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OVERVIEW

We are a PRC-based manufacturer of high-performance solar cells and related solar products. Since March 2007, we have focused primarily on the development, manufacture and marketing of monocrystalline solar cells. We have achieved rapid growth in sales volume and sold 24.4 MW, 41.2 MW, 71.9 MW and 116.1 MW of solar cells in the years ended 31 December 2008, 2009 and 2010 and the five months ended 31 May 2011, respectively. We market the majority of our solar cell products to PRC-based solar module manufacturers that target primarily overseas markets. Our customer base is relatively concentrated and sales to our top five customers accounted for 75.9% of our total revenue in 2010. We also sell a small portion of our products directly to overseas customers. By providing our customers with high-performance products and responsive after-sales services, we have developed strong relationships with our major customers as evidenced by high customer satisfaction rate and the long-term contracts with our customers that have been and will continue to be instrumental to the successful implementation of our expansion plan. In recognition of our financial performance and growth potential, Forbes China named us one of the most promising small and medium-sized enterprises on its China's Up and Comers List for two consecutive years in 2009 and 2010.

Our Planned Expansion

We are in the process of implementing an expansion plan to build a vertically integrated solar product value chain from silicon wafers to solar modules. To meet increasing market demand, we expanded our annual solar cell production capacity from 25 MW as of 31 December 2007 to 50 MW as of 31 December 2009 and further to 420 MW as of the Latest Practicable Date. We installed 120 monocrystalline silicon ingot furnaces with an annual silicon ingot production capacity of approximately 200 MW and 16 wire saws with an annual silicon wafer cutting capacity of approximately 192 MW up to the Latest Practicable Date. In addition, we commenced producing silicon ingots in April 2011 and silicon wafers in May 2011. We plan to expand our solar cell and silicon wafer production capacity to 660 MW and 500 MW, respectively, by the end of 2011. We also plan to purchase solar module manufacturing equipment in the fourth quarter of 2011. We expect to commence manufacturing solar modules by the fourth quarter of 2011 and achieve an annual solar module production capacity of 300 MW by the end of 2011. However, we cannot assure you that we will be able to successfully implement our expansion plan. See "Risk Factors — Risks Relating to Our Business and Industry — Our failure to successfully execute our business expansion plans may have a material adverse effect on the growth of our sales and earnings" and "Risk Factors — Risks Relating to Our Business and Industry — We may not be successful in expanding our product lines to include new products, which could limit our growth prospects." To fund our planned expansion, we incurred substantial bank borrowings in 2010. As a result, we had net current liabilities of RMB114.1 million as of 31 December 2010. See "Risk Factors — Risks Relating to Our Business and Industry — We historically had and may continue to have net current liabilities." In line with our planned expansion, we expect to incur capital expenditure of RMB1,565 million and RMB950 million in 2011 and 2012, respectively. We expect to fund such capital expenditure with the net proceeds from the Global Offering, banks borrowings and internal resources. Our significant capital expenditure may have an adverse effect on our capital liquidity plan. See "Risk Factors — Risks Relating to Our Business and Industry — We face capital liquidity risks associate with our planned expansion." In addition, as a result of the significant capital expenditure we expect to incur, we may not declare any dividends at all in the foreseeable future.

Current Business Model

We currently focus on manufacturing and sales of high-performance solar cells.

Future Business Model

We are implementing our vertical integration strategy and plan to become a vertically integrated solar product provider with product line including silicon wafers, solar cells and solar modules. We expect to achieve cost savings and enhance our competitiveness through vertical integration.

High Performance Products and Efficient Manufacturing

We believe our ability to capitalize on the solar power market's demand for cost-competitive, high performance solar cells has contributed to our rapid growth in sales volume. We have developed efficient process technologies and are able to undertake large scale production of high performance solar cells on a cost-efficient basis. Our monocrystalline solar cells with standard dimensions of 125 mm × 125 mm, which represented a significant majority of our sales in 2010, had an average conversion efficiency rate of 17.7% in 2010. According to Solarbuzz, the power output of solar cells would generally be reduced by approximately 3% when solar cells are incorporated into solar modules. In addition, the total surface area of solar cells used in a solar module comprises only approximately 87% of the total surface area of the solar module, and total surface area of a solar module (including the area that is not part of the area of the solar cells used in the module) is included in calculating the conversion efficiency rate of the solar module. Therefore, we estimate solar modules using our solar cells with an efficiency rate of 17.7% have a conversion efficiency rate of approximately 14.9% (i.e., 17.7% × 97% × 87%). Based on publicly available information, the highest conversion efficiency rates of the monocrystalline solar modules of these manufacturers included in calculating Solarbuzz PV Module High Efficiency Indices range from 14.7% to 19.6%. Based on the calculation method above, we estimate that the conversion efficiency rates of the solar cells used in the monocrystalline solar modules of those manufacturers range from 17.4% (i.e., 14.7%/97%/87%) to 23.2% (i.e., 19.6%/97%/87%). Solarbuzz PV Module High Efficiency Indices, which map the progression of the efficiency of solar energy conversion of crystalline silicon PV modules of the most prevalent manufacturers in the market by focusing on highest power models in the market, provide a benchmark indicator of industry progress in the manufacturing technology in the solar industry. Through in-house efforts as well as collaboration with third-party equipment manufacturers and suppliers, our research and development team also implemented a series of incremental manufacturing process improvements that have significantly improved our production efficiency and product quality. As a result, our average processing cost per watt decreased from RMB1.62 in 2008 to RMB1.38 in 2009 and further to RMB1.18 in 2010. Although the cost of raw materials represents a substantial majority of our cost of sales, we believe processing cost per watt will increasingly become the key measure of competitiveness of a solar cell manufacturer due to the general availability and relative transparent pricing of key raw materials in the spot market. We expect to further increase the conversion efficiency rate of our monocrystalline solar cells to over 19.0% by the end of 2011. We expect that solar cell products will continue to constitute a majority of our total products in the near future in our ongoing efforts to leverage our strength in research and development capabilities, proprietary technologies and advanced manufacturing equipment.

Market Condition

Although we believe the growth of the global solar power industry will continue to be influenced by factors such as availability of government incentives and subsidies for renewable energy and the prices of conventional and other renewable energy sources in the foreseeable future, we expect demand for solar products to experience long-term growth due to the increasing competitiveness of solar power. Such growth in demand is primarily evidenced by the increase in the number of forecasted solar power system installations. Our revenue and gross profit margin are affected by the prevailing market price of solar products, and may be adversely affected if there is an oversupply of solar products or a change in government policies leading to a reduction or termination of government subsidies in

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connection with the use of solar products. However, decreases in the price of silicon feedstock, improvements in manufacturing techniques for solar products and economies of scale have continually reduced the unit production costs of solar products in recent years, which in turn have increased the competitiveness of solar power on an unsubsidized basis relative to conventional power and other renewable energy sources. We expect significant market opportunities to be created as demand continues to grow and the price of solar power approaches that of conventional energy in a number of solar product markets. In addition, we believe our PRC manufacturing bases provide us with convenient and timely access to key resources as well as proximity to our customer and supplier bases to support our rapid growth and manufacturing operations.

Results of Operations During the Track Record Period

We were incorporated as a limited liability company in the Cayman Islands on 6 August 2010. Our principal operating subsidiary, Shunfeng Technology, was incorporated in China on 10 October 2005. During the Track Record Period, we derived substantially all of our revenue from sales of solar cells. The average selling price of our solar cells decreased from RMB23.09 per watt in 2008 to RMB9.19 per watt in 2009 and decreased further to RMB8.67 per watt in 2010 primarily as a result of a significant reduction in polysilicon prices as well as increasing competition among solar cell manufacturers. The average selling price of our solar cells decreased further to RMB7.73 per watt in January 2011, but increased to RMB8.13 per watt in February 2011, and then decreased to RMB6.46 per watt in May 2011 again. There was no material difference between the market price of solar cells and our average selling price during the Track Record Period. Owing to strong growth in our sales volumes, we generated revenue of RMB563.6 million, RMB379.0 million and RMB622.9 million, resulting in net profit of RMB55.4 million, RMB53.5 million and RMB80.1 million for the years ended 31 December 2008, 2009 and 2010, respectively.

OUR COMPETITIVE STRENGTHS

We believe the following competitive strengths will enable us to achieve rapid and sustainable growth and to compete successfully in the solar power industry:

High-Performance Products and Recognized Brand Name

We have accumulated substantial expertise in the manufacturing of solar cells since our inception in 2007. Our manufacturing technologies, manufacturing equipment and stringent quality control processes have enabled us to produce high-efficiency solar cells that deliver reliable performance as evidenced by high customer satisfaction rate. We have established a recognized brand name within the industry by focusing on our product quality and providing responsive after-sales services. From 2009 to 2010, the average conversion efficiency rate of our monocrystalline solar cells with standard dimensions of 125 mm × 125 mm increased from 17.1% to 17.7%. According to Solarbuzz, power output of solar cells would generally be reduced by approximately 3% when solar cells are incorporated into solar modules. In addition, the total surface area of solar cells used in a solar module comprise only approximately 87% of the total surface area of the solar module, and total surface area of a solar module (including the area that is not part of the area of the solar cells used in the module) is included in calculating the conversion efficiency rate of the solar module. Therefore, we estimate solar modules using our solar cells with an efficiency rate of 17.7% have a conversion efficiency rate of approximately 14.9% (i.e., 17.7% × 97% × 87%). Based on publicly available information, the highest conversion efficiency rates of the monocrystalline solar modules of these manufacturers included in calculating Solarbuzz PV Module High Efficiency Indices range from 14.7% to 19.6%. Based on the calculation method above, we estimate that the conversion efficiency rates of the solar cells used in the monocrystalline solar modules of those manufacturers range from 17.4% (i.e., 14.7%/97%/

87%) to 23.2% (i.e., 19.6%/97%/87%). Solarbuzz PV Module High Efficiency Indices, which map the progression of the efficiency of solar energy conversion of crystalline silicon PV modules of the most prevalent manufacturers in the market by focusing on highest power models in the market, provide a benchmark indicator of industry progress in the manufacturing technology in the solar industry. We believe our organizational focus on responsive after-sales services has resulted in strong customer relationships and a high level of customer retention. We also believe that our continuing focus on improving product quality, delivering high-performance products and enhancing our brand name will allow us to capitalize on the anticipated long-term growth of the solar power industry by increasing our sales volume and market share.

Efficient Proprietary Technologies and Know-how

Since our inception, we have continuously increased the performance and quality of our products, improved the efficiency of our manufacturing processes and reduced the processing cost per watt. We have accumulated significant expertise and experience in silicon materials, solar cell device physics, process technologies and the design and improvement of advanced solar cell manufacturing equipment, for which we have received seven patents and have 17 patent applications pending. For example, we optimized the metal grid pattern on our solar cells by increasing the number of grid pattern lines while simultaneously improving our screen printing technique to reduce the width of each grid lines from 120 μm to 80 μm . The additional grid lines increase conductivity, while the thinner grid pattern lines allow more light to enter the cell, which translates into higher conversion efficiency. The metal grid pattern is optimized when any re-arrangement of the number of grid lines and width of such grid lines no longer increases conversion efficiency. We have steadily improved the production yield of our first two solar cell manufacturing lines from their original designed annual capacity of 50 MW to 60 MW, or an increase of 20%. We are able to process silicon wafers as thin as 180 μm in our commercial production, which has enabled us to reduce unit costs. Our proprietary processing technologies and our improved production logistics have significantly improved our productivity, enhanced our raw material utilization rate and minimized our manufacturing downtime, all of which have lowered the cost per watt of our products. As a result of our research and development achievements, we have received three municipal grants for research and development. We received approximately RMB1.3 million, RMB0.6 million and RMB1.0 million in aggregate government grants, incentives and subsidies for research and development in the years ended 31 December 2008, 2009 and 2010, respectively. As we continue our capacity expansion and vertical integration, we believe our proprietary technologies and research and development achievements will enable us to compete effectively in the global solar power industry.

