*The following discussion of our financial condition and results of operations should be read in conjunction with our audited consolidated financial information as of and for the years ended 31 December 2008, 2009 and 2010, including the notes thereto, as set forth in Appendix I. The financial statements have been prepared in accordance with the IFRS, which differ in certain material respects from generally accepted accounting principles in other jurisdictions, including the United States. The following discussion contains certain forward-looking statements that involve risks and uncertainties. Our future results could differ materially from those discussed below as a result of various factors, including those set forth in the sections headed "Forward-looking Statements" and "Risk Factors."*

## 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 and 71.9 MW of solar cells in the years ended 31 December 2008, 2009 and 2010, respectively. In the five months ended 31 May 2011, we sold approximately 116.1 MW of solar cells. We market the majority of our solar cell products to PRC-based solar module manufacturers that target primarily overseas markets. We also sell a small portion of our products directly to overseas consumers. 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.

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 200 MW and 16 wire saws with an annual silicon wafer cutting capacity of approximately 192 MW up to the Latest Practicable Date. We commenced production of silicon ingots in April 2011 and silicon wafers in May 2011. We plan to further 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.

During the Track Record Period, we derived substantially all 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. When we commence sales of solar modules and build up our solar module production capacity, we expect sales of solar modules to account for a substantial portion of our revenue. The silicon wafers we produce will be used internally for our own solar cell production to reduce our raw material costs and will not be sold to generate revenue.

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.

## BASIS OF PRESENTATION

Our Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law on 6 August 2010. In anticipation of the listing of our Shares on the Hong Kong Stock Exchange, we underwent the Restructuring, as detailed in the section headed "History and Corporate Structure." We prepare our financial statements in accordance with IFRS under the historical cost convention. All intra-group transactions, balances, income and expenses are eliminated on consolidation. See Note 3 to our accountants' report for details for our significant accounting policies.

## PRINCIPAL FACTORS AFFECTING OUR RESULTS OF OPERATIONS

We believe that the following factors have had, and we expect that they will continue to have, a significant effect on our financial condition, results of operations and future prospects.

### Solar Products Demand and Solar Industry Trends

Our future growth and profitability depend on the demand for solar products and the development of photovoltaic technologies. The solar power industry has grown significantly in recent years. According to Solarbuzz, the world PV market, defined as the total capacity of modules delivered to installation sites, grew at a CAGR of 79.7% from 1.75 GW in 2006 to 18.23 GW in 2010. However, the solar power industry is at a relatively early stage of development, and the cost-effectiveness, performance and reliability of solar power relative to conventional and other renewable energy sources will determine the rate and extent of market acceptance and demand for solar power. Improvements in photovoltaic technologies also significantly affect the economics of solar power projects which in turn influence the demand for solar products. Installation of solar power systems can require significant upfront investment, and decisions about such installations are usually elective for businesses and consumers who otherwise have access to public electric grids. Given their elective nature, demand for solar products is significantly affected by general macroeconomic factors, such as energy supply, prices, and regulations and policies governing the electric utility industry and renewable energies. Accordingly, the global recession from the second half of 2008 to the first half of 2009 significantly reduced the demand for solar products.

We believe that demand for solar products has since recovered significantly in response to a series of factors including improved economic conditions, the decline in polysilicon prices and increasing availability of financing for solar power projects. According to Solarbuzz's most conservative and optimistic forecast scenarios, the world PV market is expected to reach 24.0 GW and 54.7 GW, respectively, in 2015.

Although we believe the growth of the solar power industry will continue to depend on government incentives and subsidies for renewable energy in the foreseeable future, we expect demand for solar products to experience long term growth due to the increasing competitiveness of solar power as evidenced by the increase in the number of forecasted solar power system installations. Decrease 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. 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.

### Government Incentives and Subsidies

Demand for solar products is significantly affected by the availability of government incentives and subsidies for solar power, which is currently not cost competitive on an unsubsidized basis compared to conventional power. Government incentive programs vary in form, but they generally aim to increase the commercial viability of solar power through means such as reducing upfront investment costs and/or offering economic incentives for adoption or guaranteeing a stream of income from solar power systems. Changes to government incentive programs may impact investment decisions and can change price expectations for solar products, causing vendors of solar products, including us, to reduce prices to adjust to changing demand.

