to certain key management personnel and details of which are set out in paragraph headed "Further information about the Director — Restricted Share grant to Director" and "Restricted Shares grant to Senior Management" of Appendix VI of the Document.

c. [●]

The directors of the Company are in the opinion that the above transactions have no material impacts to the results of the Group for the year ending 31 December 2009.

I. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 30 June 2009.

Yours faithfully
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

The forecast of our consolidated profit attributable to the owners of the Company for the year ending 31 December 2009 is set out in the paragraph headed "Profit forecast for the year ending 31 December 2009" in the section headed "Financial Information" in this document.

(1) BASES AND ASSUMPTIONS

The forecast of our consolidated profit attributable to the owners of the Company for the year ending 31 December 2009 prepared by our Directors is based on the consolidated audited accounts of our Group for the six months ended 30 June 2009, the unaudited consolidated management accounts of our Group for the two months ended 31 August 2009 and a forecast of the consolidated results of our Group for the remaining four months ending 31 December 2009. The forecast has been prepared on the basis of the accounting policies consistent in all material aspects with those currently adopted by us as summarised in the accountants' report, the text of which is set out in Appendix I to this document and is based on the following principal assumptions:

(a) there will be no material changes in existing government policies or political, legal (including changes in legislation or regulations or rules), fiscal or economic conditions in Hong Kong, the PRC or any other places in which any member of our Group currently operates or which may have a material adverse effect on our Group's income;

(b) there will be no material changes in the bases or rates of taxation or duties applicable to our activities in Hong Kong, in the PRC, or any other place in which we operate or in which any member of our Group is incorporated or registered; and

(c) there will be no material adverse changes in the inflation rate, foreign currency exchange rates and interest rates from those currently prevailing.

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this document, received from American Appraisal China Limited, an independent valuer, in connection with its valuation as at not more than 3 months before the date of the document 2009 of our property interests.

American Appraisal China Limited
1506 Dah Sing Financial Centre
108 Gloucester Road / Wanchai / Hong Kong
美國評值有限公司
香港灣仔告士打道108號大新金融中心1506室
Tel +852 2511 5200 / Fax +852 2511 9626

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[●] 2009

The Board of Directors
Comtec Solar Systems Group Limited

Dear Sirs,

In accordance with your instructions to value the property interests of Comtec Solar Systems Group Limited (the "Company") and its subsidiaries (hereinafter together referred to as the "Group") in the People's Republic of China (the "PRC"), we confirm that we have carried out inspection for the properties, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the value of such property interests as at 31 July 2009 (the "valuation date").

This letter that forms part of our valuation report, explains the basis and methodology of valuation and clarifies our assumptions made on the ownership to the property interests and the limiting conditions.

BASIS OF VALUATION

Our valuation is our opinion of the market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

The market value is the best price reasonably obtainable in the market by the seller and the most advantageous price reasonably obtainable in the market by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special considerations or concessions granted by anyone associated with the sale, or any element of special value. The value of a property is also estimated without regard to costs of sales and purchase, and without offset for any associated taxes.

VALUATION METHODOLOGY

For the property interests in Group I, which are held and occupied by the Group in the PRC, our valuation has been based on the depreciated replacement cost of the buildings and structures (referred to as the "buildings") which is defined as the gross replacement cost of the buildings, from which appropriate deductions may then be made to allow for age, condition, economic/external and functional obsolescence and environmental factors etc. All of these might result in the existing buildings being worth less to the undertaking in occupation than would a new replacement. For the land portion, we have made reference to the similar transaction in the locality and the published standard land price from the local authorities.

For the property interests in Group II, which are rented or borrowed by the Group in the PRC, they are considered having no commercial value either because of their non-assignability in the market or because there are prohibitions against subletting and/or assignment contained in the respective leases and/or tenancy agreements or the lack of substantial profit rent.

ASSUMPTIONS

Our valuations have been made on the assumption that the owners sell the property interests on the market without the benefit of any deferred term contracts, leasebacks, joint ventures, management agreements or any similar arrangements which could serve to affect the value of such property interests. In addition, no forced sale situation in any manner is assumed in our valuations.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on any of the property valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that all the property interests are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

We have assumed that all consents, approvals and licenses from relevant government authorities for the buildings and structures erected or to be erected on the sites have been granted. Also, we have assumed that unless otherwise stated, all buildings and structures erected on the sites are held by the owners or permitted to be occupied by the owners.

We have valued property on the assumption that it is developed in accordance with the development proposals or building plans given to us. We have assumed that all consents, approvals and licences from relevant government authorities for the buildings and structures erected or to be erected thereon have been granted. Also, we have assumed that unless otherwise stated, all buildings and structures erected on the site are held by the owners or permitted to be occupied by the owner.

It is assumed that all applicable zoning, land use regulations and other restrictions have been complied with unless a non-conformity has been stated, defined and considered in the valuation certificate. Further, it is assumed that the utilisation of the land and improvements is within the boundaries of the property interests described and that no encroachment or trespass exists unless noted in the valuation certificate.

Other special assumptions and qualifications for each property, if any, have been stated in the footnotes of the valuation certificate for the respective property.

TITLE INVESTIGATION

We have been provided with extracts of documents in relation to the title of the property interests situated in the PRC. However, we have not scrutinised the original documents to verify ownership or to verify any amendments which may not appear on the copies handed to us. We have relied to a considerable extent on the information provided by the Group and the opinion ("PRC legal opinion") provided by the PRC legal adviser, Commerce & Finance Law Offices.

All legal documents disclosed in this letter and valuation certificates are for reference only and no responsibility is assumed for any legal matters concerning the legal title to the property interests set out in this letter and valuation certificates.

LIMITING CONDITIONS

We have relied to a considerable extent on the information provided by the Group and have accepted advice given to us by the Group on such matters as statutory notices, easements, tenure, occupancy, construction cost, site and floor areas and all other relevant matters. Dimensions and areas included in the valuation certificate are based on information contained in the documents provided to us and are only approximations.

We have no reason to doubt the truth and accuracy of the information as provided to us by the Group. We were also advised by the Group that no material facts have been omitted from the information so supplied. We consider we have been provided with sufficient information to reach an informed view.

We have inspected the exterior and, where possible, the interior of the properties included in the attached valuation certificate. However, no structural survey has been made and we are therefore unable to report as to whether the properties are or are not free of rot, infestation or any other structural defects. No tests were carried out on any of the services.

We have not carried out investigations on site to determine the suitability of ground conditions and services for the proposed development, nor have we undertaken archaeological, ecological or environmental surveys. Our valuation is prepared on the assumption that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred during construction period.

REMARKS

In valuing the property interests, we have complied with all the requirements contained in Paragraph 34(2), (3) of Schedule 3 of the Companies Ordinance (Cap. 32), Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited, the RICS Valuation Standards (6th Edition March 2009) published by the Royal Institution of Chartered Surveyors and the HKIS Valuation Standards on Properties (1st Edition 2005) published by the Hong Kong Institute of Surveyors.

Unless otherwise stated, all monetary amounts stated in this report are in Renminbi (RMB).

We enclose herewith the summary of values and the valuation certificates.

Yours faithfully,
For and on behalf of
AMERICAN APPRAISAL CHINA LIMITED
Eric M. H. Poon
MRICS, MHKIS
Assistant Vice President

Note: Mr. Eric Poon, who is a Chartered Valuation Surveyor, has over 9 years experience in valuation of properties in Hong Kong and the PRC

SUMMARY OF VALUATION

Group I — Property interests held and occupied by the Group in the PRC

No.	Property		Capital value in existing state as at 31 July 2009 *(RMB)*
1.	An Industrial Complex located at 21/4 Qiu, 5 Jie Fang, Xuanqiao Town, Nanhui District, Shanghai, the PRC 中國上海南匯區宣橋鎮5街坊21/4丘之綜合廠房		35,300,000
2.	22/3 Qiu, 5 Jie Fang, Xuanqiao Town, Nanhui District, Shanghai, the PRC 中國上海南匯區宣橋鎮5街坊22/3丘		80,133,000
		Sub-total:	115,433,000

Group II — Property interests rented or borrowed by the Group in the PRC

No.	Property	Capital value in existing state as at 31 July 2009 *(RMB)*
3.	An Industrial Complex located in Ximen Zhineng Court, Huinan Town, Nanhui District, Shanghai, the PRC 中國上海南匯區惠南鎮西門智能苑之綜合廠房	No commercial value
4.	Two office units located at No. 568 Fenglin Avenue, Nanchang Economy and Technological Development District, Nangchang City, Jiangxi Province, the PRC 中國江西省南昌市南昌經濟技術開發區楓林大道568號之兩間辦公室	No commercial value
	Sub-total:	Nil
	Grand Total:	115,433,000

VALUATION CERTIFICATE

Group I — Property interests held and occupied by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital Value in existing state as at 31 July 2009 *(RMB)*
1.	An Industrial Complex located at 21/4 Qiu, 5 Jie Fang, Xuanqiao Town, Nanhui District, Shanghai, the PRC 中國上海南匯區宣橋鎮5街坊21/4丘之綜合廠房	The subject property comprises an industrial complex erected on a parcel of land with a site area of about 12,564 square meters. The industrial complex consists of a 3-storey workshop building, a 2-storey warehouse building and ancillary facilities completed in about 2007. The total gross floor area of the buildings is 13,312.26 square meters. Summary of the buildings is as follows: **Usage** — **Gross Floor Area** *(sq.m.)* Workshop — 9,628.70 Warehouse — 3,683.56 Total: — 13,312.26 The land use rights of the property are held by Shanghai Comtec Solar Technology Co., Ltd. (上海卡姆丹克太陽能科技有限公司) for a term of 50 years expiring on 9 October 2056.	The property is occupied by the Group for industrial use.	35,300,000

Notes:

1. Pursuant to the Project Cooperation Agreement (項目合作協議書) entered into between Shanghai Nanhui Industrial Park District Management Committee (上海南滙工業園區管理委員會) and Shanghai Comtec Solar Technology Co., Ltd. (上海卡姆丹克太陽能科技有限公司) ("Comtec Solar") on 10 August 2005, the property with a site area of about 13,334 sq.m. has been transferred to the latter at a consideration of RMB260,000 per mu, inclusive of land use rights transfer premium, demolition and relocation costs and other basic infrastructure development costs for "Qi Tong Yi Ping" (七通一平).
2. Pursuant to the Shanghai City State-owned Land Use Rights Grant Contract (上海市國有土地使用權出讓合同), Hu Fang Di Nan Hui (2006) Chu Rang He Tong No. 164 (滬房地南匯(2006)出讓合同第164號), entered into between Shanghai City Nanhui District Housing and Land Resources Administration Bureau (上海市南匯區房屋土地管理局) and Comtec Solar on 10 October 2006, the land use rights of the property with a site area of 12,586 sq.m. have been granted to the latter for a term of 50 years for industrial use at a consideration of RMB660,765.
3. Pursuant to the Shanghai Certificate of Real Estate Ownership (上海市房地產權証), Hu Fang Di Nan Zi (2008) No. 004738 (滬房地南字(2008)第004738號), issued by Shanghai Housing and Land Resources Administration Bureau (上海市房屋土地資源管理局) dated 14 March 2008, the land use rights and building ownership rights of the property with a site area of 12,564 square meters and a total gross floor area of 13,312.26 square meters were granted to Comtec Solar for a term of 50 years expiring on 9 October 2056 for industrial use.

4. The PRC legal opinion states, inter alia, that:

   a. Comtec Solar is entitled to freely transfer, lease, mortgage and otherwise to deal with the land use rights and building ownership rights of the property.

   b. The property is not encumbered with mortgages, permissions and others encumbrances or other third parties' rights, conditions, orders, rules or other limitations. The legal adviser has not discovered there will be or would be any significant adverse effects on the value or ownership, usage, transfer and / or dispose or otherwise to deal with the land use rights and building ownership rights of the property.

   c. Comtec Solar has obtained the proper title of the land use rights and building ownership rights of the property by obtaining all permissions, permits and agreements successfully as well as carrying out proper registration and recording procedures legally. Comtec Solar has fully settled all land premium stated under the relevant land grant contract or the requirement of relevant authority.

   d. The PRC legal adviser has not discovered any issues violating the PRC law regarding the use of the property by Comtec Solar.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital Value in existing state as at 31 July 2009 *(RMB)*
2.	22/3 Qiu, 5 Jie Fang, Xuanqiao Town, Nanhui District, Shanghai, the PRC 中國上海南匯區宣橋鎮5街坊22/3丘	The subject property comprises a parcel of industrial land with a site area of approximately 27,952 square meters. The land use rights of the property is granted for a term of 50 years expiring on 10 August 2058.	The property is under construction.	80,133,000

Notes:

1. Pursuant to a Shanghai City State-owned Land Use Rights Grant Contract (上海市國有土地使用權出讓合同), Hu Fang Di Nan Hui (2008) Chu Rang He Tong No. 29 (滬房地南匯(2008)出讓合同第29號), entered into between Shanghai City Nanhui District Housing and Land Resources Administration Bureau (上海市南匯區房屋土地管理局) and Shanghai Comtec Solar Technology Co., Ltd. (上海卡姆丹克太陽能科技有限公司) ("Comtec Solar") on 11 August 2008, the land use rights of the property with a site area of 27,952 sq.m. have been granted to the latter for a term of 50 years for industrial use at a consideration of RMB10,730,000.
2. Pursuant to the Shanghai Certificate of Real Estate Ownership (上海市房地產權証), Hu Fang Di Nan Zi (2008) No. 027315 (滬房地南字(2008)第027315號), issued by Shanghai Housing and Land Resources Administrative Bureau (上海市房屋土地資源管理局), dated 16 October 2008, the land use rights of the property with a site area of 27,952 sq.m. is held by Comtec Solar, for a term of 50 years expiring on 10 August 2058 for industrial use.
3. Pursuant to a Construction Land Permit (建設用地批准書), Nan Hui Qu Shi (Xian) [2008] Nan Fu Tu Shu Zi No. 062 (南滙區市(縣)[2008]南府土書字第062號), issued by the People's Government of Nanhui District, Shanghai (上海市南滙區人民政府) dated 17 September 2008, the property with a site area of 27,952 square meters is permitted for industrial use.
4. Pursuant to the Construction Land Planning Permit (建設用地規劃許可証), Hu Nan Di (2008) 19081107E01382 (滬南地(2008)19081107E01382), issued by Shanghai Nanhui District Planning Administration Bureau (上海市南滙區規劃管理局) dated 7 November 2008, the property with site area of 27,952 square meters and development scale of 27,521 square meters have been approved for construction.
5. Pursuant to a Construction Works Planning Permit (建設工程規劃許可証), Hu Nan Jian (2008) 19080927F02394 (沪南建(2008) 19080927F02394), issued by Shanghai Nanhui District Planning Administration Bureau (上海市南滙區規劃管理局) dated 27 September 2008, the construction works of 26,488.4 square meters has been approved.
6. Pursuant to the Construction Works Commencement Permit (建築工程施工許可証), 0802NH0107D01310119200807151001, issued by Shanghai Nanhui District Construction Committee (上海市南滙區建設委員會), dated 28 October 2008, the commencement of the construction works of the property was permitted. The proposed development comprises convention center, factory, power station, pump room, security guardroom and other ancillary facilities with total construction floor area of about 26,488 square meters.
7. As confirmed by the Company, the estimated total construction cost of the property is about RMB75,000,000 and the total construction cost of the property incurred as at the date of valuation was about RMB69,468,000 (including a deposit paid of about RMB29,356,000). As advised by the Company, the construction works of the property is expected to be completed at the end of 2009.