Established Relationships with Key Customers and Suppliers

We have cultivated a network of relationships with a variety of upstream and downstream participants in the solar power industry to enhance our ability to manage our operations and planned expansion. In an effort to increase our sales volume and enhance our market recognition, we have selectively grown and diversified our customer base. Our customers include some of the leading PRC solar module manufacturers such as Canadian Solar Manufacturing (Changshu) INC, a PRC subsidiary of Canadian Solar, which represented nil, 6.7% and 24.8% of our total sales in the years ended 31 December 2008, 2009 and 2010, respectively, and was one of our top five customers in 2010. Our sales contracts with these customers are typically for terms longer than one year and contain specified quantities of deliverable solar cells with open price terms or reference prices that may be renegotiated if the spot price of solar cells moves beyond a price band. We typically determine the sales price and quantity under these long-term sales contracts through negotiations with our customers before delivery on a monthly basis. In addition, most of our key customers and suppliers are located in the Jiangsu or nearby provinces. Our proximity to our key customers and suppliers offers many competitive advantages, such as timely access to key resources and production inputs and fast

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and convenient transportation means to deliver our finished products to customers. We also provide responsive after-sales services to ensure high customer satisfaction and accumulate valuable market insight. The average length of our relationship with the customers who accounted for the majority of our sales during the Track Record Period is two to three years.

In anticipation of our production expansion, we have entered into contracts with customers for longer terms and greater sales volumes. By the end of 2010, we had entered into legally binding long-term contracts with 12 customers for sales of approximately 380 MW of solar cells in 2011 and an additional approximately 1,082 MW of solar cells from 2012 to 2013, representing a substantial portion of our expected production volume during the respective periods. Our long-term contracts are generally for terms ranging from one to three years, and contain provisions including product specifications, quantities, delivery schedules and advance payments. The prices are generally subject to negotiation before each delivery based on market conditions and the advance payments are set off against deliveries based on agreed upon schedules. These long-term sales contracts are expected to provide us with stable revenue streams and minimize the customer demand risk due to our expansion plan. We believe our strong relationships with our key customers will be instrumental to our successful expansion.

We actively manage our supply sources to secure a reliable and cost-effective supply of silicon raw materials and silicon wafers. Our research and development team routinely collaborate with our key suppliers to optimize their process technologies and output. Through optimizing our supply sources, we have significantly reduced the costs resulting from adjusting our manufacturing processes for raw materials from different sources and improved the stability and quality of our output.

Advanced Production Equipment with High Performance Potential

Our advanced production equipment enables us to produce high efficiency solar cells and reduce our average processing cost. We procure texturing machines, PECVD, etching machines and diffusion furnaces, screen printers and sorting and testing machines from leading equipment manufacturers, with whom we work closely to develop and customize our solar cell manufacturing equipment. For example, we collaborated with Centrotherm, a world leading supplier of solar cell manufacturing equipment and one of our primary equipment suppliers, to customize the PECVD furnaces installed in our manufacturing lines. Purchases from Centrotherm comprised approximately nil, 51.5% and 26.4% of our total purchases of manufacturing equipment during 2008, 2009 and 2010, respectively. We believe our relationships with our equipment suppliers will allow us to procure advanced equipment suitable for our manufacturing needs in a timely manner.

Our solar cell manufacturing lines are highly automated, which enables us to achieve high production yields and consistently deliver quality products by minimizing human error. The highly automated manufacturing lines also reduce our processing cost by minimizing our labor costs. Our average processing cost per watt was RMB1.18 (which included depreciation cost) in 2010, which is lower than the average of US\$0.22 per watt (which included depreciation cost) for Chinese manufacturers in 2010 according to a reputable industry report. Furthermore, we have applied our processing technologies to the advanced manufacturing equipment that we acquired in 2010 based on our proprietary know-how and technologies to further enhance their performance beyond their designed capacity.

We believe that our significant investments in advanced production equipment and facilities will be instrumental to maintaining and enhancing our competitiveness.

Experienced Management Team with Proven Track Record in Technology Innovation and Operations Management

Led by Mr. Tang Guoqiang and Mr. Lu Jianqing, we have a management team with strong operational experience, execution capability and research and development expertise. Each of Mr. Tang Guoqiang and Mr. Lu Jianqing has more than 16 years of experience in production management and business development. Members of our senior management team have extensive technological and managerial experience in the solar product industry. Under their collective leadership, our revenue and net profit grew by 131.1% and 172.6%, respectively, from 2007 to 2008 and we were able to improve our profit margin despite the impact of the global economic recession. We successfully increased our production capacity for solar cells from 50 MW by the end of 2009 to 180 MW by the end of 2010. We commenced production of silicon ingots in April 2011 and silicon wafers in May 2011. In addition, we expect to commence the production of solar modules by the fourth quarter of 2011. To implement our expansion plan, we have recently hired five mid-level management members, including one member with approximately three years of management experience in human resources and sales in the solar power industry, one member with over 10 years of experience in silicon wafer manufacturing and management experience in quality control and cost control for monocrystalline solar wafer manufacturing, one member with approximately five years of sales and marketing experience in the solar power industry, one member with more than three years of management experience in solar cell manufacturing and one member with more than 10 years of experience in semiconductor manufacturing. All these five mid-level management members held management positions in other solar power or semiconductor companies before joining us. We believe that the technical and industry knowledge and the operating experience of our management team has been and will continue to be instrumental in helping us develop and execute our growth strategy amidst a challenging and competitive landscape. In recognition of our historical operating results and significant growth potential, Forbes China named us one of the most promising small and medium-sized enterprises on its China's Up and Comers list for two consecutive years in 2009 and 2010.

OUR BUSINESS STRATEGIES

Our goal is to become a global leader in the development and manufacture of cost-effective and high-performance solar products. We intend to achieve our goal by pursuing the following strategies:

Continue Production Capacity Expansion to Gain Economies of Scale and Enhance Market Competitiveness

We believe our high-performance solar cells will continue to be well received in the maturing solar market due to their competitive costs. In addition, the process technologies and expertise required for cost-effectively developing and manufacturing advanced solar products on a large scale present high barriers for new entrants into the solar products market. As a result, we plan to continue to expand our production capacity to capture the anticipated global demand for solar products and enhance our market competitiveness by leveraging on our scalable business model and experience in managing rapid growth. We also intend to capture the opportunities created by improved market conditions and strong government support for renewable energy. While we plan to maintain our primary focus on solar cells, we will continue to invest in the coordinated expansion of our silicon wafer and solar module production to realize the benefits of vertical integration. As a result, we have commenced the construction of manufacturing facilities to increase our production capacity of silicon wafers to 500 MW by the end of 2011. In addition, we expect to commence manufacturing solar modules by the fourth quarter of 2011 and reach an annual solar module production capacity of 300 MW by the end of 2011. We expect our planned business expansion to enhance our economies of scale, reduce our unit manufacturing costs, strengthen our raw material purchasing power and enhance our customer relationships.

Implement Vertical Integration to Capture Additional Profit along the Value Chain and Achieve Greater Synergy

We plan to become a leading vertically integrated supplier of solar products by developing our silicon wafer and solar module businesses. To implement this strategy, we have started to build up our silicon ingot and silicon wafer production capacity. We installed 120 monocrystalline silicon ingot furnaces with a designed annual production capacity of approximately 200 MW and 16 wire saws with an annual designed silicon wafer production capacity of approximately 192 MW up to the Latest Practicable Date. We commenced producing silicon ingots in April 2011 and silicon wafers in May 2011. As a vertically integrated solar product manufacturer, we believe we will be better positioned to compete with companies that specialize only in certain stages of the solar power value chain. Our integrated manufacturing process will allow us to capture profit at multiple stages of the solar industry value chain while mitigating the financial and operational risks caused by fluctuating profit margins of different solar products or any supply constraints within the solar industry value chain. In addition, our integrated approach provides us with a more streamlined and efficient production process with shorter production cycles and lower production cost. For example, the equipment we use to inspect silicon wafers supplied by third-party suppliers can also be used to test the quality of our finished products in our silicon wafer production. We can also consolidate some of our back-office functions such as shipping, inventory management and other related logistical tasks, which will help reduce product breakage that typically occurs during shipping and packing processes. Our integrated manufacturing capabilities will also allow us to streamline the quality control of our solar power products value chain without having to rely on the quality assurances of other manufacturers or third-party suppliers.

In addition, the increased supply certainty at various points of the solar industry value chain will enable us to enter into long-term supply contracts with our customers while at the same time allow us to achieve greater flexibility to changing market conditions due to our access to various products along the value chain. Through direct sales of our solar modules, we expect to achieve greater understanding of end-users' market of solar products and gain greater insight into downstream market developments. As we operate in a rapidly evolving market that has experienced significant fluctuations in pricing and supply within the past few years, we believe our vertical integration efforts will help us achieve greater synergy and thereby stabilize and improve our results of operations and enhance our market competitiveness.

Enhance Processing Technologies and Production Efficiencies Through Continuous Innovation

We believe our ability to continuously capitalize on our research and development achievements is vital to maintaining our long-term competitiveness and driving our business growth. We intend to continue to develop, improve and commercialize technologies to increase our production efficiencies and streamline our manufacturing process to reduce manufacturing costs. In 2008, 2009 and 2010, our research and development expenses were approximately RMB1.1 million, RMB1.5 million and RMB2.7 million, respectively, and purchases of equipment for research and development purposes amounted to approximately nil, RMB0.1 million and RMB5.4 million, respectively. We plan to dedicate significant resources to our future research and development efforts. We have received grants for three ongoing research projects, which are sponsored by the city of Changzhou. These projects involve, among other things, the development of a low temperature diffusion process that improves the conversion efficiency of solar cells. We expect the successful completion of these research projects will enable us to increase the average conversion efficiency of our solar cells to over 19%, and such improvements will be applied to our new manufacturing lines to enhance our profitability.

As part of our vertical integration strategy, we also plan to invest in the research and development of silicon wafer production. We have hired a senior executive with substantial experience in silicon wafer manufacturing to

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help us establish and manage silicon wafer operations. We will continue to devote substantial resources to research and development efforts to improve our product design and manufacturing efficiencies. In particular, our research and development efforts will focus on increasing conversion efficiencies of our solar cells and reducing processing cost per watt. In addition, we will continue to develop equipment and tools and refine our manufacturing processes to improve our operating efficiency.

Cultivate Strategic Relationships with Key Customers and Selectively Diversify Customer Base

We plan to strengthen existing customer relationships by continuing to deliver high quality solar cells at competitive prices and to enter into longer term sales contracts with selected solar cell customers whose business models, expansion plans and products and services are complementary to ours. In an effort to form long-term alliances with these customers, we have entered into contracts with our customers for terms of up to three years and we target to achieve a substantial portion of our total revenues from sales to these customers. These long-term contracts will establish a stable revenue stream for our operations and enable us to plan our production and resources more effectively. In addition, we also intend to selectively diversify our customer base to reduce our revenue concentration by increasing our sales and marketing efforts and developing strategic relationships with customers that are market leaders or strong niche players in their respective industrial or geographic segments. We hope to benefit from the expertise of our strategic partners in order to more rapidly penetrate the solar product markets and increase our market share. We also plan to further diversify our customer base by marketing our products to customers with considerable production capacity and good financial conditions. We also plan to attend trade shows and exhibits to enhance our market reputation and build our brand recognition. We have hired a member of mid-level management with approximately five years of experience in sales and marketing to lead our sales and marketing effort and implement our marketing strategy.