Governments in China, Japan and the United States introduced significant incentive programs in 2009, whereas certain early adopters of PV incentive policies, such as Germany, Spain and France, announced reductions of incentive programs in 2009 and 2010 after exceeding their initial targets for market size. In addition, Australia, India, Thailand, Malaysia and certain countries in Africa have also introduced solar power incentive policies to encourage the development of their nascent solar markets. See "Industry Overview — Solar Power Industry Overview — Key Growth Factors for the Solar Power Industry — Government incentives for solar power." Although the amended Renewable Energy Law, which aims to stimulate the adoption of renewable energy, became effective in April 2010, the lack of implementation details for this and other recent incentive schemes may cause demand for solar products in China, including our products, not to grow as rapidly as we expect. We believe that growth of the solar power industry in short term will continue to depend largely on the availability and effectiveness of government incentives for solar products and the competitiveness of solar power in relation to conventional and other renewable energy resources.

### Pricing of Solar Products

We price our products based on a variety of factors, including the cost of silicon wafers, which historically constituted the largest component of our cost of sales. In 2008, 2009 and 2010, silicon wafers represented 91.4%, 80.4% and 82.8%, respectively, of our cost of sales. The pricing of our products also reflects our manufacturing costs, product specifications, prevailing market conditions and sales volume and other sales terms. We generally sell solar cells on a per watt basis, which provides us with an added incentive to increase the conversion efficiency of our solar cells, but we also supply to some customers on a per piece basis. A combination of macroeconomic factors, together with a significant increase in global production capacity and technological improvements, have significantly reduced the unit costs of solar products in recent years, which in turn contributed to a significant reduction in their selling prices. In addition, the slow down in the demand growth for solar products during the financial crisis further reduced the market prices of solar products. According to Solarbuzz, the weighted average price of crystalline solar cells fell to US$1.35 per watt in the first quarter of 2010 and reached an average price of US$1.39 per watt during the fourth quarter of 2010. Since the fourth quarter of 2008, we have reduced the prices of our solar cells substantially to maintain our market competitiveness. The average selling price of our solar cells for 2008, 2009 and 2010 was RMB23.09, RMB9.19 and RMB8.67 per watt, respectively. The reduction in market prices substantially reduced our revenue in 2009. There was no material difference between the market price of solar cells and our average selling prices during the Track Record Period.

Although the demand for solar products has significantly recovered since the third quarter of 2009, the average market prices of solar products have not increased substantially. Although market prices for solar products, including our average selling prices, have generally stabilized at levels substantially below prices before the global financial crisis, there is no assurance that such prices may not decline further in response to adverse economic conditions and other macroeconomic factors beyond our control. Regardless of economic conditions, we expect the market prices of solar products to continue to decline over time due to the increasing supply of solar products, intensifying competition and further advance in processing technologies. See "Risk Factors — Risks Relating to Our Business and Industry — Our revenue and results of operations are affected by the prevailing market prices of solar products."

**Production Capacity 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. We commenced production of silicon ingots in April 2011 and silicon wafers in May 2011 to secure a steady supply of the key raw material in our solar cell production. We plan to expand our solar cell and silicon wafer production capacity to 660 MW and 500 MW, respectively, by the end of 2011. In addition, we plan to procure solar module manufacturing equipment in the fourth quarter of 2011. 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. Our ability to successfully expand our production capacity will depend on many factors including, but not limited to, our ability to obtain the necessary capital, as well as required approvals and permits and other factors. As a vertically integrated solar product manufacturer, we expect to be well positioned to compete with companies that specialize only in certain stages of the solar power value chain. We expect our integrated manufacturing process to 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. While we will incur costs to build and further develop our capability in the upstream production of silicon wafers and the downstream production of solar modules, 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. In particular, we expect that our vertical integration efforts, including the production of silicon wafers and solar modules, to have a positive impact on our gross margin in 2011 as a result of such synergy. 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." We expect our expanded production capacity will increase our revenue as our production output and sales volume increase, notwithstanding the decrease in average selling prices of our products. If we are able to maintain satisfactory facility utilization rates and our productivity, our production capacity expansion will enable us to reduce our unit manufacturing costs through economies of scale, as fixed costs are allocated over a larger volume of output. We believe manufacturers with greater economies of scale are in a better position to obtain price discounts from raw material suppliers and may therefore increase their market share by selling at more competitive prices. Our ability to achieve satisfactory utilization rates and economies of scale will depend upon a variety of factors, including but not limited to, our ability to attract and retain sufficient number of customers, our ability to secure enough raw materials and production equipment for our production activities, the availability of working capital and the selling prices of our products.