8. Pursuant to the Mortgage Agreement (抵押合同), No. 31902200900002642, entered into between Comtec Solar and Shanghai Nanhui Branch of the Agriculture Bank of China (中國農業銀行上海市南滙支行) dated 30 March 2009 and the Certificate of Registration of Real Estate of Shanghai City (上海市房地產登記証明) No. Nan200915005333, issued by Shanghai City Nanhui District Registrar of Real Estate (上海市南滙區房地產登記處), Comtec Solar has mortgaged the construction in progress ("CIP") works of this property to Shanghai Nanhui Branch of the Agriculture Bank of China for a period from 30 March 2009 to 25 March 2010.

9. The PRC legal opinion states, inter alias, that:

   a. The application of the relevant permits of the aforesaid construction works have been made. After completion of the construction works has been inspected and accepted by the relevant government authorities, there will no legal impediment for the Comtec Solar to obtain the Building Ownership Rights Certificate.

   b. Comtec Solar is entitled to freely transfer, lease, mortgage and otherwise to deal with the land use rights of the property.

   c. Except for the mortgage disclosed herein, the property is not encumbered with other mortgages, permissions and others encumbrances or other third parties' rights, conditions, orders, rules or other limitations. The legal adviser has not discovered there will be or would be any significant adverse effects on the value or ownership, usage, transfer and / or dispose or otherwise to deal with the land use rights and building ownership rights of the property.

   d. The CIP works of the property has been mortgaged to Shanghai Nanhui Branch of the Agriculture Bank of China (中國農業銀行上海市南滙支行). Comtec Solar has registered this mortgage according to the local laws and this mortgage is legal and valid.

VALUATION CERTIFICATE

Group II — Property interests rented and occupied by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital Value in existing state as at 31 July 2009 *(RMB)*
3.	An Industrial Complex located in Ximen Zhineng Court, Huinan Town, Nanhui District, Shanghai, the PRC 中國上海南匯區惠南鎮西門智能苑之綜合廠房	The industrial complex comprises workshop, office building, canteen and guardroom with a total gross floor area of approximately 4,180 square meters completed in about 2000s. The property is rented by Shanghai Comtec Semiconductor Co., Ltd. (上海卡姆丹克半導體有限公司) ("Comtec Semi") from Shanghai Nanhui District Huinan Town Ximen Village (上海南匯區惠南鎮西門村) for a term of 20 years commencing from 1 February 2003 to 31 January 2023 at a current annual rent of RMB430,000, which is subject to renew after 5 years from 1 February 2013.	The property is occupied by the Group for industrial purpose.	No commercial value

Note:

1. Pursuant to an Industrial Building Lease Contract (工業廠房租賃合同) entered into between Shanghai Nanhui District Huinan Town Ximen Village (上海南匯區惠南鎮西門村) ("lessor" or "Ximen Village") and Comtec Semi ("lessee"), dated 23 November 2002, the property has been rented by the latter party for a term of 20 years commencing from 1 February 2003 to 31 January 2023 at a current annual rent of RMB430,000, which is subject to rent review starting on 1 February 2013, for production and operation activities stated in the relevant Business Licence.

2. Pursuant to the Approval for Lease of Vacant Industrial Building by Ximen Villager Committee (關于同意西門村民委員會出租閑置廠房的批覆), Hui Fu (2002) No. 99 (惠府(2002)99號) issued by People's Government of Shanghai City Nanhui District Huinan Town (上海市南匯區惠南鎮人民政府) dated 30 December 2002, the said People's Government agreed that Ximen Villager Committee to lease the vacant industrial building, originally known as Xiwote Electric Appliances Factory (西沃特電器廠) to Comtec Semi.

3. Pursuant to the Shanghai Certificate of Real Estate Ownership (上海市房地產權証), Hu Fang Di Nan Zi (2004) No. 011711(滬房地南字(2004)第011711號), issued by Shanghai Housing and Land Resources Administrative Bureau (上海市房屋土地資源管理局) dated 30 August 2004, the land use rights of the property have been allocated to Shanghai Xiwote Industry Company (上海西沃特實業公司) ("Shanghai Xiwote") for industrial use.

4. Shanghai City Nanhui District Huinan Ximen Villagers Committee (上海市南滙區惠南西門村民委員會) ("Ximen Villagers Committee") and Shanghai Xiwote have duly executed a Confirmation Letter on the Industrial Building Leased by Comtec Semi (關于上卡姆丹克半導體有限公司租賃相關廠事宜的確認書) dated 21 February 2008, the validity of the said Industrial Building Lease Contract is confirmed and recognized by Shanghai Xiwote.

5. As advised by the Company, Shanghai Xiwote is an independent third party of the Group and its connected persons.

6. The PRC legal opinion states, inter alia, that:

   a. As confirmed by the Company, Comtec Semi has conformed the lease conditions including proper usage of the property as agreed, settlement of rents and other relative fees during the lease term.

   b. As confirmed by Ximen Villagers Committee and Shanghai Xiwote, the buildings of the property were not subject to any mortgages and the rent receivable for the land portion of the property has been paid to the relevant land authority.

   c. Ximen Village was the legal owner of the property as of the date of signing the lease contract as mentioned above. The lease contract entered into between the lessor and lessee as mentioned above is legal, valid and enforceable; According to the PRC law, any changes of the ownership of the property during the lease term, will not affect the legal validity of the respective lease contract. Also, Ximen Village has obtained the authorization from Shanghai Xiwote to continue the lease contract. Therefore, the change of building ownership rights of the property will not affect the legal validity of the said lease contract.

   d. The said lease contract of the property has not been registered, but it will not affect the legal validity of this contract.

   e. According to "The explanation on certain questions relating to the application of laws regarding the judgment of the disputes arising from urban property leasing contract issued by the Supreme People's Court of the PRC" (最高人民法院關於審理城鎮房屋租賃合同糾紛案件具體應用法律若干問題的解釋) effective on 1 September 2009, on the condition that the lease agreement is legally valid, a lessee who legally occupied a leased property has the priority over a lessee who has completed the lease registration procedure but not yet occupied the said property to exercise the relevant lease agreement. In consequence, the right of Comte Solar to occupy and use the property under the said Lease Contract can be defended against third party.

7. According to page 160 of the "Business — Leased Properties" part of the document, the Directors have made their best endeavours to request the landlords to register the said lease contract, however, the property has not been registered by the lessors with the relevant PRC governmental authority.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital Value in existing state as at 31 July 2009 *(RMB)*
4.	Two office units located at No. 568 Fenglin Avenue, Nanchang Economy and Technological Development District, Nangchang City, Jiangxi Province, the PRC 中國江西省南昌市南昌經濟技術開發區楓林大道568號之兩間辦公室	The property comprises two office units with a total gross floor area of approximately 50 square meters. The property is borrowed by Jiangxi Comtec Solar Technology Co. Ltd. (江西卡姆丹克太陽能科技有限公司) ("Jiangxi Comtec Solar") from Investment Promotion Bureau of Nanchang Economy and Technological Development Zone (南昌經濟技術開發區招商局), for a term of 2 years commencing from 1 June 2008 to 31 May 2010. Jiangxi Comtec can occupy and use the property freely with the responsibility to pay for all the costs derived from the property such as electricity and water fee.	The property is occupied by the Group for office purpose.	No commercial value

Note:

1. Pursuant to a Borrow Contract of Office Space (辦公場所借用合同) entered into between Investment Promotion Bureau of Nanchang Economy and Technological Development Zone (南昌經濟技術開發區招商局) ("Investment Promotion Bureau") and Jiangxi Comtec Solar in 2008, the property has been borrowed by the latter party for a term of 2 years commencing from 1 June 2008 to 31 May 2010 for office use. Jiangxi Comtec Solar can occupy and use the property freely with the responsibility to pay for all the costs derived from the property such as electricity and water fee.
2. The PRC legal opinion states, inter alia, that:
   a. As the Investment Promotion Bureau has not provided the Building Ownership Rights Certificate to the PRC legal adviser, the title of the property as well as the rights of leasing the property cannot be verified. In case the Investment Promotion Bureau has no legal building ownership rights of the property, there will be uncertainty for Jiangxi Comtec Solar to use the property.

APPENDIX V SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND THE CAYMAN ISLANDS COMPANIES LAW

Set out below is a summary of certain provisions of our Memorandum and Articles of Association and of certain aspects of the Cayman Company Law.

We were incorporated in the Cayman Islands as an exempted company with limited liability on 13 November 2007 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the "Companies Law"). The Memorandum of Association (the "Memorandum") and the Articles of Association (the "Articles") comprise its constitution.

1. MEMORANDUM OF ASSOCIATION

(i) The Memorandum states, inter alia, that the liability of members of our Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which we are established are unrestricted (including acting as an investment company), and that we shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable all functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that we are an exempted company that we will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of our business carried on outside the Cayman Islands.

(ii) we may by special resolution alter our Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on 2 October 2009. The following is a summary of certain provisions of the Articles:

(i) Directors

(a) *Power to allot and issue shares and warrants*

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as we may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of our Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in our capital on such terms as it may from time to time determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in our Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither we nor the Board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(b) *Power to dispose of the assets of our Company or any subsidiary*

There are no specific provisions in the Articles relating to the disposal of our assets or any of our subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by us and which are not required by the Articles or the Companies Law to be exercised or done by us in general meeting.

(c) *Compensation or payments for loss of office*

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by us in general meeting.

(d) *Loans and provision of security for loans to Directors*

There are provisions in the Articles prohibiting the making of loans to Directors.

(e) *Disclosure of interests in contracts with our Company or any of its subsidiaries*

A Director may hold any other office or place of profit with our Company (except that of the auditor of our Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the Board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by us or any other company in which we may be interested, and shall not be liable to account to us or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his

interest in, such other company. Subject as otherwise provided by the Articles, the Board may also cause the voting power conferred by the shares in any other company held or owned by us to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with us, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to us or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with us shall declare the nature of his interest at the meeting of the Board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters, namely:

(1) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of our Company or any of its subsidiaries;

(2) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of our Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

(3) any contract or arrangement concerning an offer of shares or debentures or other securities of or by us or any other company which we may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or subunderwriting of the offer;

(4) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of our Company by virtue only of his/their interest in our shares or debentures or other securities;

(5) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder or in which the Director and any of his associates are not in aggregate beneficially interested in 5% or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest or that of any of his associates is derived); or

(6) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his associates and our employees or of any of our subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(f) *Remuneration*

The ordinary remuneration of the Directors shall from time to time be determined by us in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all traveling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of our shares or of our debentures or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of our Company or who performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The Board may establish or concur or join with other companies (being our subsidiary companies or companies with which we are associated in business) in establishing and making contributions out of our monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with us or any of our subsidiaries) and our ex-employees and their dependents or any class or classes of such persons.

The Board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(g) *Retirement, appointment and removal*

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last reelected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the Board or as an addition to the existing Board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until our next following annual general meeting and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in our Company by way of qualification.

A Director may be removed by an ordinary resolution of our Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and our Company) and may by ordinary resolution appoint another in his place. Unless otherwise determined by us in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office or director shall be vacated:

(1) if he resigns his office by notice in writing delivered to us at our registered office for the time being or tendered at a meeting of the Board;

(2) becomes of unsound mind or dies;

(3) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;

(4) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;

(5) if he is prohibited from being a director by law;

(6) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The Board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with us for such period and upon such terms as the Board may determine and the Board may revoke or terminate any of such appointments. The Board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the Board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(h) *Borrowing powers*

The Board may exercise all the powers of our Company to raise or borrow money, to mortgage or charge all or any part of our undertaking, property and assets (present and future) and uncalled capital and, subject to the Companies Law, to issue debentures, bonds and other securities of our Company, whether outright or as collateral security for any debt, liability or obligation of our Company or of any third party.

Note: These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of us.