As we expand downstream by manufacturing and selling solar modules, our customers will include system integrators of rooftop PV systems and distributors in addition to solar PV module manufacturers both in PRC and other parts of the world. We plan to produce solar modules with targeted conversion efficiency rate ranging from approximately 14.7% to approximately 19.6%. In January 2011, in order to achieve rapid market penetration into downstream module market by taking advantage of the market position and industry expertise of Huadian, a leading player in the renewable energy market in China, we entered into a strategic alliance framework agreement with Huadian, which outlines the preliminary terms of strategic cooperation. Under this framework agreement, Huadian has agreed to consider purchasing our products on terms no less favorable than those offered to Huadian by our competitors at appropriate time in the future and we have agreed to consider supplying our products to Huadian on terms no less favorable than those offered to our other customers at appropriate time in the future. Although Huadian may purchase solar modules or other solar products from us, neither party is obligated to make any specific purchase or be subject to any agreed-upon payment obligations until supplemental agreements have been entered into. See “Risk Factors — Risks Relating to Our Business and Industry — We may not be able to derive the benefits we expect from the strategic alliance framework agreement”. In addition, Huadian has agreed to assist us in expanding our market share by providing us with market intelligence, analysis of such information and relevant technical data gathered from its solar farm operating stations and we have agreed to provide Huadian with technical support both before and after the sales of our products. This framework agreement does not have a fixed term but specifies that supplemental agreements implementing the framework agreement will be entered into within six months after the framework agreement was executed. Huadian was established by China Huadian Corporation, one of the five largest state-owned power generation enterprises in China in 2007. Huadian’s principal business is the development of renewable energy projects such as wind power, solar power and biomass projects.

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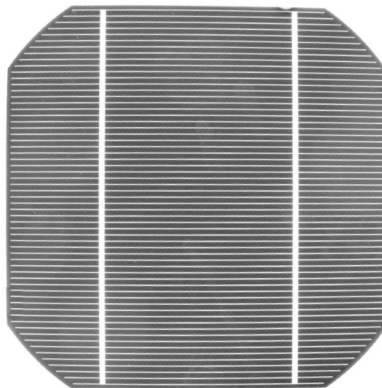
The PRC will continue to be our key target market due to its strong growth potential in the near to medium-term as a result of easy access to relative low-cost technical expertise, labor, land and facilities. We believe that we have the ability to secure a diverse customer base and increase our market share in the PRC market as we continue to implement our growth and expansion strategies.

Actively Invest in Employee Recruitment, Training and Retention

We are committed to the recruitment, training and retention of experienced personnel with proven expertise in the development and production of solar products. We have assembled a team of personnel with solid research and development and production management skills. Members of our research and development team have experience in photovoltaic technology, and a majority of whom are with degrees in applied physics, materials science and engineering, electronic engineering and optical information science and technology. Through a comprehensive staff training program, we have increased number of skilled workers, i.e. manufacturing and engineering, quality control and research and development employees, from 165 in 2008 to approximately 379 as of 31 December 2010, which enabled us to ensure our operation efficiency and product quality while expanding our production capacity. In addition, we maintain a performance-based incentive system with competitive compensation packages to attract and award key employees. We take pride in our culture of innovation and development and periodically distribute performance based bonuses to our research and development team for introducing process improvements and to our production team for meeting monthly production targets. We actively recruit seasoned professionals as well as recent graduates from reputable universities. We believe our active investment in employee recruitment, training and retention will continue to be the key to the rapid and sustainable growth of our business.

OUR PRODUCTS

Solar Cells



We have historically focused on the development and manufacture of solar cells with high conversion efficiencies, as measured by key industry metrics of conversion efficiency. Since March 2007, we have accumulated extensive experience and expertise in the manufacturing of high-performance solar cells. We manufacture primarily monocrystalline solar cells which generally have higher conversion efficiency but are more expensive than multicrystalline solar cells. Our advanced manufacturing technologies and manufacturing equipment and stringent quality control processes have enabled us to produce high-efficiency solar cells that deliver reliable performance. We have established a recognized brand name within the industry by focusing on our product quality and providing responsive after-sales services. Our monocrystalline solar cells with standard dimensions of 125 mm × 125 mm, which represented a significant majority of our sales from 2008 to 2010, had an average conversion

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efficiency rate of 16.7%, 17.1% and 17.7% in 2008, 2009 and 2010, respectively. We expect to further increase the conversion efficiency rate of our monocrystalline solar cells to over 19.0% by the end of 2011. We sold a total of approximately 24.4 MW, 41.2 MW and 71.9 MW of solar cells in the years ended 31 December 2008, 2009 and 2010, respectively. We commenced producing multicrystalline solar cells in June 2011, as we believe there to be strong demand for multicrystalline solar cells.

Efficiency, format and cell thickness are the most important attributes in determining manufacturing costs and selling prices of solar cells. We continually strive to optimize the attributes of our solar cells to increase their value and reduce their cost.

- **Cell efficiency.** Cell efficiency, or Cell conversion efficiency, refers to the ability of solar cells to capture and convert sunlight into electricity. Cell conversion efficiency rate measures the ratio of the maximum power output of electricity released by a solar cell and the amount of light energy it received. A cell with a higher degree of conversion efficiency (having the same format) generates more electricity. Cell efficiency is a key determinant of selling prices of solar cells and therefore affects the profit margins of the manufacturer. For the year ended 31 December 2010, our average conversion efficiency rate of monocrystalline solar cells with standard dimensions of 125 mm × 125 mm was 17.7%. According to Solarbuzz, the power output of solar cells would generally be reduced by approximately 3% when solar cells are incorporated into solar modules. In addition, the total surface area of solar cells used in a solar module comprise only approximately 87% of the total surface area of the solar module, and total surface area of a solar module (including the area that is not part of the area of the solar cells used in the module) is included in calculating the conversion efficiency rate of the solar module. Therefore, we estimate solar modules using our solar cells with an efficiency rate of 17.7% have a conversion efficiency rate of approximately 14.9% (i.e., $17.7\% \times 97\% \times 87\%$). Based on publicly available information, the highest conversion efficiency rates of the monocrystalline solar modules of these manufacturers included in calculating Solarbuzz PV Module High Efficiency Indices range from 14.7% to 19.6%. Based on the calculation method above, we estimate that the conversion efficiency rates of the solar cells used in the monocrystalline solar modules of those manufacturers range from 17.4% (i.e., $14.7\%/97\%/87\%$) to 23.2% (i.e., $19.6\%/97\%/87\%$). Solarbuzz PV Module High Efficiency Indices, which map the progression of the efficiency of solar energy conversion of crystalline silicon PV modules of the most prevalent manufacturers in the market by focusing on highest power models in the market, provide a benchmark indicator of industry progress in the manufacturing technology in the solar industry.
- **Format.** The larger the format of a solar cell, the greater its power output (cell efficiency remaining constant). Accordingly, given the same efficiency, larger cells can be sold for higher prices. On the other hand, a larger format generally results in increased breakage rates and higher material cost per watt. We produce solar cells with standard dimensions of 125 mm × 125 mm or 156 mm × 156 mm, which is in line with market and industry standards. However, we are capable of producing different sizes of solar cells by reconfiguring our production lines.
- **Cell thickness.** The thinner a cell, the less polysilicon is needed for its production. Thinner cells result in a lower cost per cell and the production of more cells from a given amount of polysilicon. However, thinner cells also tend to be more fragile and have higher breakage rates. The average thickness of the silicon wafers from our suppliers is in the range of 180 μm to 210 μm. Our solar cells tend to be of average thickness common in the market.

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The following table sets forth details of the sales of our solar cells for the periods indicated:

	Year ended 31 December					
	2008		2009		2010	
	Volume (MW)	Revenue (RMB'000)	Volume (MW)	Revenue (RMB'000)	Volume (MW)	Revenue (RMB'000)
Products						
Monocrystalline	24.38	561,036	41.20	378,855	71.87	622,800
Others ⁽¹⁾	0.04	2,610	0.02	119	0.01	122
Total	<u>24.42</u>	<u>563,646</u>	<u>41.22</u>	<u>378,974</u>	<u>71.88</u>	<u>622,922</u>

(1) Includes multicrystalline solar cells and other related solar products.

Silicon Wafers

We installed 120 monocrystalline silicon ingot furnaces with a designed annual production capacity of approximately 200 MW and 16 wire saws with an annual designed silicon wafer production capacity of approximately 192 MW up to the Latest Practicable Date. We commenced producing silicon ingots in April 2011 and silicon wafers in May 2011. We plan to manufacture monocrystalline silicon wafers with a dimension of 156 mm × 156 mm and an average thickness ranging between approximately 180 μm and 200 μm. Our production of silicon wafers aims to secure a steady supply of the key raw materials in our solar cell production. All of our silicon wafers are intended for internal consumption to support our solar cell production. We plan to expand our silicon wafer production capacity to 500 MW by the end of 2011. Through securing a large portion of silicon wafers at cost of internal production, which is expected to be lower than market price of silicon wafers, we expect to achieve cost-savings. As a result, we expect the commencement of production of silicon wafers will have a positive impact on our operations and gross margin. In addition, as we commenced producing silicon wafers in May 2011, our two-month production of silicon wafers is unlikely to render our half year profit forecast incomparable to the financial results of the Group for the Track Record Period.

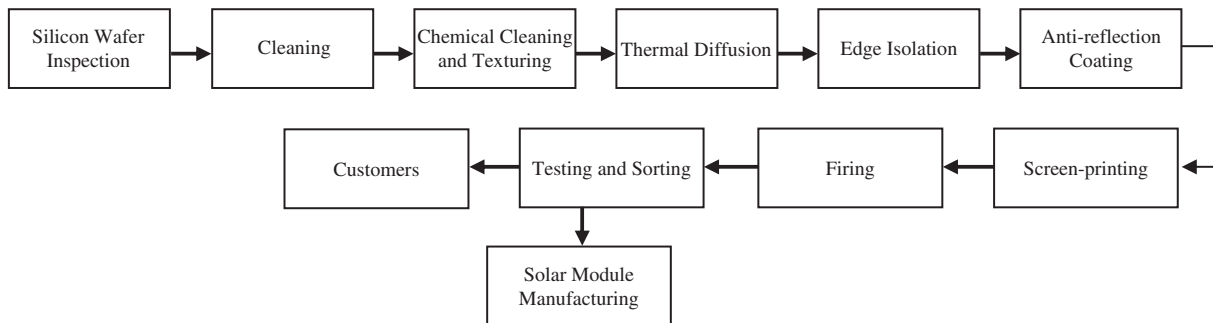
MANUFACTURING PROCESS

Solar Cell Manufacturing

Our solar cell manufacturing process starts with a cleaning process to remove oil and surface particles from incoming silicon wafers. Silicon wafers then undergo a chemical cleaning and texturing process to remove impurities from the surface of silicon wafers and create a suede-like structure on the wafer surface, which reduces the finished solar cell's reflection of sunlight and increases its conversion efficiency. Through a thermal diffusion process, we then introduce certain impurities into the silicon wafers to form an electrical field within the wafers. As a result, each silicon wafer now has two separate layers — a negatively charged layer on the front surface and a positively charged layer on the back. We achieve a clean separation of the negative and positive layers of each silicon wafer, or electrical isolation, by removing a very thin layer of silicon around the edges of the silicon wafer in a process called edge isolation. We then apply an anti-reflective coating to the front surface of silicon wafers to further enhance their absorption of sunlight through PECVD. We screen-print negative and positive metal contacts, or electrodes, on the front and back surfaces of silicon wafers, respectively, with the front contacts in a grid pattern to collect electrical current. The metal electrodes are then fused on the silicon surface through an electrode firing process in a conveyor belt furnace at a high temperature. After the electrode firing process, solar cells are tested for electrical output in a solar simulation, sorted according to efficiency levels and packaged. Quality control is performed at every step of the manufacturing process from incoming wafer inspection to packaging. Our strict

quality control, together with our proprietary technologies, enables us to improve the quality of our products. We have obtained seven patents relating to the production of solar cells. For instance, our patented cleaning technology allows us to effectively remove impurities resulting from the thermal diffusion process, which enables us to improve the quality of our solar cells. Our patented edge resistance test meter allows us to better control our edge isolation process, which enables us to improve the efficiency of our production. In addition, our patented screen printing technology allows us to optimize the metal grid pattern on our solar cells by increasing the number of grid pattern lines while simultaneously improving our screen printing technique to reduce the width of each grid line from 120 μm to 80 μm . The additional grid lines increase conductivity, while the thinner grid pattern lines allow more light to enter the cell, which translates into higher conversion efficiency.