**Manufacturing Costs**

We believe that we have been able to price our products competitively because of our low manufacturing costs. As we are based in China, we believe we are able to capitalize on the relative low cost of technical expertise, labor, materials, land, facilities and manufacturing equipment. Our research and development efforts have enabled us to employ efficient process technologies to implement cost-reduction initiatives at each stage of our production process. We have also upgraded our solar cell manufacturing equipment and streamlined our manufacturing processes to improve the conversion efficiency and quality of our solar cells while reducing processing cost per watt. For the years ended 31 December 2008, 2009 and 2010, our average processing cost per watt, primarily consisting of conductor pastes, process material, utilities, labor and depreciation of property, plant and equipment, was approximately RMB1.62, RMB1.38 and RMB1.18, respectively. Although the cost of raw materials represents a substantial majority of our cost of sales, we believe we will increasingly compete on the basis of processing cost per watt because our key raw materials are also available to other solar cell manufacturers in China in the spot market at comparable prices. In addition, we believe processing cost per watt will become an increasingly important basis to distinguish ourselves from competitors following the significant reduction of polysilicon prices in recent years, which has reduced the impact of raw materials procurement on our results of operations.

We expect that our total costs of sales, including depreciation and amortization costs, will increase as a result of our investment in plant and equipment and our increased production scale. However, the successful implementation of our production capacity expansion and vertical integration will enable us to further reduce our unit manufacturing costs through economies of scale. After we ramp up silicon wafer production and begin to source a greater portion of our wafer requirements internally, we expect to realize additional cost savings and reduce the risk of any material manufacturing cost increase.

**Changing Product Mix**

Before 2011, we derived our substantially all our revenue from sales of solar cells. We expect to continue to focus on solar cells but plan to commence solar module sales in 2011, as we expect the market for solar modules to grow in the coming years. The selling prices of solar modules are higher than solar cells but their profit margins are generally lower. We commenced production of silicon ingots in April 2011 and silicon wafers in May 2011 to secure a steady supply of the key raw material in our solar cell production. We believe that as a result of expansion of the solar products market, tight solar wafer supply is likely to persist. The silicon wafers that we produce are intended to be used for our own solar cell production and will not be sold to generate revenues. The use of internally sourced silicon wafers is expected to lower our raw material costs, improve working capital position and increase the profit margins of our solar cells and solar modules.

**Competitive Environment**

The markets for solar cells and solar modules are intensely competitive and rapidly evolving. As we build up our solar cell and solar module production capacity and increase the output of these two products, we compete with companies of varying size, financial strength and availability of resources. Our competitors include manufacturers of solar cells such as JA Solar, Motech and Gintech. As we commence selling solar modules, we expect to compete with solar module manufacturers such as Suntech, Trina, Canadian Solar and China Sunergy. Due to the growth in demand for solar products, we expect the number of competitors entering this market to increase over the next few years. Some of these competitors are also our customers and suppliers. Many of our current and potential competitors have a longer operating history, stronger brand recognition, greater economies of scale, more established customer relationships, greater financial and other resources, a larger customer base, better access to raw materials, a more established distribution network and better knowledge of target markets. A number of our key competitors have announced plans for significant capacity expansions, thereby increasing the risk of price competition and an oversupply of solar products. We expect this competitive environment to continue in the foreseeable future.

**Seasonality**

Historically, demand for solar products tends to be weaker during the winter months due to adverse weather conditions complicating the installation of solar power systems. In addition, our sales in the first quarter may also be affected by the Chinese New Year holiday due to significant slow down of industrial activities during the period. See "Risk Factors — Risks Relating to Our Business and Industry — Our operating results may fluctuate from period to period in the future."

## CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of our accounting policies, which are described in Note 3 to our accountants' report, our directors are required to make judgments and estimates about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and judgments are based on historical experience and other factors our Directors deem relevant. Actual results may differ from these estimates.