(i) *Proceedings of the Board*

The Board may meet for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(j) *Register of Directors and Officers*

The Companies Law and the Articles provide that we are required to maintain at our registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

(ii) Alterations to constitutional documents

The Articles may be rescinded, altered or amended by us in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of our Memorandum, to amend our Articles or to change our name.

(iii) Alteration of capital

We may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

(a) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;

(b) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;

(c) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as we in general meeting or as the Directors may determine;

(d) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as we have power to attach to unissued or new shares; or

(e) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

We may subject to the provisions of the Companies Law reduce our share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(iv) Variation of rights of existing shares or classes of shares

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will mutatis mutandis apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking pari passu therewith.

(v) Special resolution-majority required

Pursuant to the Articles, a special resolution of our Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice of not less than twenty-one (21) clear days and not less than ten (10) clear business days specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that if permitted by the Designated Stock Exchange (as defined in the Articles), except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five (95)% in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which notice of less than twenty-one (21) clear days and less than ten (10) clear business days has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of our Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

(vi) Voting rights (generally and on a poll) and right to demand a poll

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll.

If a recognised clearing house (or its nominee(s)) is a member of our Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of our Company or at any meeting of any class of members of our Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of our shares held by that clearing house (or its nominee(s)).

Where we have any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Articles), required to abstain from voting on any particular resolution of our Company or restricted to voting only for or only against any particular resolution of our Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(vii) Requirements for annual general meetings

An annual general meeting of our Company must be held in each year, other than the year of adoption of the Articles (within a period of not more than 15 months after the holding of the last preceding annual general meeting or a period of 18 months from the date of adoption of the Articles, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

(viii) Accounts and audit

The Board shall cause true accounts to be kept of the sums of money received and expended by us, and the matters in respect of which such receipt and expenditure take place, and of our property, assets, credits and liabilities and of all other matters required by the Companies Law or necessary to give a true and fair view of our affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of our Company except as conferred by law or authorised by the Board or us in general meeting.

A copy of every statement of financial position and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before us at our general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of our general meetings under the provisions the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), we may send to such persons summarised financial statements derived from our annual accounts and the directors' report instead provided that any such person may by notice in writing served on us, demand that we send to him, in addition to summarised financial statements, a complete printed copy of our annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by us in general meeting or in such manner as the members may determine.

Our financial statements shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

(ix) Notices of meetings and business to be conducted thereat

An annual general meeting shall be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (v) above) be called by notice of at least twenty-one (21) clear days and not less than ten (10) clear business days. All other extraordinary general meetings shall be called by at notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition, notice of every general meeting shall be given to all members of our Company other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from us, and also to our auditors for the time being.

Notwithstanding that a meeting of our Company is called by shorter notice than that mentioned above if permitted by the rules of the Designated Stock Exchange, it shall be deemed to have been duly called if it is so agreed:

(a) in the case of a meeting called as an annual general meeting, by all members of our Company entitled to attend and vote thereat; and

(b) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five (95)% in nominal value of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

(a) the declaration and sanctioning of dividends;

(b) the consideration and adoption of the accounts and statement of financial position and the reports of the directors and the auditors;

(c) the election of directors in place of those retiring;

(d) the appointment of auditors and other officers;

(e) the fixing of the remuneration of the directors and of the auditors;

(f) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of our unissued shares representing not more than twenty per cent (20)% in nominal value of its existing issued share capital; and

(g) the granting of any mandate or authority to the Directors to repurchase our securities.

(x) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The Board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The Board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which we have a lien.

The Board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to us in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

(xi) Power for our Company to purchase its own shares

We are empowered by the Companies Law and the Articles to purchase our own Shares subject to certain restrictions and the Board may only exercise this power on behalf of us subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles).

(xii) Power for any subsidiary of our Company to own shares in our Company

There are no provisions in the Articles relating to ownership of our shares by a subsidiary.

(xiii) Dividends and other methods of distribution

Subject to the Companies Law, we in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of our profits, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (a) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (b) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to us on account of calls or otherwise.

Whenever the Board or our Company in general meeting has resolved that a dividend be paid or declared on our share capital, the Board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. We may also upon the recommendation of the Board by an ordinary resolution resolve in respect of any one particular dividend of our Company that we may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in our register in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to us. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or our Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the Board for the benefit of us until claimed and we shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the Board and shall revert to us.

No dividend or other monies payable by us on or in respect of any share shall bear interest against us.

(xiv) Proxies

Any member of our Company entitled to attend and vote at a meeting of our Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of our Company or at a class meeting. A proxy need not be a member of our Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(xv) Call on shares and forfeiture of shares

Subject to the Articles and to the terms of allotment, the Board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty (20)% per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The Board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or instalments payable upon any shares held by him, and upon all or any of the monies so advanced our Company may pay interest at such rate (if any) as the Board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the Board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to us all monies which, at the date of forfeiture, were payable by him to us in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty (20)% per annum as the board determines.

(xvi) Inspection of register of members

Pursuant to the Articles, the register and branch register of members shall be open to inspection for at least two (2) hours on every Business Day by members without charge, or by any other person upon a maximum payment of HK$2.5 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

(xvii) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at our relevant general meeting or at any relevant general meeting of any class of members of our Company.

(xviii) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to our shareholders under the Cayman law, as summarised in paragraph 3(vi) of this Appendix.

(xix) Procedures on liquidation

A resolution that we be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if we shall be wound up and the assets available for distribution amongst the members of our Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed pari passu amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if we shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If we shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of our assets whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(xx) Untraceable members

Pursuant to the Articles, we may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, we have not during that time received any indication of the existence of the member; and (iii) we have caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since the date of such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to us and upon our receipt of such net proceeds, it shall become indebted to the former member of our Company for an amount equal to such net proceeds.

(xxi) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by us and we do any act or engage in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. THE CAYMAN ISLANDS COMPANY LAW

We are incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(i) Operations

As an exempted company, our operations must be conducted mainly outside the Cayman Islands. We are required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of our authorised share capital.

(ii) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the "Court"), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way. The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(iii) Financial assistance to purchase shares of a company or its holding company

Subject to all applicable laws, we may give financial assistance to our Directors and employees, our subsidiaries, our holding company or any subsidiary of such holding company in order that they may buy Shares in our Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, we may give financial assistance to a trustee for the acquisition of Shares in our Company or shares in any such subsidiary or holding company to be held for the benefit of our employees, our subsidiaries, any holding company of our Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

(iv) Purchase of shares and warrants by a company and its subsidiaries

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner or purchase, a company cannot purchase any of its own shares unless the manner of purchase has first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under the Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under the Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(v) Dividends and distributions

With the exception of section 34 of the Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m) above for further details).

(vi) Protection of minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(vii) Management

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(viii) Accounting and auditing requirements

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

(ix) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(x) Taxation

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to us levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

As an exempted company, we have applied for and expect to obtain from the Governor-in-Cabinet of the Cayman Islands pursuant to the Tax Concessions Law (1999 Revision) of the Cayman Islands an undertaking:

(a) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to us or our operations; and

(b) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of our shares, debentures or other obligations.

The aforementioned undertaking for us is for a period of twenty years.

(xi) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of the Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(xii) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(xiii) Inspection of corporate records

Members of our Company will have no general right under the Companies Law to inspect or obtain copies of our register of members or corporate records. They will, however, have such rights as may be set out in our Articles.

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

(xiv) Winding up

A company may be wound up compulsorily by either an order of the Court or by a special resolution of its members; voluntarily; or under supervision of the Court. The Court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum expires, or the event occurs on the occurrence of which the memorandum provides that the company is to be dissolved; the company does not commence business for a year from its incorporation (or suspends its business for a year), or, the company is unable to pay its debts. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidator; and the Court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court. A person shall be qualified to accept an appointment as an official liquidator if he is duly qualified in terms of the Insolvency Practitioners Regulations. A foreign practitioner may be appointed to act jointly with a qualified insolvency practitioner. In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets. A declaration of solvency must be signed by all the directors of a company being voluntarily wound up within twenty-eight (28) days of the commencement of the liquidation, failing which, its liquidator must apply to Court for an order that the liquidation continue under the supervision of the Court.

Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval. A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them (pari passu if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. At least twenty-one (21) days before the final general meeting shall be called by Public Notice (as defined in the Companies Law) or otherwise as the Registrar of Companies of the Cayman Islands may direct, the liquidator shall send a notice specifying the time, place and object of the meeting to each contributory in any manner authorised by the company's articles of association and published in the Gazette in the Cayman Islands.

(xv) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five (75)% in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(xvi) Compulsory acquisition

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than ninety (90)% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(xvii) Indemnification

The Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Conyers Dill & Pearman, our special legal counsel on the Cayman Islands law, have sent to us a letter of advice summarising certain aspects of the Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix VII to this document. Any person wishing to have a detailed summary of the Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

FURTHER INFORMATION ABOUT OUR COMPANY

1. Incorporation

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 13 November 2007. We have established a place of business in Hong Kong at 35/F Central Plaza, 18 Harbour Road, Wan Chai, Hong Kong and was registered in Hong Kong as a non-Hong Kong company under Part XI of the Hong Kong Companies Ordinance on 17 March 2008. Mr. Chau Kwok Keung of Flat B, 9th Floor, Royal Peninsula, 8 Hung Lai Road, Kowloon, Hong Kong has been appointed as our authorised representative for the acceptance of service of process and notices on behalf of us at the above address.

As we were incorporated in the Cayman Islands, we operate subject to the relevant law of the Cayman Islands and its constitution which comprises a memorandum of association and an articles of association. A summary of certain relevant provisions of its constitution and certain relevant aspects of the Companies Law is set out in Appendix V of this document.

2. Changes in share capital of our Company

As at the date of incorporation, our authorised share capital was HK$250,000 divided into 25,000,000 shares of HK$0.01 each. On 13 November 2007, 1 share of HK$0.01 each was allotted and issued to Offshore Incorporations (Cayman) Limited credited as fully paid at par, as the initial subscriber, which was subsequently transferred to Fonty on the same day.

On 12 March 2008, our authorised share capital was subdivided from 25,000,000 shares of HK$0.01 each to consist of 250,000,000 shares of HK$0.001 each, and increased from HK$250,000 to HK$1,000,000 by creation of 750,000,000 additional shares upon issue to rank pari passu in all respects with the existing shares of a par value of HK$0.001 each.

On the same day, as consideration for a capital contribution from Fonty, 265,999,990 shares of HK$0.001 each was allotted and issued to Fonty credited as fully paid.

On 16 March 2008, our authorised share capital was increased from HK$1,000,000 to HK$1,012,000 by creation of 12,000,000 additional shares of HK$0.001 each and following the increase, we have redesignated and reclassified the shares into 1,000,000,000 ordinary shares of HK$0.001 each and 12,000,000 preferred shares of HK$0.001 each with such rights subject to such restrictions as set out in the Articles of Association.

On 18 March 2008, we allotted and issued 11,212,019 Series A Shares of HK$0.001 each to CMTF credited as fully paid.

On 30 March 2009, our authorised share capital was further increased to HK$1,026,000 by the creation of 14,000,000 preferred shares of HK$0.001 each.

On 30 March 2009, we allotted and issued an additional 13,587,494 Series A Shares of HK$0.001 each to CMTF credited as fully paid.

On 25 September 2009, the 24,799,513 Series A Shares held by CMTF, being all Series A Shares in issue then, were converted into 24,799,513 ordinary Shares of our Company on the basis of one Series A Share for one Share.

On 2 October 2009, the authorised share capital of the Company of HK$1,026,000 divided into 1,000,000,000 Shares of par value HK$0.001 each and 26,000,000 Series A Preferred Shares of HK$0.001 par value each was reclassified and redesignated to 1,026,000,000 Shares of par value HK$0.001 each. On the same date, the authorised share capital was further increased to HK$7,600,000 by the creation of an additional 6,574,000,000 Shares of par value HK$0.001 each.

Immediately following completion of the [●] and the [●] and assuming that the [●] is not exercised, our authorised share capital will be HK$7,600,000 divided into 7,600,000,000 Shares, of which 1,000,000,000 Shares will be issued fully paid or credited as fully paid, and 6,600,000,000 Shares will remain unissued. Other than pursuant to the general mandate to issue Shares referred to in the paragraph headed "Written resolutions of our Shareholders passed on 2 October 2009" in this appendix and pursuant to the [●] Share Option Scheme and the Share Option Scheme, the Directors do not have any present intention to issue any of the authorised but unissued share capital of our Company and, without prior approval of the Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

Save as disclosed in this document, there has been no alteration in our share capital since incorporation.

3. Corporate Reorganisation

In order to rationalise our structure and prepare for the [●], we have undertaken several restructuring steps which involved in the following:

(a) The following companies were incorporated as investment holding entities for our Group:

(i) Most Talent Limited (the former name of Comtec Solar (Cayman)) was incorporated as an exempted company in the Cayman Islands on 23 April 2007 with an authorised share capital of US$50,000 divided into 50,000 shares of US$1.00 each.

(ii) New Genuine Limited (the former name of Comtec Semi (Cayman)) was incorporated as an exempted company in the Cayman Islands on 23 April 2007 with an authorised share capital of US$50,000 divided into 50,000 shares of US$1.00 each.

(iii) Star View (Hong Kong) Limited (the former name of Comtec Solar (HK)) was incorporated in Hong Kong on 12 October 2007 with an authorised share capital of HK$10,000 divided into 10,000 shares of HK$1.00 each.

(iv) Winkle (Hong Kong) Limited (the former name of Comtec Semi (HK)) was incorporated in Hong Kong on 12 October 2007 with an authorised share capital of HK$10,000 divided into 10,000 shares of HK$1.00 each.