The diagram below illustrates the solar cell manufacturing process:



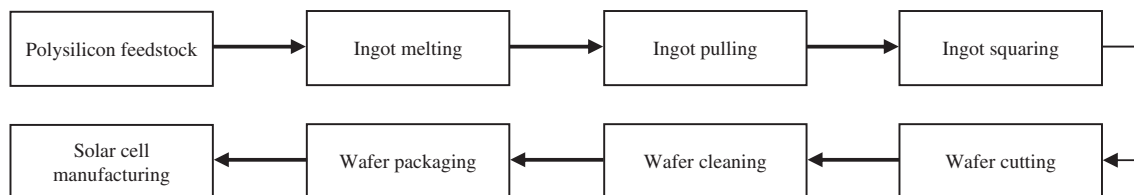
Silicon Wafer Manufacturing

We plan to manufacture monocrystalline silicon wafers primarily for consumption by our solar cell production. The manufacture of silicon wafers consists of silicon ingot production and wafer cutting. Silicon feedstock is melted in crucibles in electric furnaces. To increase the purity of the silicon ingots, argon, a chemically inert gas, is injected into the furnace to remove impurities that are vaporized when the silicon materials are heated and to inhibit oxidation. A thin crystal “seed” is dipped into the molten silicon and then slowly pulled in a rotating upward motion to form cylindrical silicon ingots. After the pulled ingots cool, they are squared in squaring machines. Finished ingots are tested for minority carrier lifetime, resistivity and other specifications before they undergo wafering.

Ingots are cut into wafers with high-precision wire saws, which use steel wires carrying slurry to cut wafers from ingot blocks.

After silicon wafers are cut from silicon ingots, they are cleaned and inserted into frames. The framed silicon wafers are then further cleaned, dried and inspected before packaging.

The diagram below illustrates the silicon wafer manufacturing process:



We plan to increase our annual silicon wafer production capacity to 500 MW by the end of 2011. Our employees operating our equipment are well trained and experienced and we conduct regular inspection and

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maintenance on our equipment according to our stringent standards to ensure productivity and safety. We have made substantial investment in our power and cooling systems to ensure uninterrupted and safe operation.

Solar Module Manufacturing

Solar modules are produced by interconnecting multiple solar cells into desired electrical configurations through welding. The interconnected solar cells are laid out and laminated in a vacuum. Through these processes, the solar modules are weather-sealed, and thus are able to withstand high levels of ultraviolet radiation, moisture, wind and sand. Assembled solar modules are packaged in a protective aluminum frame prior to testing.

MANUFACTURING FACILITIES

Current Facilities

In 2010, we established our principal manufacturing base in the Wujin Hi-Tech Industrial Development Zone within Changzhou City, Jiangsu Province, which is located approximately 160 km from the city center of Shanghai in China in anticipation of our planned expansion. We hold the land use rights to the 99,611.20 square meters of land at the Wujin Hi-Tech Industrial Development Zone for a term of 50 years, which will expire in 2060, and construction permits for the buildings currently under construction on the land. Our completed manufacturing facilities in Wujin Hi-Tech Industrial Development Zone have an aggregate gross floor area of 21,154.4 square meters, and approximately an additional 45,586.50 square meters of manufacturing facilities were under construction as of the Latest Practicable Date. In addition, we have obtained land use right to another 29,995.00 square meters of land at the Wujin Hi-Tech Industrial Development Zone for a term of 50 years, which will expire in 2061. Changzhou's proximity to many of our key suppliers and customers in Jiangsu Province and Shanghai provides us with timely access to key resources and production inputs and fast and convenient transportation means to deliver our finished products to customers.

We have installed advanced equipment for our cell production process. The following table sets forth details of our current solar cell manufacturing lines as of the Latest Practicable Date:

Manufacturing Line	Production type	Production capacity (MW)	Location	Date of Commencement of operation
1	Solar Cell	30 ⁽¹⁾	Xueyan	March 2007
2	Solar Cell	30 ⁽¹⁾	Xueyan	July 2008
3	Solar Cell	60	New Site	December 2010
4	Solar Cell	60	New Site	December 2010
5	Solar Cell	60	New Site	March 2011
6	Solar Cell	60	New Site	March 2011
7	Solar Cell	60	New Site	June 2011
8	Solar Cell	60	New Site	June 2011

(1) Annual production capacity of the manufacturing line was increased from its original designed annual capacity of 25 MW to 30 MW through technological improvements made in 2010.

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The following table sets forth details of our current silicon ingot and silicon wafer manufacturing equipment as of the Latest Practicable Date:

Manufacturing Equipment	Quantity	Production capacity (MW)	Location	Date of commencement of operation
Monocrystalline silicon ingot furnace	120	200	New Site	April 2011
Wire saw	16	192	New Site	May 2011

Our crystalline silicon solar cell manufacturing equipment, including texturing machines, PECVD, etching machines, diffusion furnaces, screen printers and sorting and testing machines was imported primarily from Germany and Japan. The six manufacturing lines that we installed in 2010 and 2011 are highly automated to enable high throughput production that minimizes human error. Furthermore, we have applied our processing technologies to the manufacturing equipment that we acquired in 2010 based on our proprietary technologies and know-how to further enhance their performance beyond their designed capacity. We maintain our equipment and manufacturing facilities in accordance with our internal maintenance policies to minimize the risk of equipment failure. Our equipment and facilities are inspected according to the maintenance manual to ensure that they meet our stringent safety standards. We did not encounter any material disruption in production or compromise in product quality due to equipment failure, malfunction or flawed inspection procedures during the Track Record Period.

Planned Expansion

A key part of our business strategy is to increase our production capacity through the construction of new facilities. To that end, we acquired the parcel of land in Wujin Hi-Tech Industrial Development Zone. We installed four solar cell manufacturing lines with an aggregate annual production capacity of 240 MW by the end of 2010 and two manufacturing lines with an aggregate annual production capacity of 120 MW in April 2011. Our new manufacturing lines are highly automated, which enables us to reduce human error and labor cost, and further enhance our production efficiency and product quality.

We plan to continue to expand our production capacity to capture the anticipated global demand for solar products and enhance our market competitiveness by leveraging our scalable business model and experience in managing rapid production growth. We plan to expand our annual solar cell production capacity from 420 MW as of the Latest Practicable Date to 660 MW by the end of 2011 and to 900 MW by the end of 2012. We expect our total capital expenditure to purchase new solar cell production equipment, all of which will be located at the New Site, will be approximately RMB786 million in 2011.

While we plan to maintain our primary focus on solar cells, we will continue to invest in the coordinated expansion of our silicon wafer and solar module production to realize the benefits of vertical integration. As a result, we have commenced the construction of manufacturing facilities for wafer production and expect to reach an annual silicon wafers production capacity of 500 MW by end of 2011. We expect our total capital expenditure to purchase silicon wafer production equipment will be approximately RMB597 million in 2011. In addition, we plan to purchase solar module manufacturing equipment in the fourth quarter of 2011 and expect to reach an annual solar module production capacity of 300 MW by the end of 2011. We will need an additional RMB182 million in capital expenditure in 2011 to acquire land use rights, build new facilities and purchase production equipment.

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The following table sets forth details of our expansion plan:

Year	Production type	Production capacity (MW)	Product specifications	Location	Status of construction of facilities	Expected date of installation	Expected date to commence operations	
2011	Solar cell	120	156 mm × 156 mm	New Site	Under construction	September 2011	October 2011	
	Solar cell	120	156 mm × 156 mm	New Site	Under construction	October 2011	November 2011	
	Silicon ingot/wafer	100	156 mm × 156 mm	New Site	Completed	May 2011	July 2011	
	Silicon ingot/wafer	50	156 mm × 156 mm	New Site	Under construction	August 2011	September 2011	
	Silicon ingot/wafer	50	156 mm × 156 mm	New Site	Under construction	September 2011	October 2011	
	Silicon ingot/wafer	50	156 mm × 156 mm	New Site	Under construction	October 2011	November 2011	
	Silicon ingot/wafer	50	156 mm × 156 mm	New Site	Under construction	November 2011	December 2011	
	Solar module	300	230W - 240W (60 pieces) (multicrystalline) 245W - 260W (60 pieces) (monocrystalline)	Liyang	Under construction	4 th Quarter of 2011	4 th Quarter of 2011	
2012	Solar cell	120	156 mm × 156 mm	New Site	Under construction	August 2012	September 2012	
	Solar cell	120	156 mm × 156 mm	New Site	Under construction	September 2012	October 2012	
	Silicon ingot/wafer	150	156 mm × 156 mm	New Site	Under construction	August 2012	October 2012	
	Silicon ingot/wafer	150	156 mm × 156 mm	New Site	Under construction	September 2012	November 2012	
		Solar module	200	230W - 240W (60 pieces) (multicrystalline) 245W - 260W (60 pieces) (monocrystalline)	Liyang	Expected to start construction at the end of June 2012	October 2012	November 2012
		Solar module	200	230W - 240W (60 pieces) (multicrystalline) 245W - 260W (60 pieces) (monocrystalline)	Liyang	Expected to start construction at the end of June 2012	November 2012	December 2012

The table below sets forth the expected sources of funding for our planned expansion in 2011 and 2012:

	2011				2012			
	Solar cell	Silicon ingot/wafer	Solar module	Total	Solar cell	Silicon ingot/wafer	Solar module	Total
Net proceeds ⁽¹⁾ (in RMB million)	172	172	31	375	—	—	—	—
Bank borrowings ⁽²⁾ (in RMB million)	352	325	151	828	140	300	110	550
Internal resources ⁽³⁾ (in RMB million)	262	100	0	362	240	150	10	400
Total	786	597	182	1,565	380	450	120	950

(1) Assuming an Offer Price of HK\$1.26 per Share.

(2) As of the Latest Practicable Date, we have unutilized credit facilities of RMB375.3 million from commercial banks, all of which may be used to fund our planned expansion in 2011. In addition, up to the Latest Practicable Date, we had obtained letters of intent for loans of RMB680 million from commercial banks for our planned expansion in 2011 and 2012.

(3) Including RMB100 million of capital injection from a non-controlling shareholder under the joint venture contract dated 10 October 2010 between Shunfeng Technology and New Capability Limited for our silicon ingot/wafer expansion in 2011. As of the Latest Practicable Date, approximately RMB59.5 million had been injected by the non-controlling shareholder, New Capability Limited. New Capability Limited is an investment holding company incorporated under the laws of British Virgin Islands. Neither New Capability Limited nor its sole shareholder and director, Mr. Yan Feng, has any relationship with Shunfeng Technology or its directors.

As of the Latest Practicable Date, we had commitments from our equipment suppliers for the delivery of additional diffusion furnaces, PECVD systems, wafer testing systems, screen printers and laminating machines to support our expansion plans in 2011. In line with our capacity expansion plan, we plan to purchase additional equipment in the near future.