The estimates are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

### Useful Lives and Residual Values of Property, Plant and Equipment

Our management determines the residual values, useful lives and related depreciation charges for our property, plant and equipment. This estimate is based on the historical experience of the actual residual values and useful lives of plant and equipment of similar nature and functions. In addition, management assesses impairment whenever events or changes in circumstances and technical innovation of solar products indicate that the carrying amount of an asset may not be recoverable.

### Impairment of Trade and Other Receivables

Where there is objective evidence of impairment loss, we take into consideration the estimated future cash flows. The amount of the impairments loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate which is computed at initial recognition. In the event actual future cash flows are less than estimated future cash flows, a material impairment loss may arise.

### Impairment of Prepayments to Suppliers

As detailed in Note 18 to our accountants' report, we make prepayments to our suppliers in accordance with our purchase contracts with these suppliers. These prepayments are to be offset against our future purchases under these contracts.

We do not require collateral or other security against prepayments to our suppliers but perform ongoing evaluations of impairment analysis on these prepayments upon a negative change of market conditions or financial conditions of these suppliers. Such evaluations also take into account the quality of the products to be delivered to us under these contracts and our expected wait time until their delivery. When the prepayments can not be settled as expected or the credit quality of the suppliers changes, we will impair such prepayments.

During the year ended 31 December 2009, we recognized an impairment of approximately RMB2.2 million on prepayments to three suppliers. We did not recognize any other impairment of prepayments during the Track Record Period.

### Write-down of Inventories

Inventories are valued at the lower of cost and net realizable value. We regularly inspect and review our inventories to identify slow-moving and obsolete inventory or inventory whose market value is lower than its carrying amount. When such inventories are identified, we will write down the value of these inventories in that year or period. During the years ended 31 December 2008, 2009 and 2010, we recognized inventory write-downs of approximately RMB4.5 million, RMB0.8 million and nil, respectively. The carrying amounts of inventories as of 31 December 2008, 31 December 2009 and 31 December 2010 were approximately RMB45.7 million, RMB19.4 million and RMB34.5 million, respectively.

## SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following tables set forth our consolidated financial information as of and for the years ended 31 December 2008, 2009 and 2010. Our summary financial information has been derived from the accountants' report, which is included in Appendix I to this prospectus. You should read the summary financial information below in conjunction with the entire accountants' report, including the notes thereto.

| | Year Ended 31 December | | |
|---|---|---|---|
| | 2008 | 2009 | 2010 |
| | (RMB'000) | (RMB'000) | (RMB'000) |
| **Consolidated Statements of Comprehensive Income Data:** | | | |
| Revenue | 563,646 | 378,974 | 622,922 |
| Cost of sales | (496,085) | (306,334) | (492,595) |
| Gross profit | 67,561 | 72,640 | 130,327 |
| Other income | 6,368 | 3,202 | 3,375 |
| Other gains and losses (net) | (2,883) | (1,935) | (13,601) |
| Distribution and selling expenses | (952) | (2,460) | (2,520) |
| Administrative expenses | (11,326) | (12,128) | (19,255) |
| Finance costs | (3,981) | (1,268) | (3,970) |
| Profit before taxation | 54,787 | 58,051 | 94,356 |
| Tax credit (charge) | 567 | (4,573) | (14,266) |
| Profit and total comprehensive income for the year | 55,354 | 53,478 | 80,090 |
| Profit and total comprehensive income attributable to: | | | |
| Owners of the Company | 55,354 | 53,478 | 80,449 |
| Non-controlling interests | — | — | (359) |
| | 55,354 | 53,478 | 80,090 |

| | As of 31 December | | |
|---|---|---|---|
| | 2008 | 2009 | 2010 |
| | (RMB'000) | (RMB'000) | (RMB'000) |
| **Consolidated Statements of Financial Position Data:** | | | |
| **Assets** | | | |
| Non-current assets | 110,857 | 107,436 | 578,193 |
| Current assets | 137,352 | 189,264 | 267,812 |
| Total assets | 248,209 | 296,700 | 846,005 |
| **Equity and liabilities** | | | |
| Total equity | 152,607 | 206,085 | 315,950 |
| Total liabilities | 95,602 | 90,615 | 530,055 |
| Total equity and liabilities | 248,209 | 296,700 | 846,005 |