(b) On 5 September 2007, Fonty was incorporated in the BVI with an authorised capital of US$50,000 divided into 50,000 shares of US$1.00 each. Fonty was established as an investment vehicle of Mr. Zhang.

(c) On 13 November 2007, our Company was incorporated as an exempted company in the Cayman Islands with an authorised share capital of HK$250,000 divided into 25,000,000 shares of HK$0.01 each.

(d) On 13 November 2007, Mrs. Wenba Wu, nominee shareholder of Comtec Solar (Cayman) and Comtec Semi (Cayman) on behalf of Mr. Zhang, transferred his 100% legal interest in Comtec Solar (Cayman) and Comtec Semi (Cayman) to us for a nominal consideration.

(e) Pursuant to an equity transfer agreement dated 21 November 2007, Comtec Semi (HK) acquired from Mr. Zhang his entire equity interest in Comtec Semi for a consideration of US$4.04 million. The said consideration was satisfied by the issuance of a promissory note in the equivalent amount on 31 December 2007 ("Semi Note").

(f) Pursuant to an equity transfer agreement dated 21 November 2007, Comtec Solar (HK) acquired from Mr. Zhang, through the Relevant Business, its entire equity interest in Comtec Solar for a consideration of US$18.5 million. The said consideration was satisfied by the issuance of a promissory note in the equivalent amount on 31 December 2007 ("Solar Note").

(g) In preparation for the investment by CMTF, we restructured our share capital on 12 March 2008 by increasing our authorised share capital and subdividing the number of our issued Shares. After such restructuring, the authorised share capital of our Company was increased to HK$1,000,000 divided into 1,000,000,000 shares of HK$0.001 each. The one Share held by Fonty was subdivided into ten Shares with a par value of HK$0.001 each.

(h) On 12 March 2008, Mr. Zhang assigned the Semi Note to Fonty as additional capital contribution. The Semi Note was transferred by Fonty to our Company and in return, our Company issued 47,677,017 Shares to Fonty. Our Company then delivered the Semi Note to Comtec Semi (Cayman) and thereafter, Comtec Semi (Cayman) delivered the Semi Note to Comtec Semi (HK) as an intercompany capital contribution of US$4.04 million. Each of Comtec Semi (Cayman) and Comtec Semi (HK) issued one new share to our Company and New Genuine Limited, respectively, in return for such capital contribution.

(i) On 12 March 2008, Mr. Zhang assigned the Solar Note to Fonty as additional capital contribution. The Solar Note was transferred by Fonty to our Company and in return, our Company issued 218,322,973 Shares to Fonty. Our Company then delivered the Solar Note to Comtec Solar (Cayman) and thereafter, Comtec Solar (Cayman) delivered the Semi Note to Comtec Solar (HK) as an intercompany capital contribution of US$18.5 million. Each of Comtec Solar (Cayman) and Comtec Solar (HK) issued one new share to our Company and Comtec Solar (Cayman), respectively, in return for such capital contribution.

(j) On 16 March 2008, the authorised share capital of our Company has been increased to HK$1,012,000 by the creation of 12,000,000 new Shares of HK$0.001 each and that following the increase, the authorised share capital of our Company has been redesignated and reclassified into 1,000,000,000 ordinary shares of HK$0.001 each and 12,000,000 preferred shares of HK$0.001 each, all of which are designated as Preferred A Shares with such rights subject to such restrictions as set out in the Articles.

Pursuant to a subscription agreement entered into between CMTF and our Company dated 18 March 2008, our Company allotted and issued 11,212,019 Series A Shares to CMTF credited as fully paid.

(k) Prior to the Corporate Reorganisation, Mr. Zhang used Comtec Ltd as a trade name in the U.S. to carry on business as a sole proprietor, which performed sourcing and trading activities for Comtec Semi and Comtec Solar. Mr. Zhang has ceased to conduct the Relevant Business since July 2008. After the said cessation, all of the sourcing and trading functions of Comtec Ltd are succeeded by Comtec Solar (HK). Mr. Zhang has ceased to use his trade name Comtec Ltd to carry on any business activity, including any business related to solar wafer production or sale, which would directly or indirectly compete with our Group's business. Comtec Ltd, being only a trade name and not a separate legal entity, does not form part of our Group after the Corporate Reorganisation.

(l) Pursuant to an equity transfer agreement dated 9 May 2008 entered into between Comtec Solar (HK) and HK Truecolor Technological Industry Limited, an Independent Third Party, Comtec Solar (HK) agreed to acquire from HK Truecolor Technological Industry Limited the entire equity interest in HK Truecolor Technologyical Industry Limited (Nanchang) (真彩(南昌)科技實業有限公司) (the former name of Comtec Solar (Jiangxi)) for a consideration of RMB136,000.

(m) On 30 March 2009, the authorised share capital of our Company has been further increased to HK$1,026,000 by the creation of 14,000,000 preferred shares of HK$0.001 each, all of which were designated as Series A Shares. Pursuant to a supplemental subscription agreement entered into between our Company and CMTF dated 30 March 2009, our Company allotted and issued an additional 13,587,494 Series A Shares to CMTF credited as fully paid by the capitalization of HK$13,587.49 standing to the credit of the share premium account of our Company.

(n) Conditional on our share premium account being credited as a result of the [●], the sum of HK$[449,488.25] will be capitalised and apply in paying up in full at par [449,488,249] Shares for allotment and issue to Fonty and such Shares to be allotted and issued shall rank pari passu in all respects with the then existing issued Shares of our Company.

4. Changes in share capital of the subsidiaries of our Company

A. *Subsidiaries of our Company*

Our subsidiaries are referred to in the Accountants' Report, the text of which is set out in Appendix I to this document.

B. *Changes in share capital of the subsidiaries of our Company*

Save as disclosed in the section headed "Corporate Reorganisation" in this Appendix, the following changes in share capital and changes in shareholdings of certain subsidiaries of our Company took place during the two years immediately preceding the date of this document:

Comtec Solar (Cayman)

(a) Comtec Solar (Cayman), a wholly-owned subsidiary of our Company, was incorporated as a limited liability company in the Cayman Islands on 23 April 2007;

(b) On 23 April 2007, one share of US$1.00 in Comtec Solar (Cayman) was allotted and issued credited as fully paid to Offshore Incorporations (Cayman) Limited for a consideration of US$1.00;

(c) On 6 November 2007, Mrs. Wenba Wu, as a nominee shareholder for Mr. Zhang, acquired from Offshore Incorporations (Cayman) Limited one share of US$1.00 in Comtec Solar (Cayman) for a consideration of US$1.00;

(d) On 13 November 2007, we acquired from Mrs. Wenba Wu, as a nominee shareholder for Mr. Zhang, one share of US$1.00 in Comtec Solar (Cayman) for a consideration of US$1.00; and

(e) On 12 March 2008, one share of US$1.00 in Comtec Solar (Cayman) was allotted and issued credited as fully paid to our Company for valuable consideration.

Comtec Semi (Cayman)

(a) Comtec Semi (Cayman), a wholly-owned subsidiary of our Company, was incorporated as a limited liability company in the Cayman Islands on 23 April 2007;

(b) On 23 April 2007, one share of US$1.00 in Comtec Semi (Cayman) was allotted and issued credited as fully paid to Offshore Incorporations (Cayman) Limited for a consideration of US$1.00;

(c) On 6 November 2007, Mrs. Wenba Wu, as a nominee shareholder for Mr. Zhang, acquired from Offshore Incorporations (Cayman) Limited one share of US$1.00 in Comtec Semi (Cayman) for a consideration of US$1.00;

(d) On 13 November 2007, we acquired from Mrs. Wenba Wu, as a nominee shareholder for Mr. Zhang, one share of US$1.00 in Comtec Semi (Cayman) for a consideration of US$1.00; and

(e) On 12 March 2008, one share of US$1.00 in Comtec Semi (Cayman) was allotted and issued credited as fully paid to our Company for valuable consideration.

Comtec Solar (HK)

(a) Comtec Solar (HK), a wholly-owned subsidiary of our Company, was incorporated as a limited liability company in Hong Kong on 12 October 2007;

(b) On 12 October 2007, one share of HK$1.00 in Comtec Solar (HK) was allotted and issued credited as fully paid to Bosco Nominees Limited for a consideration of HK$1.00;

(c) On 6 November 2007, Most Talent Limited (the former name of Comtec Solar (Cayman)) acquired from Bosco Nominees Limited one share of HK$1.00 in Comtec Solar (HK) for a consideration of HK$1.00; and

(d) On 12 March 2008, one share of HK$1.00 in Comtec Solar (HK) was allotted and issued credited as fully paid to Comtec Solar (Cayman) for valuable consideration.

Comtec Semi (HK)

(a) Comtec Semi (HK), a wholly-owned subsidiary of our Company, was incorporated as a limited liability company in Hong Kong on 12 October 2007;

(b) On 12 October 2007, one share of HK$1.00 in Comtec Semi (HK) was allotted and issued credited as fully paid to Bosco Nominees Limited for a consideration of HK$1.00;

(c) On 6 November 2007, New Genuine Limited (the former name of Comtec Semi (Cayman)) acquired from Bosco Nominees Limited one share of HK$1.00 in Comtec Semi (HK) for a consideration of HK$1.00; and

(d) On 12 March 2008, one share of HK$1.00 in Comtec Semi (HK) was allotted and issued credited as fully paid to our Company for valuable consideration.

Comtec Solar (Jiangxi)

(a) HK Truecolor Technologyical Industry Limited (Nanchang) (真彩(南昌)科技實業有限公司) (the former name of Comtec Solar (Jiangxi)), a wholly-owned subsidiary of our Company, was incorporated as a WFOE in the PRC on 22 March 2006, with a registered capital of HK$500,000 and wholly owned by HK Truecolor Technological Industry Limited, an Independent Third Party;

(b) Pursuant to an equity transfer agreement dated 9 May 2008, Comtec Solar (HK) acquired the entire equity interest in HK Truecolor Technologyical Industry Limited (Nanchang) (真彩(南昌)科技實業有限公司) (the former name of Comtec Solar (Jiangxi)) from HK Truecolor Technological Industry Limited for a consideration of RMB136,000; and

(c) On 29 May 2008, the registered capital of Comtec Solar (Jiangxi) was increased from HK$500,000 to US$30 million.

Comtec Semi

(a) Comtec Semi, a wholly-owned subsidiary of our Company, was incorporated as a limited liability company in the PRC on 21 December 1999 with a registered capital of US$1 million and wholly-owned by Mr. Zhang;

(b) On 22 March 2001, the registered capital of Comtec Semi was increased from US$1 million to US$5.5 million;

(c) On 20 February 2002, the registered capital of Comtec Semi was decreased from US$5.5 million to US$2.5 million;

(d) On 14 October 2002, the registered capital of Comtec Semi was increased from US$2.5 million to US$2.8 million;

(e) On 22 January 2003, the registered capital of Comtec Semi was decreased from US$2.8 million to US$2.1 million;

(f) On 24 October 2003, the registered capital of Comtec Semi was increased from US$2.1 million to US$2.5 million;

(g) On 25 March 2005, the registered capital of Comtec Semi was increased from US$2.5 million to US$2.7 million;

(h) On 28 September 2006, the registered capital of Comtec Semi was increased from US$2.7 million to US$3.36 million;

(i) On 26 July 2007, the registered capital of Comtec Semi was increased from US$3.36 million to US$4.04 million; and

(j) Pursuant to an equity transfer agreement dated 21 November 2007, Winkle (Hong Kong) Limited (the former name of Comtec Semi (HK)) acquired the entire equity interest in Comtec Semi from Mr. Zhang for a consideration of US$4.04 million.

Comtec Solar

(a) Comtec Solar, a wholly-owned subsidiary of our Company, was incorporated as a sino-foreign joint venture with limited liability in the PRC on 5 July 2005 with a registered capital of US$5 million and owned as to 73% and 27% by Mr. Zhang, through the Relevant Business, and Comtec Semi, respectively;

(b) Pursuant to an equity transfer agreement dated 12 September 2006, Mr. Zhang, through the Relevant Business, acquired 27% of its equity interest in Comtec Solar from Comtec Semi for a consideration of RMB2.7 million;

(c) On 16 April 2007, the registered capital of Comtec Solar was increased from US$5 million to US$18.5 million; and

(d) Pursuant to an equity transfer agreement dated 21 November 2007, Star View (Hong Kong) Limited (the former name of Comtec Solar (HK)) acquired the entire equity interest in Comtec Solar from Mr. Zhang, through the Relevant Business, for a consideration of US$18.5 million.

Our Group's PRC counsel, Commerce & Finance Law Offices, has confirmed that the above-mentioned share transfers are valid and have complied with applicable laws and regulations in the PRC.

Save as mentioned in the paragraph headed "Corporate Reorganisation" in this Appendix and as described in this paragraph, there have been no changes in the share capital of any of our subsidiaries within the two years immediately preceding the date of this document.

5. Repurchase by our Company of our own securities

This section includes information relating to the repurchases of securities, including information required by the Stock Exchange to be included in this document concerning such repurchase.

(a) Provisions of the Listing Rules

The Listing Rules permit companies whose primary listing is on the Main Board to repurchase their securities on the Stock Exchange subject to certain restrictions, the most important restrictions are summarised below:

(i) *Shareholders' approval*

All proposed repurchases of Shares must be approved in advance by an ordinary resolution in a general meeting, either by way of general mandate or by specific approval in relation to a particular transaction.