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We cannot guarantee that we will be able to successfully implement our expansion plans. See “Risk Factors — Risks Relating to Our Business and Industry — Our failure to successfully execute our business expansion plans may have a material adverse effect on the growth of our sales and earnings.”

Our planned expansion and sustainability of our business

We believe that the sustainability of our planned expansion is primarily justified by the expected growth in the global and PRC solar market, our enhanced ability in managing our expansion, the significant operational synergies to be achieved as well as the local government support we have received.

Market Dynamics of Silicon Wafers and Solar Modules

Under Solarbuzz’s moderate forecast scenario, the global market demand for solar modules is expected to reach 21.4 GW in 2011 and will further grow to 36.4 GW in 2015. In addition, the NDRC has set an ambitious goal for China to reach 2 GW of installed solar capacity by 2011 and 20 GW by 2020. As a result, we believe strong market demand for solar products will continue to be instrumental in supporting our planned expansion. According to Solarbuzz, the global annual silicon wafer, solar cell and solar module production capacity reached 26.1 GW, 24.5 GW and 30.4 GW, respectively, in 2010. Historically, supply imbalances throughout the solar power value chain have disrupted production and caused price fluctuations of silicon wafers, solar cells and solar modules. Production capacity for silicon wafers, solar cells and solar modules has increased steadily during the first three quarters of 2010, and wafer capacity was the industry’s manufacturing bottleneck until the third quarter of 2010. See “Industry Overview — The Solar Power Value Chain.” As a result, we believe our vertical integration into silicon wafer manufacturing will be instrumental to the successful execution of our expansion plan. In addition, as we currently sell the majority of our solar cell products to PRC-based solar module manufacturers that sell solar modules incorporating our solar cells primarily in the overseas markets and we plan to sell our own solar modules in the global market after we commence our solar module operations, we expect to capitalize on the potential growth in the global demand for solar products.

Expansion Management

We have undertaken several initiatives to accommodate and manage our planned expansion. For example, we have entered into long-term contracts with 12 customers for sales of approximately 380MW, 521MW and 561MW, respectively, of solar cells in each of 2011, 2012 and 2013. The purchase volume under the long-term contracts in 2011 and 2012 represents 82.2% and 65.1% of our expected production capacity as well as production volume during the respective periods (462MW in 2011 and 800MW in 2012). In addition, we plan to procure polysilicon on the spot market from selected polysilicon suppliers with which we plan to establish solid relationship to mitigate the risks from market price fluctuations as we may be able to adjust our polysilicon purchasing price promptly when the spot market price decreases. Up to the Latest Practicable Date, we had entered into two letters of intent with two of our potential polysilicon suppliers for the supply of polysilicon from March 2011 to April 2012, which will provide sufficient supply of polysilicon for the first two months’ production of silicon wafers during such period and a steady supply of polysilicon in the nine months thereafter. We will enter into binding supply contracts and fix price with the supplier when we place orders with the supplier each month, which is normal market practice. According to Solarbuzz, the manufacturing capacity of polysilicon consistently exceeded that of solar wafers from 2006 to 2010 and polysilicon manufacturing capacity is expected to exceed its demand by 2015, which provided and will continue to provide sufficient polysilicon supply in the market.

To implement our expansion plan, we have hired Mr. Gao Zhoumiao as a member of our senior management team. Mr. Gao has over 10 years management experience in the production of semiconductor wafer and over three

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years management experience in the production of solar cells and solar modules. In addition, we have recently hired five mid-level management members, including one member with approximately three years of management experience in human resources and sales in the solar power industry, one member with over 10 years of experience in silicon wafer manufacturing and management experience in quality control and cost control for monocrystalline solar wafer manufacturing, one member with approximately five years of sales and marketing experience in the solar power industry, one member with more than three years of management experience in solar cell manufacturing and one member with more than 10 years of experience in semiconductor manufacturing. All these five mid-level management members held management positions in other solar power or semiconductor companies before joining us. We believe that the technical and industry knowledge and the operating experience of our management team has been and will continue to be instrumental in helping us develop and execute our growth strategy amidst a challenging and competitive landscape. We have also been actively recruiting key personnel and expect to add approximately another 775 employees in 2011, with most of such new hires to be made in the manufacturing, project engineering, quality control and research and development divisions in line with our expansion needs. As of 31 May 2011, we had 577 newly recruited employees for our new manufacturing lines, which was in line with our recruiting plan. Our management has accumulated substantial industry experience and expertise through hands-on quality control of products from our upstream suppliers, as well as the provision of after-sale services to our downstream customers, which has enabled them to reduce many foreseeable risks and uncertainties in connection with our expansion into the downstream solar module market and upstream silicon wafer market.

Operational Synergies

As a vertically integrated solar product manufacturer, we believe we will be better positioned to compete with companies that specialize only in certain stages of the solar power value chain. We expect to achieve cost-savings through securing a large portion of silicon wafer at the cost of internal production, which is expected to be lower than market price of silicon wafer. Vertical integration will also help us mitigate the effects of price fluctuations due to shortages of raw materials at each stage of the value chain. Although solar modules typically have lower profit margins than solar cells, our integrated approach will enable us to achieve greater flexibility to changing market conditions through our access to additional product markets along the value chain. Through direct sales of solar modules, we also expect to achieve greater understanding of end-users market of solar products and gain greater insight into downstream market developments. In addition, we expect that our expanded operation scale will increase our revenue notwithstanding the decrease in average selling prices of our products. We also expect that vertical integration will have a positive impact on our gross profit and gross margin as we will be able to capture profit at multiple stages of the solar industry value chain and benefit from additional cost-savings as a result of vertical integration. We believe we will be able to substantially increase our market share and enhance our market competitiveness as a result of greater operational synergies to be achieved from our planned expansion.

Local Government Support

Our planned expansion and operation in the New Site have received support from the local government in the form of a government subsidy scheme. Pursuant to two agreements entered into between Shunfeng Technology, Shunfeng Materials and the relevant authorities of the local government of Wujin Hi-tech Industrial Zone in January 2010 and August 2010, respectively, Shunfeng Technology and Shunfeng Materials may be entitled to receive certain government subsidies for six years after their commencement of operations in their new location in Wujin Hi-Tech Industrial Zone. The subsidies for each fiscal year will be calculated based on certain portion, which will be determined by the relevant government authority, of corporate income tax paid by Shunfeng Technology and Shunfeng Materials in that fiscal year. Such government subsidies, if any, will be receivable within three months

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after the close of that fiscal year provided that Shunfeng Technology and Shunfeng Materials have fulfilled their corporate income tax obligations. We did not receive such government subsidy in 2010 because Shunfeng Materials had no operation in 2010 and did not generate taxable income. In addition, Shunfeng Technology paid its corporate income tax in 2010 to the tax authority of Xueyan Town as it did not commence its operations in Wujin Hi-Tech Industrial Zone until December 2010.

Production Capacity and Utilization

Since we commenced the production of solar cells in March 2007, we have increased our production capacity through the construction of new facilities and the installation of new equipment as well as implementing technological improvements from our research and development efforts. Following the installation of our second manufacturing line in 2008, we further increased the production capacity of our two manufacturing lines from their original combined designed capacity of 50 MW to 60 MW in 2010 through improvements to our manufacturing process. The following table sets forth our actual and estimated installed production capacity for solar cells and silicon wafers as of the indicated dates.

<u>Products</u>	<u>As of</u> <u>31 December</u>			<u>As of the Latest</u> <u>Practicable Date</u> (MW)	<u>Estimated</u> <u>production</u> <u>capacity as of</u> <u>31 December</u>	
	<u>2008</u>	<u>2009</u>	<u>2010</u>		<u>2011</u>	<u>2012</u>
Solar cells	50	50	180	420	660	900
Silicon Wafers	—	—	—	192	500	800
Solar modules	—	—	—	—	300	700

We calculate utilization rate of our manufacturing facilities and equipment by dividing actual production for the relevant period by the weighted average production capacity during the same period. The weighted average production capacity for a given period is calculated by dividing the sum of the annualized production capacity as at the end of each month during such period by the number of months in the period. The following table sets forth the utilization rates for our solar cells manufacturing lines during the Track Record Period.

	<u>Year ended</u> <u>31 December</u>		
	<u>2008</u>	<u>2009</u>	<u>2010</u>
Solar cells	69.8	80.4	101.5

The utilization rate for our solar cell manufacturing lines was 69.8% for 2008 as our second solar cell manufacturing line was installed in July 2008 and some ramp-up time was required, which reduced our utilization rate. The utilization rate for our solar cell manufacturing lines increased to 80.4% for 2009 and further to 101.5% for 2010. We installed four solar cell manufacturing lines in the second half of 2010 and the utilization rate of these manufacturing lines reached approximately 120% in May 2011. We installed two additional solar cell manufacturing lines in April 2011 which commenced operations in June 2011.

Quality Control and Certification

We employ quality control procedures at each stage of the manufacturing process in compliance with ISO 9001 quality management standards to ensure the consistency of our product quality and compliance with internal

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production benchmarks. The following table sets forth the certification we have received and major test standard our products and manufacturing processes have met:

<u>Date</u>	<u>Certification and Test Standard</u>	<u>Relevant Product or Process</u>
December 2009	Quality Management System Certificate, issued by Beijing Xingguo Global Certification, Ltd. to certify that Shunfeng Technology's quality management system conforms to the GB/T 19001-2008 — ISO 9001:2008 standard	development, manufacture and service of solar cells by Shunfeng Technology

We have established systematic inspections at each stage of our manufacturing process, from raw material procurement to finished products, to ensure the quality of our products. Raw materials that fail to pass our incoming inspection are removed from our manufacturing process and returned to the suppliers. We have established guidelines for manufacturing solar cells that meet customer specifications.

We believe that we are able to maintain the quality and reliability of our products through stringent quality controls in our manufacturing lines, close monitoring of our manufacturing processes by our quality control team, detailed documentation of each batch of production and scheduled maintenance of our equipment. To ensure the effective implementation of our quality control procedures, we mandate our production employees to undergo a one-month intensive training program that we provide before they join our manufacturing lines. As of 31 December 2010, our quality control team consisted of 83 employees, including nine employees with college degrees or above. Members of our quality control team work closely with our sales and marketing team to provide customer support services and feedback for continuous product improvement. We employ advanced equipment to conduct tests of product quality, including specific tests for net throughput, average shunt resistance, average cell efficiency reverse current and electrical yield. In addition, as part of our customer support services, we also regularly follow up with our customers regarding our product quality and incorporate their suggestion in our future product improvements.

Our quality control procedures also include quality assurance of raw materials, which includes careful selection of reputable suppliers, sourcing critical materials from leading manufacturers, inspection of raw materials, including sample testing of materials upon their arrival at our facilities and evaluation of our major suppliers. We work closely with our suppliers by notifying them of product defects, suggesting improvements to their products and conducting site visits as necessary.

Our quality control team also consists of experienced equipment maintenance technicians that oversee the operation of our manufacturing lines to avoid unplanned interruptions and minimize the amount of time required for scheduled equipment maintenance.