| | Year Ended 31 December | | |
|---|---|---|---|
| | 2008 | 2009 | 2010 |
| | (RMB'000) | (RMB'000) | (RMB'000) |
| **Consolidated Cash Flow Data:** | | | |
| Net cash from operating activities | 7,279 | 114,028 | 29,315 |
| Net cash used in investing activities | (36,738) | (42,750) | (317,771) |
| Net cash from (used in) financing activities | 25,710 | (39,738) | 301,207 |
| Net (decrease) increase in cash and cash equivalents | (3,749) | 31,540 | 12,751 |
| Cash and cash equivalents at beginning of the year | 14,890 | 11,141 | 42,681 |
| Cash and cash equivalents at end of the year | 11,141 | 42,681 | 55,432 |

## DESCRIPTION OF SELECTED RESULTS OF OPERATIONS DATA

### Revenue

Historically, we derived substantially all our revenue from the sales of monocrystalline solar cells. We also derived limited revenue during the Track Record Period from sales of multicrystalline solar cells and other solar products. Our revenue is primarily affected by sales volumes and average selling prices of our solar cells. A substantial majority of our revenue was attributed to sales made to our customer base in China during the Track Record Period. For the years ended 31 December 2008, 2009 and 2010, sales to our customers in China accounted for 98.6%, 96.8% and 92.7%, respectively, of our revenues. We historically derived a significant portion of our revenue from a limited number of customers. During the years ended 31 December 2008, 2009 and 2010, sales to our top five customers accounted for 71.7%, 44.3% and 75.9% of our revenue, respectively.

The following table sets forth our revenue, sales volumes in terms of MW and approximate average selling prices for our solar cells for the periods indicated:

| | Year ended 31 December | | |
|---|---|---|---|
| | 2008 | 2009 | 2010 |
| **Solar cells** | | | |
| Revenue (RMB'000) | 563,646 | 378,974 | 622,922 |
| Sales volume (in MW) | 24.42 | 41.22 | 71.88 |
| Average selling price (RMB per watt) | 23.09 | 9.19 | 8.67 |

### Cost of Sales

Cost of sales primarily consists of cost of raw materials. Our raw materials primarily consist of silicon wafers. As we commence the production of silicon wafers, we expect our cost of silicon feedstock to increase. Cost of sales also includes cost of conductor pastes, salaries and benefits for employees directly involved in manufacturing activities, depreciation of property, plant and equipment and utilities. For the years ended 31 December 2008, 2009 and 2010, our cost of sales was approximately RMB496.1 million, RMB306.3 million and RMB492.6 million, respectively. The following table sets forth a breakdown of our cost of sales relative to our total cost of sales for the periods indicated:

| | Year ended 31 December | | | | | |
|---|---|---|---|---|---|---|
| | 2008 | | 2009 | | 2010 | |
| | (RMB'000) | % | (RMB'000) | % | (RMB'000) | % |
| Silicon wafers | 453,582 | 91.4 | 246,175 | 80.4 | 407,852 | 82.8 |
| Conductor pastes | 21,574 | 4.3 | 26,941 | 8.8 | 41,224 | 8.3 |
| Manufacturing overhead[1] | 13,220 | 2.9 | 18,734 | 6.1 | 23,209 | 4.7 |
| Utilities | 4,904 | 1.0 | 7,564 | 2.5 | 8,136 | 1.7 |
| Salaries and allowance | 2,805 | 0.4 | 6,920 | 2.2 | 12,174 | 2.5 |
| **Total** | 496,085 | 100 | 306,334 | 100 | 492,595 | 100 |

(1) Primarily includes depreciation of property, plant and equipment.

### Other Income

Other income consists primarily of income from bank interest income, gain on sales of raw materials and other materials, processing service fee, government grants and others. For the years ended 31 December 2008, 2009 and 2010, we had other income of approximately RMB6.4 million, RMB3.2 million and RMB3.4 million, respectively. Historically, we earned interest income on the prepayments that we provided to suppliers, and we generated interest income of approximately RMB2.0 million from our prepayments to a third party in 2008. We derive profits from sales of raw and other materials. For the years ended 31 December 2008, 2009 and 2010, our gain on sales of raw and other materials amounted to RMB2.2 million, RMB1.0 million and RMB1.2 million respectively. In 2008 and 2009, we also provided solar cell processing services to a third-party solar cell manufacturer and generated approximately RMB0.1 million and RMB0.9 million, respectively, of service fees.