Pursuant to our written resolutions passed on 2 October 2009 by all our Shareholders, a general unconditional mandate was given to our Directors to exercise all powers of our Company to repurchase Shares (Shares which may be listed on the Stock Exchange) with a total nominal value of not more than 10% of the aggregate nominal value of our share capital in issue or to be issued immediately following the completion of the [●] (excluding Shares which may be issued pursuant to the exercise of the [●]), such mandate to expire at the earliest of: (i) the conclusion of our next annual general meeting, unless renewed by an ordinary resolution of the Shareholders in a general meeting, either unconditionally or subject to conditions; (ii) the expiration of the period within which we are required by any applicable law or the Articles of Association to hold our next annual general meeting; or (iii) the time when such mandate is varied or revoked by an ordinary resolution of the Shareholders in a general meeting which ever shall first occur; details of which have been described above in the paragraph headed "Written resolutions of all the Shareholders of our Company passed on 2 October 2009".

(ii) *Source of funds*

Any repurchases of Shares by us must be paid out of funds legally available for the purpose in accordance with our Memorandum and Articles of Association, Listing Rules and the Companies Law. We may not repurchase our own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time. Any repurchase of Shares by us may be made out of funds legally permitted to be utilised in this connection, including our profits or out of proceeds of a fresh issue of Shares made for that purpose or, if so authorised by our Articles of Association and subject to the provisions of the Companies Law, out of capital. Any premium payable on a repurchase over the par value of the Shares to be purchased must be paid out of our profits or out of our share premium account, or if so authorised by our Articles of Association and subject to the provisions of the Companies Law, out of capital.

(iii) *Shares to be repurchased*

The Listing Rules provide that the Shares which are proposed to be repurchased by us must be fully-paid up.

(b) Reasons for repurchases

Our Directors believe that it is in the best interests of our Company and Shareholders for the Directors to have general authority from the Shareholders to enable them to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made where the Directors believe that such repurchases will benefit our Company and Shareholders.

(c) Funding of repurchases

In repurchasing securities, we may only apply funds legally available for such purpose in accordance with the Articles of Association, the Listing Rules and the applicable laws and regulations of the Cayman Islands.

On the basis of Company's current financial position as disclosed in this document and taking into account our current working capital position, the Directors consider that, if the repurchase mandate is exercised in full, it might have a material adverse effect on our working capital and/or gearing position as

compared with the position disclosed in this document. However, the Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on our working capital requirements or the gearing levels which in the opinion of the Directors are from time to time appropriate for us.

(d) General

None of the Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates (as defined in the Listing Rules) currently intends to sell any Shares to our Company.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws and regulations of the Cayman Islands.

If, as a result of any repurchase of Shares, a Shareholder's proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purposes of the Hong Kong Code on Takeovers and Mergers (the "Takeovers Code"). Accordingly, a Shareholder or a group of Shareholders acting in concert, depending on the level of increase of the Shareholders' interest, could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with rule 26 of the Takeovers Code. Save as aforesaid, the Directors are not aware of any consequences which would arise under the Takeovers code as a consequence of any repurchases pursuant to the Repurchase Mandate.

We have not made any repurchases of our own securities in the past six months.

No connected person (as defined in the Listing Rules) has notified us that he has a present intention to sell Shares to our Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

FURTHER INFORMATION ABOUT OUR COMPANY'S BUSINESS

1. Summary of the Material Contracts

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by us or our subsidiaries within the two years preceding the date of this document and are or may be material:

(a) An equity transfer agreement dated 21 November 2007 entered into between Mr. Zhang and Winkle (Hong Kong) Limited (the former name of Comtec Semi (HK)), where Winkle (Hong Kong) Limited agreed to acquire from Mr. Zhang the entire equity interest in Comtec Semi for a consideration of US$4.04 million;

(b) An equity transfer agreement dated 21 November 2007 entered into between Mr. Zhang under the trade name of Comtec Ltd and Star View (Hong Kong) Limited (the former name of Comtec Solar (HK)), where Star View (Hong Kong) Limited agreed to acquire from Mr. Zhang under the trade name of Comtec Ltd the entire equity interest in Comtec Solar for a consideration of US$18.5 million;

(c) An agreement and plan of reorganisation of Comtec Semi entered into between Comtec Semi, Winkle (Hong Kong) Limited (the former name of Comtec Semi (HK)) and Mr. Zhang dated 13 December 2007 in relation to the capital contribution and reorganisation of Comtec Semi;

(d) An agreement and plan of reorganisation of Comtec Solar entered into between Comtec Solar, Star View (Hong Kong) Limited (the former name of Comtec Solar (HK)) and Mr. Zhang dated 13 December 2007 in relation to the capital contribution and reorganisation of Comtec Solar;

(e) An assignment agreement dated 12 March 2008 entered into between Mr. Zhang and Fonty pursuant to which Mr. Zhang assigns and transfers all his rights, titles and interests in and to the Solar Note to Fonty;

(f) An assignment agreement dated 12 March 2008 entered into between Fonty and our Company pursuant to which Fonty assigns and transfers all its rights, titles and interests in and to the Solar Note to our Company;

(g) An assignment agreement dated 12 March 2008 entered into between our Company and Most Talent Limited (the former name of Comtec Solar (Cayman)) pursuant to which our Company assigns and transfers all its rights, titles and interests in and to the Solar Note to Comtec Solar (Cayman);

(h) An assignment agreement dated 12 March 2008 entered into between Most Talent Limited (the former name of Comtec Solar (Cayman)) and Star View (Hong Kong) Limited (the former name of Comtec Solar (HK)) pursuant to which Most Talent Limited (the former name of Comtec Solar (Cayman)) assigns and transfers all its rights, titles and interests in and to the Solar Note to Star View (Hong Kong) Limited;

(i) An assignment agreement dated 12 March 2008 entered into between Mr. Zhang and Fonty pursuant to which Mr. Zhang assigns and transfers all his rights, titles and interests in and to the Semi Note to Fonty;

(j) An assignment agreement dated 12 March 2008 entered into between Fonty and our Company pursuant to which Fonty assigns and transfers all his rights, titles and interests in and to the Semi Note to our Company;

(k) An assignment agreement dated 12 March 2008 entered into between our Company and New Genuine Limited (the former name of Comtec Semi (Cayman)) pursuant to which our Company assigns and transfers all its rights, titles and interests in and to the Semi Note to New Genuine Limited;

(l) An assignment agreement dated 12 March 2008 entered into between New Genuine Limited (the former name of Comtec Semi (Cayman)) and Winkle (Hong Kong) Limited (the former name of Comtec Semi (HK)) pursuant to which New Genuine Limited assigns and transfers all its rights, titles and interests in and to the Semi Note to Winkle (Hong Kong) Limited;

(m) A subscription agreement dated 18 March 2008 entered into between CMTF and our Company pursuant to which we issued and allotted 11,212,019 Series A Shares to CMTF;

(n) A shareholders agreement dated 18 March 2008 entered into among CMTF, Fonty and our Company;

(o) A supplemental agreement dated 30 March 2009 entered into between CMTF and our Company;

(p) An equity transfer agreement dated 9 May 2008 entered into between Comtec Solar (HK) and HK Truecolor Technological Industry Limited, an Independent Third Party, where Comtec Solar (HK) agreed to acquire from HK Truecolor Technological Industry Limited the entire equity interest in HK Truecolor Technologyical Industry Limited (Nanchang) (真彩(南昌)科技實業有限公司) (the former name of Comtec Semi (Jiangxi)) at the consideration of RMB136,000;

(q) the deed of confirmation in respect of Comtec Ltd dated 13 June 2008;

(r) the deed of confirmation in respect of Comtec Solar (Jiangxi) dated 18 June 2008; and

(s) the Non-competition Deed dated [5 October] 2009.

2. Intellectual Property Rights of the Group

Trademarks

As at the Latest Practicable Date, the Group has the right to use the following trademark:

Name of registrant	Trademark	Place of registration	Class	Registration number	Expiry date
Comtec Solar	卡姆丹克	Hong Kong	9	301130679	2 June 2018

As at the Latest Practicable Date, members of the Group have applied for registration of the following trademark:

Name of applicant	Trademark	Place of application	Class	Application number	Application date
Comtec Solar	卡姆丹克	PRC	9	6582436	7 March 2008

Note: This application has been made by the Group with the relevant authorities. In normal circumstances, the Group will be able to obtain approval for the registered trademark in the PRC within two years, from the date of application. Our PRC legal advisers, Commerce & Finance Law Offices, have confirmed that there is no legal impediment for the Group to obtaining the registration in the PRC provided that requirements under the relevant laws are satisfied.

Domain Names

As at the Latest Practicable Date, members of the Group have registered the following domain names:

Registrant	Domain Name	Date of Registration	Date of Expiration
Comtec Solar	www.comtecltd.com.cn	28 May 2003	28 May 2011
Comtec Solar	comtecsilicon.com.cn	10 June 2008	10 June 2013
Comtec Solar	comtecsolar.com	11 August 2009	11 August 2010

Patents

As at the Latest Practicable Date, members of the Group have registered the following patents in the PRC:

Registrant	Type	Patent number	Effective Period
Comtec Solar	Invention	ZL 2004 1 0018223.7	11 May 2004 to 10 May 2024
Comtec Semi	Utility model	ZL 2006 2 0042380.6	2 June 2006 to 1 June 2016
Comtec Semi	Utility model	ZL 2006 2 0042382.5	2 June 2006 to 1 June 2016
Comtec Solar	Utility model	ZL 2006 2 0042381.0	2 June 2006 to 1 June 2016
Comtec Solar	Utility model	ZL 2008 2 0057574.2	31 December 2008 to 30 December 2018

3. FURTHER INFORMATION ABOUT OUR GROUP'S PRC ESTABLISHMENTS

(a) Comtec Semi

Nature of the company	Wholly foreign-owned enterprise
Date of incorporation	21 December 1999
Term of business operation	From 21 December 1999 to 20 December 2019
Total investment	US$6.45 million
Registered capital	US$4.04 million
Registered shareholder	Comtec Semi (HK)
Attributable interest of our Company	100%
Scope of business	To develop and manufacture silicon materials for semiconductors, to provide relevant technical service, and to sell self-manufactured products.
Legal representative	Mr. Zhang

(b) Comtec Solar

Nature of the company	Wholly foreign-owned enterprise
Date of incorporation	5 July 2005
Term of business operation	From 5 July 2005 to 4 July 2055
Total investment	US$50.5 million
Registered capital	US$18.5 million
Registered shareholder	Comtec Solar (HK)
Attributable interest of our Company	100%
Scope of business	To develop and manufacture semiconductors, and components materials (solar energy materials), to sell self-manufactured products, and to provide relevant technical consultation and service.
Legal representative	Mr. Zhang

(c) Comtec Solar (Jiangxi)

Nature of the company	Wholly foreign-owned enterprise
Date of incorporation	22 March 2006
Term of business operation	From 22 March 2006 to 21 March 2036
Total investment	US$80 million
Registered capital	US$30 million
Registered shareholder	Comtec Solar (HK)
Attributable interest of our Company	100%
Scope of business	To manufacture and develop solar power and semiconductor materials (subject to license if so required by PRC laws and regulations)
Legal representative	Mr. Zhang

4. FURTHER INFORMATION ABOUT THE DIRECTORS

a. Particulars of Directors' service contracts

Each of the Directors has entered into a service contract with us for an initial fixed term of two years commencing from the [●] Date and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other, which notice shall not expire until after the fixed term.

Each of the Directors is entitled to the respective basic salary set out below. Each of the executive Directors is also entitled to a discretionary bonus, provided that the aggregate amount of the bonuses payable to all our executive Directors in respect of any financial year may not exceed 5% of our audited consolidated or combined net profit (after taxation and payment of such bonuses) in respect of that financial year. An executive Director may not vote on any resolution of our Directors regarding the amount of the discretionary bonus payable to him.

Name	Salary
Mr. Zhang	RMB50,000 per month
Mr. Chau Kwok Keung	RMB160,000 per month
Mr. Shi Cheng Qi	RMB200,000 per year
Mr. He Xin	Nil
Mr. Kang Sun	US$50,000 per year
Mr. Daniel DeWitt Martin	US$50,000 per year
Mr. Leung Ming Shu	RMB200,000 per year

Each of the executive Directors is also entitled to a discretionary bonus which shall be declared and approved by the Board and the Remuneration Committee according to the operating performance, financial position and business development plan of the Group, provided that the aggregate amount of the bonuses payable to all the executive Directors in respect of any financial year of our Company may not exceed 5% of our audited consolidated or combined net profit (after taxation and minority interests and payment of such bonuses but excluding extraordinary and exceptional items) in respect of that financial year of our Company. The Directors shall review and compare the annual budget and actual performance of the Group before making any recommendation to the distribution of discretionary bonus. Each of them will be entitled to all reasonable out-of-pocket expenses.

Each of the executive Director shall abstain from voting and not be counted in the quorum in respect of any resolution of the Board regarding the amount of annual salary and management bonus payable to himself;

The current basic annual salaries of the executive Directors are as follows:

Name	Annual Amount
Mr. Zhang	Nil
Mr. Chau Kwok Keung	RMB1,320,000
Mr. Shi Cheng Qi	RMB200,000

Mr. Chau Kwok Keung is also entitled to a remuneration package for his service as the CFO of our Company and his monthly salary will be increased by RMB50,000 after the [●].

Save as aforesaid, none of the Directors has or is proposed to have a service contract with us or any of our subsidiaries (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

All service contracts entered into between us and the Directors are less than three years in duration, and are determinable by us within one year without payment of compensation (other than statutory compensation).

b. Directors' remuneration during the Track Record Period

Our policies concerning remuneration of executive Directors are (i) the amount of remuneration is determined on the basis of the relevant Director's experience, responsibility, workload and the time devoted to us; and (ii) non-cash benefits may be provided to the Directors under their remuneration package.