Research and Development

We believe that our research and development efforts are vital to maintaining and enhancing our long-term competitiveness. Our research and development capabilities have enabled us to increase the efficiencies of our products, improve the efficiency of our manufacturing processes and develop and commercialize new solar power technologies. We have accumulated significant expertise, knowledge, know-how and experience in silicon materials, solar cell device physics, process technologies and the improvement of advanced solar cell manufacturing equipment, for which we have received seven patents and have 17 pending patent applications. We are able to process silicon wafers as thin as 180 μm in our commercial production, which has enabled us to reduce unit costs. As of the Latest Practicable Date, our research and development team consisted of 17 technicians and engineers who focus on developing technologies to improve the quality and affordability of our products and

commercializing such technologies. We also have 16 employees in our engineering department who are responsible for manufacturing technology development and further fine-tuning our production process. We apply technologies developed through our research and development efforts in our manufacturing process and have significantly enhanced our production efficiency and the quality of our solar cells. Specifically, we have enhanced the following steps in our solar cell manufacturing process:

- **Cleaning.** We have customized our cleaning equipment to enhance its ability to remove wafer residue and reduce any incidence of rework. In order to address the significant variation of incoming wafer quality, we have introduced a pre-cleaning process to standardize the surface of wafers before feeding them into our solar cell manufacturing line, thereby increasing the effectiveness of our manufacturing process.
- **Texturing.** We have developed a proprietary chemical solution for our texturing solar cells to reduce the reflection of sunlight, which enables us to reduce unit manufacturing costs through the conservation of raw material, increase the percentage of wafers that conform to our specifications and enhance overall wafer absorption.
- **Thermal diffusion.** Our rapid thermal processing technique enables the formation of shallow junctions with effective control by our imported and domestically produced diffusion furnaces. Shallow junctions enhance the solar cell's design by lengthening minority carrier lifetime and increasing conversion efficiency. We have also enhanced our ability to capture and treat tail gas created during the diffusion process.
- **Edge isolation:** Our edge resistance technology enables us to better control the edge isolation process with our self-developed edge resistance test meter and lengthen the life span our solar cells.
- **Anti-reflection coating.** We have shortened the processing time of our Centrotherm PECVD coating systems to increase productivity. We have also introduced a processing technique that enables us to achieve higher conversion efficiencies by reducing reflectivity and increasing the color homogeneity of solar cells.
- **Screen-printing.** We have made adjustments to our screen printers to increase printing precision, which reduces the shadowing effect caused by the electrodes printed onto the silicon wafers and increases the illuminated portion of the silicon surface to better absorb sunlight. We have also improved the contact between the conductor paste and silicon surface, thereby increasing electricity conductivity.

We plan to enhance our research and development capability by actively recruiting engineers with solar cell design and manufacturing expertise. Several members of our senior management spearhead our research and development efforts and develop strategic directions for the improvement of our products and manufacturing processes. We also collaborate with equipment manufacturers to improve the design of our solar cell manufacturing equipment and the effectiveness of our solar cell manufacturing process.

In 2008, 2009 and 2010, our research and development expenses were approximately RMB1.1 million, RMB1.5 million and RMB2.7 million, respectively. Purchases of equipment for research and development purposes amounted to approximately nil, RMB0.1 million and RMB5.4 million during 2008, 2009 and 2010, respectively.

We believe our ability to manufacture high conversion efficiency solar cells differentiates us from other solar cell manufacturers. We have received grants for three ongoing research projects, which are sponsored by the city of Changzhou. We received approximately RMB1.3 million, RMB0.6 million and RMB1.0 million in aggregate government grants, incentives and subsidies for research and development in the years ended 31 December 2008,

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2009 and 2010, respectively. We expect the successful completion of these research projects will enable us to increase the average conversion efficiency of our solar cells to over 19%, and such improvements will be applied to our new manufacturing lines. As part of our vertical integration strategy, we also plan to invest in the research and development of silicon ingot and silicon wafer production. We have hired a senior executive with substantial experience in silicon wafer manufacturing to help us establish and manage our silicon wafer operations. We will continue to devote substantial resources to research and development efforts to improve our product design and manufacturing efficiency. In particular, our research and development efforts will focus on increasing conversion efficiencies of our solar cells and reducing processing cost per watt. We also collaborate with third-party equipment manufacturers and suppliers to make adjustments to equipment in order to meet our product specifications and ensure product quality. We also work with suppliers of raw materials, in particular silicon wafers, to enhance product quality. We will also continue to develop equipment and tools and refine our manufacturing processes to improve our operating efficiency.

CUSTOMERS, SALES AND MARKETING

We sell our solar cells directly, without the use of any agents, distributors or middlemen, to a relatively concentrated customer base of solar module manufacturers in China, which has become the largest manufacturing center for solar products in recent years. In an effort to increase our sales volume and enhance our market recognition, we have selectively grown and diversified our customer base. Our customers include some of the leading solar module manufacturers in the PRC such as Canadian Solar Manufacturing (Changshu) INC, which is a private company incorporated in PRC in 2006 and a subsidiary of Canadian Solar (a solar module producer listed in U.S.) that manufactures silicon wafers, solar cells and solar modules. Our top five customers also include Phono Solar Technology Co., Ltd, a private company manufacturing solar modules with an annual solar module production capacity of 150MW as of 31 December 2010, Sunage S.A., a private company manufacturing solar modules with an annual solar module production capacity of 20 MW as of 31 December 2010, Perfectenergy International Limited, a private company manufacturing solar cells and solar modules with an annual solar module production capacity of 60 MW as of 31 December 2010 and a private company based in Shanghai which manufactures solar modules and is a subsidiary of a solar company listed in U.S. Since 2007, we have also exported a small portion of our solar cells. The gross profit margin from domestic sales is not significantly different from that from export sales. During 2008, 2009 and 2010, we generated 98.6%, 96.8% and 92.7% of our revenue from customers based in China, respectively. We expect to increase sales to overseas markets after we commence production and sale of solar modules.

We historically sold a substantial majority of our solar cells under one-year contracts and the remaining of our solar cells on the spot market. During the financial crisis, we entered into a number of short-term contracts to proactively respond to changing market dynamics and minimize price risks associated with solar cells and silicon wafers. However, as our ability to accept large volume orders increases, we plan to sell an increasing portion of our solar cells through sales contracts with terms of one year or longer. Under our sales contracts with our customers, we typically deliver solar cells within seven days after the price is determined. We closely monitor the movement of spot market prices of solar cells and may renegotiate the price when there is significant price fluctuation to mitigate the associated risks.

We plan to strengthen existing customer relationships by continuing to deliver high quality solar cells at competitive prices and to enter into longer term sales contracts with selected solar cell customers whose business models, expansion plans and products and services are complementary to ours. In our effort to establish long-term

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relationships with our customers, we have entered into contracts with our key customers for terms of up to three years and we target to achieve a substantial portion of our total net revenues from sales to these customers.

Long-Term Contracts with Our 12 Customers

We have entered into long-term sales contracts with 12 customers for the sale of an aggregate of approximately 380MW, 521MW and 561MW, respectively, of solar cells in each of 2011, 2012 and 2013. The purchase volume under the long-term contracts in 2011 and 2012 represents 82.2% and 65.1%, of our expected production capacity as well as production volume during the respective periods (462 MW in 2011 and 800 MW in 2012). Although the purchase volume under the long-term contracts in 2011 and 2012 represents only 57.6% and 57.9% of our expected production capacity as of 31 December 2011 and 2012 (660 MW in 2011 and 900 MW in 2012), respectively, as we are increasing our production capacity on a on-going basis through the installation of additional manufacturing lines in multiple stages throughout the year, our year-end production capacity represents the production volume that we can achieve within one year with the facilities and manufacturing equipment as of that date, which is larger than the actual production volume that we can achieve in that year. Therefore, our production capacity as of the year-end does not represent our expected production volume that we can achieve during the year. Our long-term customers include four of our top five customers in 2010, namely, Canadian Solar Manufacturing (Changshu) INC, Phono Solar Technology Co., Ltd, Sunage S.A., and Perfectenergy International Limited. These long-term contracts will help establish a stable revenue stream for our operations and enable us to plan our production and resources more effectively.

We generally provide more favorable terms to our key customers who have entered into long-term sales contracts with us. The material terms of these long-term sales contracts include:

- *Term.* The contracts are for one-year to three-year term.
- *Rights and obligations.* We are required to supply, and our customers have committed to purchase, a fixed quantity of solar cells. Certain contracts provide for the delivery of a maximum amount of additional orders within the contract term. If any customer fails to purchase the minimum amount of our products as agreed upon under the contract, it may be subject to penalties of up to 2% of the contract value of the products that such customer has failed to purchase. Meanwhile, our failure to fulfill our delivery obligations under the contract will subject us to penalties of up to 2% of the contract value of the products that we have committed but failed to deliver. In addition, under three-year sales contracts, any outstanding amounts that our customers fail to purchase may be extended to the subsequent month without penalties, provided that such outstanding amount and the minimum amount of next month will have been fulfilled, or on terms as mutually agreed.
- *Pricing.* Our contracts contain either an open price term based on the market price or a reference price based on the market price at the time the reference price is determined. We typically determine the sales price under these long-term sales contracts through negotiations with our customers before delivery on a monthly basis and under a number of long-term sales contracts. Such price may be subject to renegotiation prior to delivery of products if the market price of solar cells moves beyond a pre-determined price band of plus or minus 3%. During the Track Record Period, none of our contracts were renegotiated and the solar cells were sold at prices close to the then market price.
- *Quantity.* Our contracts either fix the quantity or set forth the minimum quantity for each delivery and our customers are required to place orders in accordance with the respective sales contracts. Our customers typically place their orders on a monthly basis. Under our sales contracts, the actual quantity

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and price for each delivery are normally determined in the month immediately preceding the month of delivery. During the Track Record Period, none of our customers breached their purchase obligations under the respective long-term sales contracts.

- *Payment.* The payment terms are negotiated on a case-by-case basis. Customers may make advance payments totaling up to 5% of the total contract price before product delivery and settle the remaining amount after the delivery. Certain customers with strong credit history may settle payments with us within a week after delivery with bank accepted bills with maturity ranging from 90 to 180 days.
- *Product return policy.* Generally, our sales contracts require our customers to notify us within five to 14 days of delivery if such customers find our solar cells fail to meet the specifications stipulated in the contracts. If our customers notify us of such defect within the specified time period, we will repair those defective solar cells or replace them with qualified ones after our confirmation of such defects.

We use our past experience to estimate and make provisions for returns at the time of sale. During the Track Record Period, we did not encounter any product defects, nor did we issue any product recalls.

- *Termination.* Our long-term sales contracts generally may be terminated (i) due to breaches of their terms and conditions; (ii) due to bankruptcy or insolvency of either party; (iii) due to force majeure; (iv) by us upon written notice, if our customers fails to purchase more than 50% of the minimum amounts of our products for one to three consecutive months as provided; (v) by our customers upon written notice, if we deliver less than 50% of the minimum amounts of our products for one to three consecutive months as provided; (vi) by our customers if we fail to deliver goods for 30 days after delivery is due under the contract; or (vii) by us if our customers fail to place orders for 30 days after they are due. Party in breach may be liable for specified monetary damages for a prescribed period of generally three months until these contracts can be terminated for non-performance.

During the Track Record Period, we were not subject to any monetary damages or penalty for failing to meet our obligations under our sales contracts.

- *Confidentiality.* We are subject to confidentiality obligations under some of the contracts and may not publicly disclose details of these contracts and certain commercially sensitive information of our customers without the prior consent of our customers.

As we expand downstream by manufacturing and marketing solar modules, our customers will include system integrators of rooftop PV systems and distributors in addition to solar modules manufacturers both in PRC and other parts of the world. Consequently, we may compete with some of our substantial current solar cell customers, including our top five customers in 2010, in the future that target the same types of solar module customers. We plan to produce solar modules with targeted conversion efficiency rate ranging from approximately 14.7% to approximately 19.6%. We currently plan to continue conducting direct sales to customers. We believe direct sales enables us to have a better understanding of customers' demand and the market. We aim to further develop strategic relationships with new and existing customers that are market leaders or strong niche players in their respective industrial or geographic segments. We plan to intensify our marketing efforts as we expand our operations by increasing our participation in trade shows and exhibitions worldwide and advertising on major industry publications to promote the market and brand recognition for our products and to position ourselves for future sales of our solar products. The PRC will continue to be our key target market due to its strong growth potential in the near to medium-term as a result of easy access to relative low-cost technical expertise, labor, land and facilities. We will also continue to provide responsive after-sales services to strengthen new and existing customer relationships and improve customer retention.