### Other Gains and Losses

Other gains and losses represent change in the fair value of foreign currency forward contracts, impairment recognized on prepayments to suppliers, net foreign exchange losses, recognition of fair values of financial guarantee contracts issued and amortization of financial guarantee liabilities. For the years ended 31 December 2008, 2009 and 2010, we had net other losses of approximately RMB2.9 million, RMB1.9 million and RMB13.6 million, respectively. In 2009 we recognized an impairment of approximately RMB2.2 million on prepayments to suppliers because three suppliers failed to perform their obligations under their wafer supply contracts with us. We entered into a series of forward contracts to purchase Euro in 2010 in order to settle our Euro denominated equipment purchases. As of 31 December 2010, our foreign currency forward contract arrangements had all been settled.

During the Track Record Period, we entered into financial guarantee contracts with banks in favor of independent third parties, consisting of local manufacturing companies, to secure the bank facilities of these third parties. These third parties also entered into financial guarantees in our favor to secure our banking facilities and enhance our credit quality. The practice of providing such guarantees for return in kind is common practice among companies without established credit histories with local commercial banks in Changzhou. Historically, our primary banks conditioned their extension of credit facilities to us upon this form of security arrangement. As of 31 December 2010, all financial guarantees provided by us had been released upon termination of the respective credit facilities and/or repayment of the respective loans. For the years ended 31 December 2008, 2009 and 2010, we recognized fair value of financial guarantee contracts of RMB2.7 million, RMB0.8 million and RMB2.8 million, respectively. Subsequent to their initial recognition, the carrying amounts for our financial guarantees are adjusted to reflect their fair value, or the maximum amounts we could be required to settle in connection with the guarantees if the counterparty to the guarantee makes a claim. We measure the fair value of financial guarantee contracts at the higher of (i) the probable amount of economic outflows reliably estimated by management to arise from the financial guarantee contracts provided by us and (ii) the fair value of the financial guarantee contracts less cumulative amortization recognized. For details on the accounting treatment of our financial guarantee contracts, see the paragraphs headed "Financial Instruments — Financial guarantee contracts" under Note 3 to our accountants' report. In addition, amortization of financial guarantee liability amounted to RMB0.6 million, RMB2.0 million and RMB3.6 million, respectively, for the years ended 31 December 2008, 2009 and 2010.

Presently we have no intention to provide guarantees to independent third parties, and we have no plans do so in the future.

**Distribution and Selling Expenses**

Our distribution and selling expenses consist primarily of staff costs for our sales and marketing personnel, packing and delivery expenses, business development fees and exhibition and marketing fees. For the years ended 31 December 2008, 2009 and 2010, our distribution and selling expenses were approximately RMB1.0 million, RMB2.5 million and RMB2.5 million, respectively. Our staff costs include the salaries, commission and bonuses paid to our sales and marketing team. We expect our distribution and selling expenses to increase in the near future as we hire additional sales personnel to expand our sales network and customer base in both the domestic and overseas markets.

**Administrative Expenses**

Administrative expenses consist primarily of staff costs and benefits for our administrative, finance and human resources personnel, office expense and taxes, research and development expenses, business development expenses, transportation and traveling expenses, depreciation of office equipment, releases of prepaid lease payments and other expenses. For the years ended 31 December 2008, 2009 and 2010, our administrative expenses amounted to approximately RMB11.3 million, RMB12.1 million and RMB19.3 million, respectively. We expect administrative expenses to increase as we hire additional personnel and incur additional expenses to accommodate our business expansion plan and to support our operation as a public company, including legal and compliance-related expenses. In addition, we plan to substantially increase our research and development expenditure to enhance our competitiveness through product and technology development.

**Finance Costs**

Our finance costs consist primarily of interest expenses, which were incurred primarily on bank loans used to fund our business expansion and working capital requirement. For the years ended 31 December 2008, 2009 and

2010, we had interest expenses of approximately RMB4.0 million, RMB1.3 million and RMB4.0 million, respectively.