During the three years ended 31 December 2008 and the six months ended 30 June 2009, respectively, the aggregate of the remuneration paid and benefits in kind granted to the Directors by us and our subsidiaries was approximately RMB66,000, RMB291,000, RMB21,788,000 and RMB735,000, respectively. No directors' emoluments were paid to Mr. Zhang for the year ended 31 December 2007, which was a result of the management's discretionary decision. None of the Directors have waived any emoluments during the Track Record Period.

Save as disclosed in this document, no other emoluments have been paid or are payable, in respect of the Track Record Period by us to the Directors.

Under the arrangements currently in force, we estimate that the aggregate remuneration payable to, and benefits in kind receivable by, the Directors (excluding discretionary bonus) by us for the year ended 31 December 2009 will be approximately RMB2.1 million.

C. Restricted Shares grant to Director

A total of 3,877,058 restricted Shares ("Restricted Shares") were granted to an executive Director, at nil consideration for the purpose of giving him an opportunity to have a personal stake in us and to motivate him to optimise his performance and efficiency, and also to retain him as our employee whose contributions are important to our long-term growth and profitability. The grant of Restricted Shares was approved by written resolutions of the Shareholders dated 2 June 2008 and 3 August 2008, and the terms of the grant were amended by written resolutions of the Shareholders dated 1 June 2009 and 3 August 2008 as follows:

(a) the Restricted Shares issued to the executive Director on 2 June 2008 and 3 August 2008 may not be sold, transferred by gift, pledged or other transferred or disposed prior to the date when the Restricted Shares become vested pursuant to the vesting schedule.

(b) all Restricted Shares granted shall be vested in the following manner:

(i) Shares representing 1/4th of the Restricted Shares shall vest immediately after our Company reported an annual net profit tax (based on audited and consolidated financial statement of the relevant financial year in accordance with IFRS of RMB500 million or more for any financial year ("First Vesting")).

(ii) Shares representing the remaining 3/4th of the Restricted Shares shall vest thereafter in equal quarterly instalments of 1/4th of the Restricted Shares at the end of each three-month period quarterly after the First Vesting.

DISCLOSURE OF INTERESTS

1. Disclosure of Interests

(a) ***Interests and short positions of the Directors in the share capital of our Company and our associated corporations following the [●] and the [●]***

Immediately following completion of the [●] and the [●] and taking no account of any Shares which may be allotted and issued pursuant to the [●] Share Option Scheme or the Share Option Scheme or the exercise of the [●], the interests or short positions of the Directors and the chief executive in the Shares, underlying Shares and debentures of our Company and our associated corporations, within the meaning of Part XV of the SFO which will have to be notified to us and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which will be required to be notified to us and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, will be as follows:

Long positions in our Company

Name of Director	Capacity/ Nature of interest	Number of Shares	Approximate percentage of interest in our Company/ associated corporations
Mr. Zhang[1]	Beneficial owner, interest in a controlled corporation, interest of spouse and interest of children under 18	[●]	[●]
Mr. Chau Kwok Keung . . .	Beneficial owner	[●]	[●]

Notes:

1 Mr. Zhang legally owns the entire issued share capital of Fonty, which beneficially own [●] Shares. Mr. Zhang is therefore deemed to be interested in all the Shares held by Fonty. Mr. Zhang is also deemed to be interested in [●] Shares for the purposes of the SFO, which are beneficially owned by Mr. Zhang, Mr. Zhang's spouse and descendents, as beneficiaries of JZ GRAT. Mr. Zhang's child is under the age of 18.

(b) ***Interests and short positions discloseable under Divisions 2 and 3 of Part XV of the SFO***

Immediately following completion of the [●] and the [●] and taking no account of any Shares which may be allotted and issued pursuant to the [●] Share Option Scheme or the Share Option Scheme or the exercise of the [●], in addition to the interests disclosed under paragraph (a) above, so far as the Directors are aware, the following persons are expected to have interests or short positions in the Shares or underlying shares of our Company which are required to be disclosed to the provisions of Divisions 2 and 3 of Part XV of the SFO or, are expected to be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group.

Name	Capacity/Nature of interest	Number of Shares	Approximate percentage of shareholding
Mr. Zhang[1]	Beneficial owner, interest in a controlled corporation, interest of spouse and interest of children	[●]	[●]

Notes:

1 Mr. Zhang legally owns the entire issued share capital of Fonty, which beneficially own [●] Shares. Mr. Zhang is therefore deemed to be interested in all the Shares held by Fonty. Mr. Zhang is also deemed to be interested in [●] Shares for the purposes of the SFO, which are beneficially owned by Mr. Zhang, Mr. Zhang's spouse and descendents, as beneficiaries of JZ GRAT. Mr. Zhang's child is under the age of 18.

2. Disclaimers

Save as disclosed in this document:

(a) our Directors are not aware of any person (not being a Director or chief executive of our Company) who will, immediately after completion of the [●] (taking no account of the [●], or any Shares which may be issued pursuant to the [●] Share Option Scheme or the Share Option Scheme and the [●]), have an interest or a short position in Shares or underlying Shares which would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Group;

(b) none of our Directors has any interest or short position in any of the Shares, underlying Shares or debentures of any associated corporation within the meaning of Part XV of the SFO, which will have to be notified to us and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which will be required to be notified to us and the Stock Exchange pursuant to the Model Code of Securities Transactions by Directors of Listed Companies, in each case once the Shares are listed;

(c) none of our Directors nor any of the parties listed in the section headed "Other Information — Qualifications of experts" of this Appendix is interested in the promotion of our Company, or in any assets which have been, within the two years immediately preceding the date of this document, acquired or disposed of by or leased to us or any of our subsidiaries, or are proposed to be acquired or disposed of by or leased to us or any of our subsidiaries;

(d) none of our Directors nor any of the parties listed in the section headed "Other Information — Qualifications of experts" of this Appendix is materially interested in any contract or arrangement subsisting at the date of this document which is significant in relation to our business;

(e) save in connection with the [●] none of the parties listed in the section headed "Other Information — [●]" of this Appendix:

(i) is interested legally or beneficially in any securities of our Company or any of our subsidiaries; or

(ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities of our Company or any of our subsidiaries;

(f) none of our Directors or their associates (as defined in the Listing Rules) or our existing Shareholders (who, to the knowledge of our Directors, owns more than 5% of our issued share capital) has any interest in any of the five largest customers or the five largest suppliers of our Group.

OTHER INFORMATION

1. Estate duty and tax indemnity

Mr. Zhang (the "Indemnifier") has entered into a deed of indemnity with and in favour of us (for ourselves and as trustee for each of our present subsidiaries) (being the material contract (t) referred to in the section "Further Information about our Company's business — Summary of the Material Contracts" of this Appendix) to provide indemnities in respect of, among other matters, (i) any liability for Hong Kong estate duty which might be incurred by any member of our Group and/or our associated companies by reason of any transfer of property (within the meaning of section 35 of the Estate Duty Ordinance, Chapter 111 of the Laws of Hong Kong) to any member of our Group on or before the date on which the [●] becomes unconditional and (ii) any liabilities incurred or payable by any member of our Group in connection with or arising from the business previously carried on by Mr. Zhang under the trade name of Comtec Ltd to the extent such liabilities exceed RMB41,369,000 (the "Agreed Tax Liabilities").

The Agreed Tax Liabilities represents tax payable, together with interest and other payment obligations relating to such payable, in connection with the business previously carried on by Mr. Zhang under the trade name of Comtec Ltd and which our Group has agreed to bear. Mr. Zhang has agreed to indemnify our Group in respect of any other liability, whether of a tax or non-tax nature, incurred by our Group in connection with or arising from the business previously carried on by Mr. Zhang under the trade name of Comtec Ltd to the extent such liabilities exceeding such amount. The amount of RMB41,369,000 has been determined on the basis that it represents (a) the cumulative tax payable as at the Latest Practicable Date in the amount of RMB36,499,000 (the "Cumulative Tax Payable") comprising RMB32,602,000 in U.S. federal tax payable and RMB3,897,000 in California State tax payable, calculated at the prevailing tax rate in the U.S. based on the U.S. Internal Revenue Code and the California Revenue and Taxation Code, in respect of the income, profits or gains earned, accrued or received by the Indemnifier in carrying on the business of sourcing raw materials and equipment and the performance of trading functions for Comtec Solar and Comtec Semi during the year ended 31 December 2005 and the Track Record Period under the trade name of Comtec Ltd, up until the cessation of such business; and (b) interests and late payment charges in the amount of RMB4,870,000 (the "Interests and Late Payment Charges") calculated based on the unpaid U.S. federal and California state tax of the Relevant Business during the year ended 31 December 2005 and the Track Record Period, which might be payable by the Indemnifier.

The Cumulative Tax Payable as mentioned above includes the tax payable of the Relevant Business for 2005 and 2006, which were unsettled as at 31 December 2007 as such tax payable represent the additional estimated tax liabilities that arose from assessable income derived from the Relevant Business during those years, which were reported on the amended U.S. individual income tax returns for 2005 and 2006 filed by Mr. Zhang on 30 September 2008. The additional amounts of tax liabilities were approximately US$1.1 million and US$1.1 million, equivalent to approximately RMB8.7 million and RMB8.8 million, for the year ended 31 December 2005 and 2006, respectively. The Interest and Late Payment Charges had been estimated and accounted for in our consolidated financial statements in the year or period when they were incurred in accordance with the U.S. Internal Revenue Code and the existing interpretations and practices in the U.S. Further, such interest was calculated at the applicable rate determined on a quarterly basis, being the sum of (i) the U.S. federal short-term rate of the first month in each calendar quarter, plus (ii) 3%, on the unpaid amount of tax liability from the last date prescribed for payment of the tax until the estimated date of payment in late September; and the estimated late payment penalty was calculated at 0.5% of the unpaid amount due until the date of payment.

Our Directors have been advised that no material liability for estate duty is likely to fall on us or any of our subsidiaries under the laws of the Cayman Islands, being jurisdictions in which one or more of the companies comprising our Group are incorporated.

Under the deed of indemnity, the Indemnifier have also given indemnities to our Group in relation to taxation which might be payable by any member of our Group in respect of any income, profits or gains earned, accrued or received on or before the date on which the [●] becomes unconditional.

The deed of indemnity does not cover any claim and the Indemnifier shall be under no liability under the deed in respect of any taxation:

(a) to the extent that provision or reserve has been made for such taxation in the consolidated audited accounts of our Company or the audited accounts of our relevant Group members up to 30 June 2009;

(b) to the extent that such tax claims arises or is incurred as a result of any change or the imposition of taxation as a consequence of any retrospective change in the law or the interpretation or practice thereof by the Hong Kong Inland Revenue Department or any other relevant authority (whether in Hong Kong or any other part of the world) coming into force after the date hereof or to the extent such Tax Claim arises or is increased by an increase in rates of taxation after the date hereof with retrospective effect except the imposition of or an increase rate of profit tax in Hong Kong or anywhere in the world for the current or any earlier financial periods;

(c) to the extent of any provision or reserve made for taxation in the consolidated audited accounts of the Company or the audited accounts of the Group members up to 30 June 2009 which is finally established to be an over-provision or an excessive reserve provided that the amount of any such provision or reserve applied pursuant to this clause to reduce the relevant Indemnifier's liability in respect of taxation shall not be available in respect of any such liability arising thereafter; and

(d) to the extent that such taxation or liability for taxation would not have arisen but for some act or omission of, or transaction voluntarily effected by, the Company and/or any of the Group companies (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) without the prior written consent or agreement of the Indemnifiers other than any such act, omission or transaction:

(i) carried out or effected in the ordinary course of business or in the course of acquiring and disposing of capital assets after the date of this deed in indemnity; or

(ii) carried out, made or entered into pursuant to a legally binding commitment created on or before the date of this deed in indemnity or pursuant to any statement of intention made in the Document.

2. Litigation

Our Company nor any of our subsidiaries is engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against us, that would have a material adverse effect on our results of operations or financial condition.

3. Preliminary Expenses

Our estimated preliminary expenses are approximately RMB[18.0] million and have been paid by us.

4. [●]

5. No Material Adverse Change

Our Directors confirm that there has been no material adverse change in their financial or trading position or prospects since 30 June 2009 (being the date to which our latest audited consolidated financial statements were made up).

6. [●]

7. Miscellaneous

Save as disclosed in this document, within the two years immediately preceding the date of this document,

(a) no share or loan capital of our Company or any of our subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;

(b) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

(c) neither our Company nor any of our subsidiaries have issued or agreed to issue any founder shares, management shares or deferred shares;

(d) no commissions, discounts, brokerage or other special terms have been granted in connection with the issue or sale of any shares or loan capital of any member of our Group;

(e) no commission has been paid or payable (except commissions to the [●]) for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any Shares in our Company;

(f) none of our equity and debt securities is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought; and

(g) we have no outstanding convertible debt securities.

8. [●]

9. [●]

10. [●]

RESTRICTED SHARES GRANT TO SENIOR MANAGEMENT

Mr. James J. Wang, our COO and Ms. Jane Wu, our President of Global Operation were each granted a total of 2,917,590 restricted Shares by our Company, at nil consideration for the purpose of giving them an opportunity to have a personal stake in us and to motivate them to optimise their performance and efficiency, and also to retain them as our employees whose contributions are important to our long-term growth and profitability. The grant of these restricted Shares was approved by written resolutions of the Shareholders dated 3 August 2008, and the terms of the grant are as follows:

(a) under the terms of the grant, the restricted Shares issued to the members of senior management on 2 June 2008 and 3 August 2008 may not be sold, transferred by gift, pledged or other transferred or disposed prior to the date when the Restricted Shares become vested pursuant to the vesting schedule.