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During 2008, 2009 and 2010, sales to our top five customers collectively accounted for 71.7%, 44.3% and 75.9%, respectively, of our total revenue. During the same periods, sales to our largest customer accounted for 25.9%, 12.0% and 24.8%, respectively, of our total revenue. None of our Directors or any person who owned 5% or more of the issued share capital of our Company as of the Latest Practicable Date or any of their respective associates had any interest in any of our five largest customers during the Track Record Period. Our top five customers changed significantly during the Track Record Period, primarily due to our limited production capacity, which restricted our ability to establish long-term relationships with some of our customers. As our production capacity increases, our ability to fulfill large purchase orders has increased accordingly. As a result, we have entered into long-term sales contracts with 12 customers, including five long-term sales contracts with four of our top five customers for the year ended 31 December 2010 for sale of approximately 374 MW of solar cells from 2011 to 2013. As of the Latest Practicable Date, the secured orders received by us including the secured orders under our long-term contracts represented approximately 71.8% of our planned production capacity in June 2011.

SUPPLIERS

Silicon Wafers

Silicon wafers are the most important raw material for producing solar cells. Given the historical price volatility and supply constraints of silicon wafers, securing an adequate supply of silicon wafers is essential to our production efforts. We actively manage our supply sources to secure reliable and cost-effective supply of silicon wafers. During the Track Record Period, we were able to pass along a substantial portion of any increases in the price of silicon wafers to our customers as the prices of solar cells and solar modules are generally highly correlated with the price of silicon wafers. Our research and development team routinely collaborate with our key suppliers to optimize their process technologies and output. Consistent with market practice, we generally make advance payments for our silicon wafer purchases. Under our supply contracts with our silicon wafer suppliers, our suppliers typically deliver silicon wafers within seven days after we place the order. We closely monitor the movement of spot market prices of silicon wafers and may renegotiate the price when there is significant price fluctuation to mitigate the associated risks. Our subsidiary, Shunfeng Technology has entered into a one-year purchase contract and a three-year purchase contract with two of our suppliers for silicon wafers from 2011 to 2013. Pursuant to the terms of these contracts, we are obligated to purchase 53.27 MW, 33.07 MW and 33.07 MW of silicon wafers from these two suppliers for the years ending 31 December 2011, 2012 and 2013, respectively. The obligated purchase volume in 2011 represents 11.2% of our total expected purchase volume in the year ending 31 December 2011. In addition, these purchase contracts contain either an open price term or a reference price. The three-year contract is with Xi'an Longi Silicon Materials Corporation ("Xi'an Longi"), a leading manufacturer of monocrystalline silicon wafers that commenced production in 2000. The contract expires in December 2013 and may be terminated by us if the supplier fails to deliver goods for 30 days after delivery is due under the contract, or by the supplier if we fail to meet payment obligations under the contract for 30 days after they are due. Xi'an Longi supplied approximately nil, 1.3% and 12.8% of our silicon wafer requirements in the years ended 31 December 2008, 2009 and 2010, respectively. The one-year contract is with Zhejiang Wanbanghong Energy Technology Co., Ltd ("Zhejiang Wanbanghong"), a manufacturer of solar-grade silicon wafers that was established in 2008. The contract expires in September 2011 and may be terminated by us if the supplier fails to make a scheduled delivery and does not cure such failure within 15 days of our notifying the supplier of such failure. The contract may be terminated by the supplier if we fail to make a scheduled payment under the contract and we do not cure such failure within five days of the supplier notifying us of the missed payment. Zhejiang Wanbanghong supplied approximately nil, nil and 5.0% of our silicon wafer requirements in the years ended 31 December 2008, 2009 and 2010, respectively. We purchase our remaining silicon wafer requirements that we cannot source internally on the spot market. We seek to minimize the risk of, and

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impact from, potential supplier default by conducting due diligence on potential suppliers' credit and production capacity, ensuring proper risk allocation in our supply contracts and maintaining continuous communication with our suppliers.

During 2008, 2009 and 2010, our top five suppliers, which consisted of our silicon wafer and conductor paste suppliers, accounted for 59.1%, 51.4% and 60.4%, respectively, of our total raw material purchases. During the same periods, purchase from our largest supplier accounted for 31.0%, 19.6% and 18.9%, respectively, of our total raw material purchases. None of our Directors or any person who owned 5% or more of the issued share capital of our Company as of 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. Our top five suppliers changed significantly during the Track Record Period, primarily due to our limited production capacity, which restricted our ability to establish long-term relationship with some of our suppliers. As we increase our production capacity, our procurement of raw materials has increased. As a result, we have entered into two long-term supply contracts with our suppliers, including one long-term supply contract with one of our top five suppliers for the year ended 31 December 2010 for the purchase of 99.2 MW of silicon wafers from 2011 to 2013.

Other Raw Materials

Other than silicon wafers, raw materials for manufacturing solar cells include auxiliary materials such as conductor pastes, chemicals and gases. Various types of conductor paste are used to form the grids of metal contacts in design patterns that are screen-printed on the front and back surfaces of the solar cells to create negative and positive electrodes. We use chemicals that we purchase on the spot market in the cleaning process for producing solar cells. In addition, we use ethylene vinyl acetate, tempered glass, aluminum frames and other raw materials in our solar module production process. We procure these materials from third parties on a monthly basis. The primary raw material used in the production of silicon wafers, which we commenced production in May 2011, is virgin polysilicon. We plan to procure polysilicon on the spot market from selected polysilicon suppliers with which we plan to establish solid relationship, to mitigate the risks from market price fluctuations. Up to the Latest Practicable Date, we had entered into two letters of intent with two of our potential polysilicon suppliers for the supply of polysilicon from March 2011 to April 2012, which will provide a sufficient amount of polysilicon for the first three months production of silicon wafers.

Electricity, Water

We consume a significant amount of electricity in our operations, and any disruption or shortages in our electricity supply may disrupt our normal operations and cause us to incur additional costs. We have not experienced disruption in electricity supply since we commenced our operation.

In addition, we require a significant amount of high-purity water for our manufacturing operations. We use high-purity water for our silicon wafer cleaning. We purify water supplied from local sources using equipment we purchased from domestic suppliers. We have not experienced any material interruption or shortages in our water supplies.

INTELLECTUAL PROPERTY

We have developed various proprietary technologies relating to the production of solar cells. As of the Latest Practicable Date, we have received seven utility model patents granted by the PRC patent authorities, including two relating to technologies to improve our processes for printing and testing solar cells. In addition, we have 17 pending patent applications, of which nine were invention patents and 8 were utility model patents, relating to

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technologies for the production of solar cells, the enhancement of conversion efficiency of solar cells and the improvement of our processes for cleaning and printing solar cells. King & Wood, our PRC legal advisors, have advised us that based on application materials we provided and public information relating to the application status of the relevant patents as of the Latest Practicable Date, there is no legal impediment for Shunfeng Technolog to obtain the patents under application. We also have five trademarks as well as five domain names registered under the name of Shunfeng Technology in China.

We also rely on a combination of trade secrets and employee confidentiality agreements to safeguard our intellectual property. Our research and development employees have entered into agreements to assign to us all inventions, designs and technologies that they develop during the terms of their employment with us.

During the Track Record Period and up to the Latest Practicable Date, we had not experienced any infringement of our intellectual property rights by third parties, nor have we infringed any intellectual property rights owned by third parties or been a party to any actual or pending litigation, suit or claim relating to the same.

COMPETITION

We operate in a highly competitive and rapidly evolving market. As we expand our solar cell production capacity and increase production output, we face increasingly direct competition from other manufacturers of solar cells such as JA Solar, Motech and Gintech. As we commence producing solar modules, we expect to compete with other solar module manufacturers such as Suntech, Trina, Canadian Solar and China Sunergy. Recently, some upstream polysilicon manufacturers as well as downstream manufacturers have also built out or expanded their silicon wafer, solar cell and solar module production operations. We expect to face increased competition as these and other manufacturers continue to expand their production capacity and improve their product offerings. Many of our current and potential competitors have a longer operating history, more advanced products, greater financial and other resources, stronger brand recognition, better access to raw materials, stronger relationships with customers and greater economies of scale than we do. Moreover, certain of our competitors are highly-integrated producers whose business models provide them with competitive advantages as they are less dependent on upstream suppliers or downstream customers in the solar power value chain.

In addition, some companies are currently developing or manufacturing solar products based on thin-film materials, which require significantly less polysilicon to produce than crystalline solar products. Despite significant reductions in polysilicon prices in recent years, thin-film products generally cost less than products based on crystalline technologies and have the potential to achieve comparable levels of conversion efficiency in the future. Furthermore, the solar industry generally competes with other renewable energy as well as conventional energy resources.

We compete primarily in the areas of product quality and consistency, pricing, delivery, ability to fill large orders and after-sales customer support services. In particular, we aim to provide high quality solar cells at competitive prices to our customers. In addition, most of our key customers and suppliers are located in Jiangsu or nearby provinces. Our proximity to our key customers and suppliers offers many competitive advantages, such as timely access to key resources and production inputs and fast and convenient transportation means to deliver our finished products to customers. We also provide responsive after-sales services to ensure high customer satisfaction. We believe our key strengths such as high product quality, recognized brand name, low manufacturing costs, easy access to key resources from our PRC based production facilities and our proprietary processing technologies will enhance our overall competitiveness.

PRODUCTION SAFETY AND ENVIRONMENTAL MATTERS**Safety**

We are subject to extensive PRC laws and regulations in relation to labor and safety. We have installed safety device in our facilities in strict compliance with safety requirements, adopted stringent safety procedures and strictly implemented such measures at our facilities to limit potential damage and personal injury in the event of an accident or natural disaster. We have also devised a number of internal guidelines and instructions for our manufacturing processes, including those relating to the operation of equipment, handling of chemicals and emergency backup plans. We post bulletins setting forth safety instructions, guidelines and policies throughout our facilities. Failure by employees to follow these guidelines and instructions may result in monetary fines. All of our new employees undergo extensive safety training to receive safety instructions. We require our newly recruited technical equipment maintenance and manufacturing staff to attend our assigned training programs to enhance their work safety awareness and ensure safe equipment operation. We conduct regular inspections and our experienced equipment maintenance team oversees the operation of our manufacturing lines to maintain proper and safe working conditions. Since our inception, we have not experienced any major work-related injuries and our operations have been in compliance with the applicable PRC labor and safety laws and regulations in all material respects.

Environment

We are subject to various environmental protection laws and regulations promulgated by the PRC national, provincial and municipal governments. These include regulations on project design and construction, air and noise pollution and discharge of waste water into the environment.

We generate and discharge waste water and other industrial waste at various stages of our manufacturing process. We have made contractual arrangement with a professional third party to treat waste water before disposal and another third party to recycle broken solar cells and waste conductor pastes. In addition to the third party arrangement mentioned above, we have purchased our own waste water treatment facility, which is currently being installed at the New Site, to treat waste water before disposal as part of our pollution abatement measures. We also plan to make use of the government installed waste facilities at the New Site. We sell other waste materials, such as conductor pastes and broken parts, to third parties. We are subject to periodic inspections from the local environmental protection bureau.