### Taxation

Historically, we derived net profit primarily from Shunfeng Technology, our operating subsidiary in China. Our net profit is affected by the level of income tax that we pay and the availability of preferential tax treatment. As a foreign invested company established before the promulgation of the EIT Law, Shunfeng Technology is entitled to a two-year tax exemption from PRC income taxes starting from the year in which it achieves a cumulative profit, and a 50% reduction for the succeeding three years thereafter. Shunfeng Technology has recorded profit since 2007 and therefore, we believe that Shunfeng Technology will be entitled to a 50% reduction in its enterprise income tax at a rate of 12.5% until the end of 2011. Following the establishment of Shunfeng Materials in October 2010, we also expect to generate a portion our taxable income through this new entity.

Under the current laws of the Cayman Islands, we are not subject to any income or capital gains tax. In addition, dividend payments made by us are not subject to any withholding income tax in the Cayman Islands.

For detailed discussion of tax regulations and rules applicable to us, see "Regulations — Tax."

## PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

### Year Ended 31 December 2009 and 2010

***Revenue.*** Our revenue increased by 64.4% from RMB379.0 million in 2009 to RMB622.9 million in 2010. The increase in revenue was primarily attributable to the increase in our sales volume. Our sales volume of solar cells increased by 74.4% from 2009 to 2010, primarily due to the increase of production capacity of two of our existing manufacturing lines from 50 MW to 60 MW through technological improvements, the installation of additional solar cell manufacturing lines and an increase of the utilization rate of our production facilities from 80.4% in 2009 to 101.5% in 2010. The increase in our sales volume was partially offset by a 5.7% decrease in the average selling price of our solar cells from 2009 to 2010.

***Cost of Sales.*** Our cost of sales increased by 60.8% from RMB306.3 million in 2009 to RMB492.6 million in 2010. The increase in cost of sales was primarily attributable to the increase in the total volume of silicon wafers and conductor pastes we used as a result of an increase in our sales volume. Our cost of sales as a percentage of revenue decreased from 80.8% in 2009 to 79.1% in 2010.

***Gross Profit.*** Our gross profit increased significantly by 79.4% from RMB72.6 million in 2009 to RMB130.3 million in 2010. Our gross margin increased significantly from 19.2% in 2009 to 20.9% in 2010, primarily as a result of the decrease in our average processing cost from RMB1.38 per watt in 2009 to RMB1.18 per watt in 2010.

***Other Income.*** Our other income increased by 5.4% from RMB3.2 million in 2009 to RMB3.4 million in 2010. The increase was primarily due to an increase in income from the sale of raw and other materials, in particular an increase in sales of scrap materials resulting from our increased production levels, and an increase in bank interest income, partially offset by a decrease in processing service fee as we focused on manufacturing products for our own sales.

***Other Gains and Losses.*** Our other losses increased by 602.9% from RMB1.9 million in 2009 to RMB13.6 million in 2010 primarily due to legal and professional fees of RMB9.2 million incurred in relation to the Global Offering, an increase in net foreign exchange loss of RMB1.2 million primarily resulting from the depreciation of the Euro against the RMB as we were exposed to currency fluctuations due to product sales and equipment purchases denominated in Euros and a change in fair value of foreign currency forward contracts in August 2010 of RMB3.0 million resulting from the recognition of a loss on such contracts upon settlement.

***Distribution and Selling Expenses.*** Our distribution and selling expenses increased by 2.4% from RMB2.46 million in 2009 to RMB2.52 million in 2010. The increase in distribution and selling expenses was primarily due to an increase in business development fees, office expenses and packing and delivery expenses. Business development fees increased by 26.6% from 2009 to 2010 primarily due to our increased business development efforts. Packing and delivery expenses increased by 15.9% from 2009 to 2010, primarily due to increased sales.

***Administrative Expenses.*** Our administrative expenses increased by 58.8% from RMB12.1 million in 2009 to RMB19.3 million in 2010. The increase in the administrative expenses was primarily due to an increase in the staff costs and benefits, release of prepaid lease payments, research and development expenses and office expenses and taxes. Staff costs and benefits increased by 30.3% and office expenses and taxes increased by 74.7%, from 2009 to 2010, primarily because we hired additional administrative staff as we expanded our operations. Release of prepaid lease payments increased by 376.5% from RMB0.4 million in 2009 to RMB1.8 million in 2010 because we acquired land use rights to additional land in 2010 in implementing our expansion plan. Research and development expenses increased by 74.5% from 2009 to 2010 as we increased our research and development efforts.