(b) all restricted Shares granted shall be vested in the following manner:

(i) Shares representing 1/4th of the restricted Shares shall vest immediately after our Company reported an annual net profit tax (based on audited and consolidated financial statement of the relevant financial year in accordance with IFRS of RMB500 million or more for any financial year ("First Vesting")).

(ii) Shares representing the remaining 3/4th of the restricted Shares shall vest thereafter in equal quarterly instalments of 1/4th of the restricted Shares at the end of each three-month period after the First Vesting.

[●] SHARE OPTION SCHEME

1. Summary of Terms

The purpose of the [●] Share Option Scheme is to give our employees an opportunity to have a personal stake in us and help motivate our employees to optimise their performance and efficiency, and also to retain

our employees whose contributions are important to our long-term growth and profitability. The principal terms of the [●] Share Option Scheme, approved by written resolutions of the Shareholders dated 2 June 2008, are substantially the same as the terms of the Share Option Scheme except that:

(a) the subscription price per Share under the [●] Share Option Scheme shall be HK$2.51;

(b) the total number of Shares which may be issued upon the exercise of all options granted under the [●] Share Option Scheme is 574,020 Shares (the "Underlying Shares") representing approximately 0.057% of the enlarged issued share capital of our Company;

(c) all options granted under the [●] Share Option Scheme can only be exercised in the following manner:

(i) Shares representing 1/12th of the Underlying Shares shall vest on 1 November 2009.

(ii) From 1 November 2009 onwards, the remaining 11/12th of the Underlying Shares shall vest in equal quarterly instalments of 1/12th of the Underlying Shares at the end of each three-month period quarterly subject to continued employment with our Company during that period and all other terms and conditions as described in the [●] Share Option Scheme.

(d) subject to other restrictions in the [●] Share Option Scheme, the exercise period of the options shall commence upon the approval by the Stock Exchange of the listing of and permission to deal in the Shares to be issued pursuant to the exchange of the options granted under the [●] Share Option Scheme (the "Offer Date") and expiring at earlier of (i) the date on which such option lapses under the provisions of paragraph 10 of the [●] Share Option Scheme; or (ii) the date falling 10 years from the Offer Date of such Option.

The Shares to be allotted upon the exercise of an option granted under the [●] Share Option Scheme will be subject to all the provisions of the Articles of Association and the laws of the Cayman Islands from time to time and shall rank pari passu in all respects with the then existing fully paid Shares in issue on the date on which Shares are allotted to a grantee pursuant the exercise of the option. Our Company may by resolution in general meeting at any time terminate the operation of the [●] Share Option Scheme.

Application has been made to the Listing Committee of the Stock Exchange for the approval of the listing of and permission to deal in the Underlying Shares to be issued pursuant to the exercise of the options granted under the [●] Share Option Scheme.

2. Outstanding Options Granted

As at the date of this document, options to subscribe for the Underlying Shares at an exercise price equal to a premium of 1.2% to the top end of the indicative [●] range have been conditionally granted to a total of three independent non-executive Directors by us at a consideration of HK$1.00 under the [●] Share Option Scheme. These options were conditionally granted on 3 August 2009 and 2 October 2009 based on the contributions expected from the grantees and are important to our long term growth and profitability.

We also granted options to subscribe for 1,990,240 Shares to some of our employees on 2 June 2008 and these option were subsequently cancelled before any of them were exercised due to charges in market conditions.

No further options will be granted under the [●] Share Option Scheme prior to the [●] Date.

A summary of the grantees containing all the details in respect of each outstanding option required under paragraph 10 of the Third Schedule to the Companies Ordinance and Rule 17.02(1)(b) of and paragraph 27 of Part A of Appendix I to the Listing Rules is set out below:

Grantee	Position	Address of the Grantee	Number of Shares to be issued upon full exercise of the [●] Share Option	Percentage of enlarged issued share capital of our Company after full exercise of the [●] Share Option (%) (Note 1)
Directors				
Kang Sung	Independent Non-executive Director	642 Fontes Drive Fremont California 94539 USA	249,574	0.025
Daniel DeWitt Martin	Independent Non-executive Director	1050-184 Borregas Ave. Sunnyvale California 94089 USA	199,659	0.020
Leung Ming Shu	Independent Non-executive Director	Flat 1309, Block B Tai Hang Terrace 5 Chui Fai Road Jardine's Lookout Hong Kong	124,787	0.012
Total			574,020	0.057

Note:

1. assuming that the [●] is not exercised.

SHARE OPTION SCHEME

The following is a summary of principal terms of the Share Option Scheme conditionally approved by a written resolution of all the Shareholders of our Company passed on 2 October 2009 and adopted by a resolution of the Board on 2 October 2009. The terms of the Share Option Scheme are in accordance with the provisions of Chapter 17 of the Listing Rules.

1. Purpose

The purpose of the Share Option Scheme is to motivate Eligible Persons (as mentioned in the following paragraph) to optimise their future contributions to our Group and/or to reward them for their past

contributions, to attract and retain or otherwise maintain on-going relationships with such Eligible Persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of our Group, and additionally to enable our Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions.

2. Who may join

The Board may, at its absolute discretion, offer options ("Options") to subscribe for such number of Shares in accordance with the terms set out in the Share Option Scheme to:

(a) an Executive;

(b) a director or proposed director (including an independent non-executive director) of any member of our Group;

(c) a direct or indirect shareholder of any member of our Group;

(d) a supplier of goods or services to any member of our Group;

(e) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of our Group;

(f) a person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to any member of our Group; and

(g) an Associate of any of the foregoing persons;

(the persons referred above are "Eligible Persons")

3. Maximum number of Shares

(a) The maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of our Group shall not in aggregate exceed 10 per cent. of the Shares in issue as at the date of [●] of the Shares on the Main Board of the Stock Exchange (the "Scheme Mandate Limit") provided that our Company may at any time as the Board may think fit seek approval from its Shareholders to refresh the Scheme Mandate Limit, save that the maximum number of Shares which may be issued upon exercise of all options to be granted under the Scheme and any other schemes of our Company shall not exceed 10 per cent. of the Shares in issue as at the date of approval by the Shareholders of our Company in general meeting where the Scheme Mandate Limit is refreshed.

(b) Our Company may seek separate approval from our Shareholders in general meeting for granting Options beyond the Scheme Mandate Limit, provided that the Options in excess of the Scheme Mandate Limit are granted only to the Eligible Person specified by our Company before such approval is obtained.

(c) The maximum number of Shares which may be issued upon exercise of all outstanding Options granted and yet to be exercised under the Share Option Scheme and any other options granted and yet to be exercised under any other scheme shall not exceed 30% of our Company's issued share capital from time to time.

4. Maximum entitlement of each participant

The maximum number of Shares issued and to be issued upon exercise of the Options granted to any one Eligible Person (including exercised and outstanding Options) in any 12-month period shall not exceed 1 per cent. of the Shares in issue from time to time.

5. Grant of Options

Subject to the terms of the Scheme, the Board shall be entitled at any time within 10 years after the Adoption Date to offer the grant of an Option to any Eligible Person as the Board may in its absolute discretion select to subscribe at the Subscription Price for such number of Shares as the Board may (subject to the terms of this Option Scheme) determine (provided the same shall be a board lot for dealing in the Shares on the Stock Exchange or an integral multiple thereof).

Subject to the provisions of the Listing Rules, the Board may in its absolute discretion when offering the grant of an Option impose any conditions, restrictions or limitations in relation thereto in addition to those set forth in the Share Option Scheme as the Board may think fit (to be stated in the letter containing the offer of the grant of the Option) including (without prejudice to the generality of the foregoing) qualifying and/or continuing eligibility criteria, conditions, restrictions or limitations relating to the achievement of performance, operating or financial targets by our Company and/or the grantee, the satisfactory performance or maintenance by the grantee of certain conditions or obligations or the time or period when the right to exercise the Option in respect of all or some of the Shares shall vest provided that such terms or conditions shall not be inconsistent with any other terms or conditions of the Share Option Scheme. For the avoidance of doubt, subject to such terms and conditions as the Board may determine as aforesaid (including such terms and conditions in relation to their vesting, exercise or otherwise) there is no minimum period for which an Option must be held before it can be exercised and no performance target which need to be achieved by the grantee before the Option can be exercised.

6. Granting Options to connected persons

Subject to the terms in this Scheme, only insofar as and for so long as the Listing Rules require, where any offer of an option is proposed to be made to a Director, chief executive or a substantial shareholder of our Company or any of their respective associates, such offer must first be approved by the independent non-executive directors of our Company (excluding the independent non-executive director who or whose associates is the grantee of an option).

Where any grant of Options to a substantial shareholder or an independent non-executive director of our Company, or any of their respective associates, would result in the securities issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

(a) representing in aggregate over 0.1% of the relevant class of securities in issue; and

(b) (where the securities are listed on the Stock Exchange), having an aggregate value, based on the closing price of the securities at the date of each grant, in excess of HK$5 million,

such further grant of options must be approved by Shareholders of our Company. Our Company shall send a circular to Shareholders containing the information required under the Listing Rules. All Connected Persons of our Company must abstain from voting in favour at such general meeting.

Approval from the Shareholders of our Company is required for any change in the terms of options granted to a participant who is a substantial shareholder or an independent non-executive director of our Company, or any of their respective associates.

7. Offer Period and Number accepted

An offer of the grant of an Option shall remain open for acceptance by the Eligible Person concerned for a period of 28 days from the Offer Date provided that no such grant of an Option may be accepted after the expiry of the effective period of the Scheme stated in Clause 12. An Option shall be deemed to have been granted and accepted by the Eligible Person and to have taken effect when the duplicate offer letter comprising acceptance of the offer of the Option duly signed by the Grantee together with a remittance in favour of our Company of HK$1.00 by way of consideration for the grant thereof is received by our Company on or before the Acceptance Date. Such remittance shall in no circumstances be refundable.

Any offer of the grant of an Option may be accepted in respect of less than the number of Shares in respect of which it is offered provided that it is accepted in respect of board lots for dealing in Shares on the Stock Exchange or an integral multiple thereof and such number is clearly stated in the duplicate offer letter comprising acceptance of the offer of the Option in the manner as set out in Clause 5.6 of the Scheme. To the extent that the offer of the grant of an Option is not accepted by the Acceptance Date, it will be deemed to have been irrevocably declined.

8. Restriction on the time of grant of Options

The Board shall not grant any Option under the Share Option Scheme after a price sensitive development has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been announced pursuant to the requirements of the Listing Rules. In particular, no Option shall be granted during the period commencing one month immediately preceding the earlier of the

date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's results for any year, half-year, quarterly or any other interim period and the deadline for our Company to publish an announcement of our results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules), the deadline for our Company to publish an announcement of its results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcements.

9. Exercise price

The Subscription Price in respect of any particular Option shall be such price as the Board may in its absolute discretion determine at the time of grant of the relevant Option (and shall be stated in the letter containing the offer of the grant of the Option) but the Subscription Price shall not be less than whichever is the highest of:

(a) the nominal value of a Share;

(b) the closing price of a Share as stated in the Stock Exchange's daily quotations sheet on the Offer Date; and

(c) the average closing price of a Share as stated in the Stock Exchange's daily quotation sheets for the five Business Days immediately preceding the Offer Date.

10. Exercise of Option

10.1 An Option shall be exercised in whole or in part (but if in part only, in respect of a Board Lot or any integral multiple thereof) within the Option Period in the manner as set out in this Scheme by the Grantee (or his legal personal representative(s)) by giving notice in writing to our Company stating that the Option is thereby exercised and specifying the number of Shares in respect of which it is exercised. Each such notice must be accompanied by a remittance for the full amount of the aggregate Subscription Price for the Shares in respect of which the notice is given. Within 30 days after receipt of the notice and, where appropriate, receipt of the Auditors' certificate pursuant to Clause 12, our Company shall accordingly allot and issue the relevant number of Shares to the Grantee (or his legal personal representative(s)) credited as fully paid with effect from (but excluding) the relevant exercise date and issue to the Grantee (or his legal personal representative(s)) share certificate(s) in respect of the Shares so allotted.

10.2 The exercise of any Option shall be subject to the members of our Company in general meeting approving any necessary increase in the authorised share capital of our Company.