We have implemented a set of internal measures to ensure compliance with environmental laws and regulations. See “—Measures to Enhance Compliance with PRC Environmental Laws and Regulations.” Among other measures, we have assigned a team of 21 full-time staff for environmental protection including eight employees responsible for handling broken parts and waste conductor pastes, five employees responsible for handling the disposal of such broken parts and waste conductor pastes, four employees responsible for general management of environmental affairs and two employees responsible for managing waste water discharge. All of the members of our environmental compliance team have been involved in environmental protection since Shunfeng Technology commenced its operation in March 2007. We believe we have sufficient man power, internal guidance and professional knowledge and skills to deal with our environmental matters.

We commenced our operations of certain of our production facilities before obtaining inspection certification for the construction project and relevant pollutant discharge permit at Xueyan Town. Because the Bureau, which is responsible for enforcing environmental laws and regulations in Xueyan Town, is experimenting with a pilot trading program of pollutant discharge rights and does not issue pollutant discharge permit to any local businesses, we had

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not obtained a pollutant discharge permit for our operations during the Track Record Period for our facilities in Xueyan Town. Under applicable PRC laws, any company that commences operation before obtaining pollutant discharge permit, constructing pollutant prevention facilities, having relevant facilities inspected or obtaining inspection certification may be subject to penalties imposed by relevant authorities, including suspension of operation and in case of failure to have environmental facilities inspected or obtain inspection certification, a fine of up to RMB500,000. We have contracted a professional third party to treat waste water generated in our production process in Xueyan Town outside our facilities, and therefore do not discharge any waste water into the environment. In addition, we sell substantially all other industrial wastes generated in our production process to third parties.

We obtained a confirmation letter dated 28 December 2010 from the Bureau confirming that Shunfeng Technology is permitted to maintain its current level of operations in Xueyan Town without facing any penalties imposed by the Bureau until the completion of the relocation of our facilities from Xueyan Town to the New Site by no later than the Transition Period, and confirming that Shunfeng Technology had not been a party to any environmental pollution incidents nor had there been any official record of it being subject to any administrative penalties. Based on such confirmation letter, King & Wood, our PRC legal advisors, have advised us that it is unlikely that Shunfeng Technology will be subject to any administrative penalties by the Bureau and that our lack of pollutant discharge permit with respect to our operations in Xueyan Town will not have a material adverse effect on our operations during the Transition Period.

We have completed the construction of a part of our operating facilities at the New Site, where six of our solar cell manufacturing lines have been installed, all of which are currently in operation. We expect to complete the construction of our facilities at the New Site by the end of 2011. We are in the process of obtaining the pollutant discharge permit and the other necessary approvals and permits for our operations at the New Site and it is expected such permit and approvals will be granted to us on or before 30 October 2011.

After the completion of the construction and commencement of operations in the New Site, the Company will decide whether to terminate the operation in Xueyan Town after taking into account its operational needs and other relevant factors. The Company will ensure that it will fully comply with all applicable environmental laws for its operation in Xueyan Town if such operation is not terminated after completion of the construction and commencement of operations in the New Site.

On 30 November 2010, we obtained a confirmation letter from the Environmental Protection Bureau of Changzhou City confirming that Shunfeng Technology and its subsidiary Shunfeng Materials are in full compliance with the relevant PRC environmental laws and regulations with respect to their facilities at the New Site and that there is no substantive impediment in granting Shunfeng Technology or Shunfeng Materials the pollutant discharge permit with respect to these facilities. Based on such confirmation letter, King & Wood have confirmed that there will be no legal impediment for Shunfeng Technology or Shunfeng Materials to obtain their pollutant discharge permits. Shunfeng Materials is expected to obtain the pollutant discharge permit by the end of 2011.

Under the Deed of Indemnity, Mr. Tang Guoqiang and Peace Link have agreed to fully indemnify the Company against any loss or liability suffered by any member of the Group resulting from or by reference to any non-compliance with the relevant PRC environmental laws and regulations with respect to our operations in Xueyan Town, Changzhou City, Jiangsu Province, the PRC. As advised by our PRC legal advisers, King & Wood, the Group has complied with all relevant environmental laws and regulations during the Track Record Period and up to the Latest Practicable Date except that we commenced operations of certain of our production facilities before obtaining all relevant environmental approvals and do not have pollutant discharge permit for our operations in Xueyan Town as disclosed in “Risk Factors” and “Business” sections.

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Our cost of compliance with applicable environmental protection laws and regulations was approximately RMB114,800, RMB225,100 and RMB225,250 for 2008, 2009 and 2010, respectively. We expect to incur environmental compliance related costs of approximately RMB250,000 in 2011.

For additional information regarding any environmental matters relating to our Group, see “Risk Factors — Risks Relating to Our Business and Industry — Compliance with environmental and safe production regulations can be costly, while noncompliance with such regulations may result in adverse publicity and potentially significant monetary damages, fines and suspension of our business operations.”

Measures to Enhance Compliance with PRC Environmental Laws and Regulations

Our Directors have implemented a set of internal measures with a view to ensure compliance with applicable PRC environmental laws and regulations. These measures include:

PRC legal advisers

We have retained Jiangsu Zhuhui Law Firm as our PRC legal advisers to provide advice to the Board and our environmental compliance team on an ongoing basis in respect of all relevant PRC environmental laws and regulations, including changes to such laws and regulations, which may affect our operations in the PRC.

Environmental management rules

We have adopted a set of environmental management rules to enhance our compliance with PRC environmental laws and regulations. Our environmental compliance team is responsible for overseeing the Group’s compliance with PRC environmental protection laws and regulations, implementation of its internal environmental management rules, preparing a long term environmental protection plan and annual environmental compliance report to the Board, ensuring that all environmental related licenses have been obtained and the relevant requisite requirements are complied with, monitoring pollutant discharge related issues to enhance continuous compliance with relevant PRC environmental laws and regulations and coordinating with relevant environmental authorities to rectify any breach of PRC environmental laws and regulations as soon as reasonably practicable.

Our environmental compliance team is headed by our general manager, Mr. Lu Jianqing, who is assisted by a designated environmental supervisor, Ms. Zha Fangxia and the other members of the team includes representatives from the administration and production team of our Group.

Our designated environmental supervisor has the responsibility to strengthen the supervision on environmental management, to implement waste reduction and environmental protection measures, and to ensure the Group complies with all applicable PRC environmental laws and regulations. The designated environmental supervisor will conduct regular inspection of the manufacturing facilities and pollution discharge facilities and will report to the environmental compliance team, which will in turn report to the Board if any breach of relevant PRC environmental laws or regulations occurs. Our designated environmental supervisor will also arrange for both regular and as-needed training on the applicable PRC environmental laws and regulations for staff involved in handling environmental matters of our Group and will encourage the Company’s staff to attend trainings on environmental matters organized by governmental authorities.

Board actions and responsibilities

If there is any breach of relevant PRC environmental laws and regulations, the Board will consult with our PRC legal advisers and take appropriate actions to rectify such breach.

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The Board will also meet annually to discuss the annual report on our Company's compliance with relevant PRC environmental laws and regulations prepared by our environmental compliance team. The Board will evaluate the status, recommend appropriate actions and, if necessary, seek further advice from our PRC legal advisers for further enhancement of our compliance with relevant PRC environmental laws and regulations.

EMPLOYEES

The following table sets forth the number of our employees in each division of our work force as of the dates indicated.

	As of 31 December		
	2008	2009	2010
Manufacturing and engineering	111	145	266
General and administration	48	48	86
Quality control	31	38	83
Research and development	23	19	30
Purchasing and logistics	5	4	7
Marketing and sales	<u>16</u>	<u>11</u>	<u>10</u>
Total	<u><u>234</u></u>	<u><u>265</u></u>	<u><u>482</u></u>

As of 31 December 2010, 19 of our manufacturing and engineering employees and 16 of our research and development employees held a bachelor's degree or above.

In line with the expansion of our operations, we plan to hire additional employees, including additional accounting, finance and sales, marketing personnel as well as manufacturing and engineering employees. We have been actively recruiting key personnel and expect to add approximately another 775 employees in 2011, with most of such new hires to be made in the manufacturing, project engineering, quality control and research and development divisions in line with our expansion needs. As of 31 May 2011, we had 577 employees working on our new manufacturing lines, which was in line with our recruiting plan. In addition, to further implement our expansion plan, we have recently hired five midlevel managers, who have extensive expertise in the solar industry, and will continue to find additions as necessary.

We are required under PRC law to make and have made contributions to employee benefit plans equivalent to a fixed percentage of the aggregate salaries, bonuses and certain allowances of our employees.

We believe we have a good working relationship with our employees. We have not experienced any labor disputes or any difficulty in recruiting staff for our operations. Our employees are not covered by any collective bargaining agreement.

INSURANCE

Our insurance coverage includes employee social insurance and property insurance. We have also purchased insurance coverage for certain of our material properties, machinery, equipment, automobiles, inventories and other assets.

We are not required under PRC laws to maintain, during the Track Record Period, and we do not have plans to maintain, after the Listing Date, general product liability insurance for any of our solar products. During the Track Record Period and up to the Latest Practicable Date, we did not receive any material claims from any customer or consumer relating to any alleged liability arising out of or relating to the use of our solar products. We believe that our insurance coverage is consistent with industry practice and provides adequate protection for our operations.

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PROPERTY

As of the Latest Practicable Date, we had land use rights for the following three parcels of land:

- The land located at Gongjian Village, Xueyan Town, Changzhou City, Jiangsu Province with an aggregate site area of 19,878.40 square meters, on which our manufacturing facilities containing two of our solar cell manufacturing lines are situated. This site has a gross floor area of 19,866.12 square meters. We have obtained the land use rights for the land and ownership rights to the buildings on this property.
- The land located at Wujin Hi-Tech Industrial Development Zone, Changzhou City, Jiangsu Province with an aggregate site area of 99,611.20 square meters, on which our production facilities are situated. We have obtained construction permits to construct two buildings with a total gross floor area of 21,155.00 square meters on this site, of which one building with a gross floor area of 21,154.4 square meters had been completed as of the Latest Practicable Date. We have obtained the land use rights for the land and expect to obtain ownership rights to the buildings on this property upon the completion of the process of inspection and acceptance. As of the Latest Practicable Date, we had another building under construction on this parcel of land with an aggregate gross floor area of 45,586.50 square meters, for which we had obtained all the necessary construction licenses. This building under construction will be used primarily for the manufacture of silicon wafers and solar cells. Our facilities at Wujin Hi-Tech Industrial Development Zone, including those that have been constructed and those under construction, are designed for the operation of 12 solar cell manufacturing lines with a total annual capacity of 720 MW and silicon wafer manufacturing equipment with a total annual capacity of 500 MW.
- The land located at Wujin Hi-Tech Industrial Development Zone, Changzhou City, Jiangsu Province with an aggregate site area of 29,995.00 square meters for our future development. We obtained the planning permit to construct the property with an area of 29,995.00 square meters on this site in February 2011.

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

We believe that our existing facilities are adequate to meet our present needs. We believe that the amount of land for which we currently have land use rights is sufficient for our capacity expansion plans in the medium term. See “Financial Information — Principal Factors Affecting Our Results of Operations — Production Capacity Expansion.”

LEGAL COMPLIANCE AND PROCEEDINGS

During the Track Record Period and up to the Latest Practicable Date, we were not a party to any litigation, arbitration or claim, and the Directors were not aware of any pending or threatened litigation, arbitration or claim that would have a material adverse effect on our results of operations or financial condition if any judgment were rendered against us. The Group has complied with all relevant PRC laws and regulations in all material aspects during the Track Record Period and up to the Latest Practicable Date except that (i) we commenced operations of certain of our production facilities before obtaining all relevant environmental approvals, (ii) we do not have a pollutant discharge permit for our operations in Xueyan Town; and (iii) Wujin Equipment Factory provided a loan to Shunfeng Technology in April 2010 in violation of certain PRC laws and regulations, as disclosed in “Risk Factors”, “Business” and “Financial Information” sections.