10.3 Subject as hereinafter provided, an Option may be exercised by the Grantee at any time during the Option Period, provided that:

(a) in the event that the Grantee dies or becomes permanently disabled before exercising an Option (or exercising it in full), he (or his legal representative(s)) may exercise the Option up to the Grantee's entitlement (to the extent not already exercised) within a period of 12 months following his death or permanent disability or such longer period as the Board may determine;

(b) in the event that the Grantee ceases to be an Executive by reason of his retirement pursuant to such retirement scheme applicable to our Group at the relevant time, his Option (to the extent not already exercised) shall be exercisable until the expiry of the relevant Option Period;

(c) in the event that the Grantee ceases to be an Executive by reason of his transfer of employment to an Affiliate company, his Option (to the extent not already exercised) shall be exercisable until the expiry of the relevant Option Period unless the Board in its absolute discretion otherwise determines in which event the Option (or such remaining part thereof) shall be exercisable within such period as the Board has determined;

(d) in the event that the Grantee ceases to be an Executive for any reason (including his employing company ceasing to be a member of the Group) other than his death, permanent disability, retirement pursuant to such retirement scheme applicable to our Group at the relevant time or the transfer of his employment to an Affiliate Company or the termination of his employment with the relevant member of the Group by resignation or Culpable Termination, the Option (to the extent not already exercised) shall lapse on the date of cessation of such employment and not be exercisable unless the Board otherwise determines in which event the Option (or such remaining part thereof) shall be exercisable within such period as the Board may in its absolute discretion determine following the date of such cessation;

(e) in the event that the Grantee ceases to be an Executive by reason of the termination of his employment by resignation or Culpable Termination, the Option (to the extent not already exercised) shall lapse on the date on which the notice of termination is served (in the case of resignation) or the date on which the Grantee is notified of the termination of his employment (in the case of Culpable Termination) and not be exercisable unless the Board otherwise determines in which event the Option (or such remaining part thereof) shall be exercisable within such period as the Board may in its absolute discretion determine following the date of such service or notification. A resolution of the Board resolving that the Executive's Option has lapsed pursuant to this Clause 10.3(e) shall be final and conclusive;

(f) if a Grantee being:

(i) an executive director of our Company ceases to be an Executive but remains a non-executive director, his Option (to the extent not already exercised) shall be exercisable until the expiry of the relevant Option Period unless the Board in its absolute discretion otherwise determines in which event the Option (or such remaining part thereof) shall be exercisable within such period as the Board has determined; or

(ii) a non-executive director of our Company ceases to be a Director:

(1) by reason of Non-Executive Director Retirement, his Option (to the extent not already exercised) shall be exercisable until the expiry of the relevant Option Period unless the Board in its absolute discretion otherwise determines in which event the Option (or such remaining part thereof) shall be exercisable within such period as the Board has determined; or

(2) for reasons other than Non-Executive Director Retirement, his Option (to the extent not already exercised) shall lapse on the date of cessation of such appointment and not be exercisable unless the Board otherwise determines in which event the Option (or such remaining part thereof) shall be exercisable within such period as the Board may in its absolute discretion determine following the date of such cessation;

(g) if:

(i) the Board in its absolute discretion at any time determines that a Grantee has ceased to be an Eligible Person; or

(ii) a Grantee has failed to or no longer satisfies or complies with such criteria or terms and conditions that may be attached to the grant of the Option or which were the basis on which the Option was granted,

the Option (to the extent not already exercised) shall lapse on the date on which the Grantee is notified thereof (in the case of (i)) or on the date on which the Grantee has failed to or no longer satisfies or complies with such criteria or terms and conditions as aforesaid (in the case of (ii)) and not be exercisable unless the Board otherwise determines in which event the Option (or such remaining part thereof) shall be exercisable within such period as the Board may in its absolute discretion determine following the date of such notification or the date of such failure, non-satisfaction or non-compliance. In the case of (i), a resolution of the Board resolving that the Grantee's Option has lapsed pursuant to this Clause 10.3(g) shall be final and conclusive;

(h) if a Grantee (being a corporation):

(i) has a liquidator or receiver appointed anywhere in the world in respect of the whole or any part of the assets or undertaking of the Grantee; or

(ii) has suspended, ceased or threatened to suspend or cease business; or

(iii) is unable to pay our debts; or

(iv) otherwise becomes insolvent; or

(v) suffers a change in our constitution, management, directors or shareholding which in the opinion of the Board is material; or

(vi) commits a breach of any contract entered into between the Grantee or his Associate and any member of our Group,

the Option (to the extent not already exercised) shall lapse on the date of appointment of the liquidator or receiver or on the date of suspension or cessation of business or on the date when the Grantee is deemed to be unable to pay its debts as aforesaid or on the date of notification by our Company that the said change in constitution, management, directors or shareholding is material or on the date of notification by our Company of the said breach of contract (as the case may be) and not be exercisable unless the Board otherwise

determines in which event the Option (or such remaining part thereof) shall be exercisable within such period as the Board may in its absolute discretion determine following the date of such occurrence. A resolution of the Board resolving that the Grantee's Option has lapsed pursuant to this Clause 10.3(h) by reason of breach of contract or material change in the constitution, management, Directors or shareholding as aforesaid shall be final and conclusive;

(i) if a Grantee (being an individual):

(i) is unable or has no reasonable prospects of being able to pay his debts within the meaning of the Bankruptcy Ordinance or any other applicable law or has otherwise become insolvent; or

(ii) has made any arrangement or composition with his creditors generally; or

(iii) has been convicted of any criminal offence involving his integrity or honesty; or

(iv) commits a breach of any contract entered into between the Grantee or his Associate and any member of our Group,

the Option (to the extent not already exercised) shall lapse on the date on which he is deemed unable or to have no reasonable prospects of being able to pay his debts as aforesaid or on the date on which a petition for bankruptcy has been presented in any jurisdiction or on the date on which he enters into the said arrangement or composition with his creditors or on the date of his conviction or on the date of the said breach of contract (as the case may be) and not be exercisable unless the Board otherwise determines in which event the Option (or such remaining part thereof) shall be exercisable within such period as the Board may in its absolute discretion determine following the date of such occurrence. A resolution of the Board resolving that the Grantee's Option has lapsed pursuant to this Clause 10.3(i) for breach of contract as aforesaid shall be final and conclusive;

(j) if a general offer is made to all holders of Shares and such offer becomes or is declared unconditional (in the case of a takeover offer) or is approved by the requisite majorities at the relevant meetings of Shareholders of our Company (in the case of a scheme of arrangement), the Grantee shall be entitled to exercise the Option (to the extent not already exercised) at any time (in the case of a takeover offer) within one month after the date on which the offer becomes or is declared unconditional or (in the case of a scheme of arrangement) prior to such time and date as shall be notified by our Company;

(k) if a compromise or arrangement between our Company and our members or creditors is proposed for the purpose of or in connection with a scheme for the reconstruction of our Company or our amalgamation with any other company, our Company shall give notice thereof to the Grantees who have Options unexercised at the same time as it despatches notices to all members or creditors of our Company summoning the meeting to consider such a compromise or arrangement and thereupon each Grantee (or his legal representatives or receiver) may until the expiry of the earlier of:

(i) the Option Period;

(ii) the period of two months from the date of such notice; or

(iii) the date on which such compromise or arrangement is sanctioned by the court,

exercise in whole or in part his Option. Except insofar as exercised in accordance with this Clause 10.3(k), all Options outstanding at the expiry of the relevant period referred to in this Clause 10.3(k) shall lapse. Our Company may thereafter require each Grantee to transfer or otherwise deal with the Shares issued on exercise of the Option to place the Grantee in the same position as would have been the case had such Shares been the subject of such compromise or arrangement; and

(l) in the event a notice is given by our Company to our members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company, our Company shall on the same date as or soon after it despatches such notice to each member of our Company give notice thereof to all Grantees and thereupon, each Grantee (or his legal personal representative(s)) shall be entitled to exercise all or any of his options at any time not later than two Business Days prior to the proposed general meeting of our Company by giving notice in writing to our Company, accompanied by a remittance for the full amount of the aggregate Subscription Price for the Shares in respect of which the notice is given whereupon our Company shall as soon as possible and, in any event, no later than the Business Day immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the Grantee credited as fully paid.

11. Ranking of Shares

The Shares to be allotted upon the exercise of an Option will be subject to all the provisions of the Articles of Association and the laws of the Cayman Islands from time to time and shall rank pari passu in all respects with the then existing fully paid Shares in issue on the date on which shares are allotted to a grantee pursuant to the exercise of the option ("Allotment Date") or, if that date falls on a day when the register of members of our Company is closed, the first date of the re-opening of the register of members, and accordingly will entitle the holders to participate in all dividends or other distributions paid or made on or after the Allotment Date or, if that date falls on a day when the register of members of our Company is closed, the first day of the re-opening of the register of members, other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date herefore shall be before the Allotment Date.

A Share issued upon the exercise of an Option shall not carry rights until the registration of the Grantee (or any other person) as the holder thereof.

12. Life of Share Option Scheme

Subject to the terms of this Scheme, the Share Option Scheme shall be valid and effective for a period of 10 years commencing on its adoption date. Upon the expiry of the Scheme as aforesaid, no further Options will be offered but the provisions of the Scheme shall remain in force and effect in all other respects. All Options granted prior to such expiry and not then exercised shall continue to be valid and exercisable subject to and in accordance with the Scheme.

13. Lapse of Share Option Scheme

13.1 An Option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

(a) the expiry of the Option Period;

(b) the expiry of any of the period referred to Clause 10.3;

(c) subject to Clause 10.3(l), the date of the commencement of the winding-up of our Company;

(d) there is an unsatisfied judgement, order or award outstanding against the Grantee or the Board has reason to believe that the Grantee is unable to pay or to have no reasonable prospect of being able to pay his/its debts;

(e) there are circumstances which entitle any person to take any action, appoint any person, commence proceedings or obtain any order of the type mentioned in Clauses 10.3(h) or 13.1(d); or

(f) a bankruptcy order has been made against any director or shareholder of the Grantee (being a corporation) in any jurisdiction.

13.2 No compensation shall be payable upon the lapse of any Option, provided that the Board shall be entitled in its discretion to pay such compensation to the Grantee in such manner as it may consider appropriate in any particular case.

14. Adjustment

14.1 In the event of any alteration to the capital structure of our Company while any Option remains exercisable, whether by way of capitalisation of profits or reserves, open offer, rights issue, consolidation, reclassification, reconstruction, sub-division or reduction of the share capital of our Company, the Board may, if it considers the same to be appropriate, direct that adjustments be made to:

(a) the maximum number of Shares subject to the Scheme; and/or

(b) the aggregate number of Shares subject to the Option so far as unexercised; and/or

(c) the Subscription Price of each outstanding Option.

Where the Board determines that such adjustments are appropriate (other than an adjustment arising from a capitalisation issue), the Auditors appointed by our Company shall certify in writing to the Board that any such adjustments are in their opinion fair and reasonable, provided that:

(a) any such adjustments shall be made on the basis that the aggregate Subscription Price payable by the Grantee on the full exercise of any Option shall remain as nearly as practicable the same as (but shall not be greater than) as it was before such event;

(b) no such adjustments shall be made the effect of which would be to enable a Share to be issued at less than its nominal value;

(c) any such adjustments shall be made in accordance with the provisions as stipulated under Chapter 17 of the Listing Rules and supplementary guidance on the interpretation of the Listing Rules issued by the Stock Exchange from time to time; and

(d) the issue of securities as consideration in a transaction shall not be regarded as a circumstance requiring any such adjustments.

The capacity of the Auditors in Clause 14.1 is that of experts and not arbitrators and their certification shall be final and binding on our Company and the Grantees in the absence of manifest error. The costs of the Auditors shall be borne by our Company.

14.2 If there has been any alteration in the capital structure of our Company as referred to in Clause 14, our Company shall, upon receipt of a notice from the Grantee in accordance with Clause 10.1, inform the Grantee of such alteration and shall either inform the Grantee of the adjustment to be made pursuant to the certificate of the Auditors obtained by our Company for such purpose, or if no such certificate has yet been obtained, inform the Grantee of such fact and instruct the Auditors to issue a certificate in that regard in accordance with the terms in this Schedule.

15. Cancellation of Options not exercised

The Board shall be entitled for the following causes to cancel any Option in whole or in part by giving notice in writing to the Grantee stating that such Option is thereby cancelled with effect from the date specified in such notice (the "Cancellation Date"):

(a) the Grantee commits or permits or attempts to commit or permit a breach of Clause 17 or any terms or conditions attached to the grant of the Option;

(b) the Grantee makes a written request to the Board for the Option to be cancelled; or

(c) if the Grantee has, in the opinion of the Board, conducted himself in any manner whatsoever to the detriment of or prejudicial to the interests of our Company or a Subsidiary.

The Option shall be deemed to have been cancelled with effect from the Cancellation Date in respect of any part of the Option which has not been exercised as at the Cancellation Date. No compensation shall be payable upon any such cancellation, provided that the Board shall be entitled in its discretion to pay such compensation to the Grantee in such manner as it may consider appropriate in any particular case.

16. Termination

Our Company may by resolution in general meeting at any time terminate the operation of the Scheme. Upon termination of the Scheme as aforesaid, no further Options shall be offered but the provisions of the Scheme shall remain in force and effect in all other respects. All Options granted prior to such termination and not then exercised shall continue to be valid and exercisable subject to and in accordance with the Scheme.

17. Transferability

The Option shall be personal to the Grantee and shall not be assignable and no Grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favour of any third party over or in relation to any Option or attempt so to do (save that the Grantee may nominate a nominee in whose name the Shares issued pursuant to the Scheme may be registered), except with the prior written consent of the Board from time to time. Any breach of the foregoing shall entitle our Company to cancel any outstanding Option or part thereof granted to such Grantee.

18. Amendment

The Scheme may be altered in any respect by a resolution of the Board except that the following shall not be carried out except with the prior sanction of an ordinary resolution of the shareholders of our Company in general meeting, provided always that the amended terms of the Scheme shall comply with the applicable requirements of the Listing Rules: (i) any material alteration to its terms and conditions or any change to the terms of Options granted (except where the alterations take effect under the existing terms of the Scheme); (ii) any alteration to the provisions of the Scheme in relation to the matters set out in Rule 17.03 of the Listing Rules to the advantage of Grantee; (iii) any change to the authority of the Board or any person or committee delegated by the Board to administer the day-to-day running of the Scheme pursuant to this Scheme; and (iv) any alteration to the aforesaid termination provision.

19. Conditions of the Share Option Scheme

The Share Option Scheme shall come into effect on the date (the "Approval Date") on which the following conditions are fulfilled:

(a) the approval of all the shareholders of our Company for the adoption of the Share Option Scheme;

(b) [●];

(c) [●]; and

(d) [●].

If the permission referred to in the aforesaid is not granted within two calendar months after the Adoption Date:

(a) the Scheme will forthwith determine;

(b) any Option granted or agreed to be granted pursuant to the Scheme and any offer of such a grant shall be of no effect;

(c) no person shall be entitled to any rights or benefits or be under any obligations under or in respect of the Scheme or any Option; and

(d) the Board may further discuss and devise another share option scheme that is applicable to a private company for adoption by our Company.