***Finance Costs.*** Our finance costs increased by 213.1% from RMB1.3 million in 2009 to RMB4.0 million in 2010 primarily due to a significant increase in interest expenses. We incurred bank loans of RMB294.5 million in 2010 to finance the expansion of our solar cell production capacity.

***Tax Credit (Charge).*** Our income taxes were RMB14.3 million for 2010. Shunfeng Technology benefited from a 50% tax reduction as a result of preferential tax treatment under EIT Law. Our effective tax rate for 2010 was 15.1% primarily as a result of non-deductible expenses which included legal and professional fees incurred in relation to the Global Offering and recognition of fair values of financial guarantee contracts issued, among others.

***Profit for the year.*** Our profit for the year increased from RMB53.5 million in 2009 to RMB80.1 million in 2010. Our net profit margin decreased from 14.1% in 2009 to 12.9% in 2010.

**Year Ended 31 December 2008 and 2009**

***Revenue.*** Our revenue decreased by 32.8% from RMB563.6 million in 2008 to RMB379.0 million in 2009. The decrease in revenue was primarily attributable to the decrease in the average selling price of our solar cells. Beginning in the second half of 2008, the price of solar products throughout the solar value chain, including our solar cells, experienced a decline as industry demand waned due to the global recession and credit market contraction. In addition, the prices of crystalline solar products were further reduced by the easing of the polysilicon shortage which previously had caused polysilicon prices to increase and a corresponding price spike in downstream products. As a result, the average selling price of our solar cells decreased by 60.1% from 2008 to 2009. The decrease in the average selling prices of our solar cells was partially offset by an increase in our sales volume. Our sales volume of solar cells increased by 68.8% from 2008 to 2009, primarily due to our increased production capacity as we installed our second solar cell production line in July 2008 and an increase of the utilization rate of our production facilities from 69.8% in 2008 to 80.4% in 2009. Our utilization rate in 2008 was relatively low as we installed our second solar cell production line in July 2008, which required some ramp-up before becoming fully operational. This production line became fully operational in 2009.

***Cost of Sales.*** Our cost of sales decreased by 38.2% from RMB496.1 million in 2008 to RMB306.3 million in 2009. The decrease in cost of sales was primarily attributable to the decrease in our average cost of silicon wafers, which was partially offset by the increase in the total volume of silicon wafers we used in production. Depreciation of property, plant and equipment increased by 50.3% from RMB6.0 million in 2008 to RMB9.0 million in 2009 as the depreciation for the production equipment acquired in 2008 was calculated on a full-year basis in 2009. As we continue our business expansion, we expect our investment in, and the depreciation of, property, plant and equipment to increase in the future. Our cost of sales as a percentage of revenue decreased from 88.0% in 2008 to 80.8% in 2009 primarily due to the decrease in our average cost of silicon wafers.

***Gross Profit.*** Our gross profit increased slightly by 7.5% from RMB67.6 million in 2008 to RMB72.6 million in 2009. Our gross margin increased significantly from 12.0% in 2008 to 19.2% in 2009, primarily as a result of our average cost of silicon wafers decreasing more rapidly than the average selling price of our solar cells in 2009 and our average processing cost decreasing from RMB1.62 per watt in 2008 to RMB1.38 per watt in 2009.

***Other Income.*** Our other income decreased by 49.7% from RMB6.4 million in 2008 to RMB3.2 million in 2009. The decrease was primarily due to a decrease in interest income because no interest income was generated from prepayments to suppliers in 2009. The decrease also reflected a decrease of RMB1.2 million in gain on sales of raw materials and other materials.

***Other Gains and Losses.*** Our other losses decreased by 32.9% from RMB2.9 million in 2008 to RMB1.9 million in 2009 primarily due to the amortization of financial guarantee liabilities of RMB2.0 million, which reduced our liability under guarantees we granted to banks in favor of third parties. Other losses in 2009 also reflected a recognition of RMB753,000 in the fair value of the financial guarantee contracts issued in favor of third parties and the recognition of impairments totaling RMB2.2 million on prepayments to suppliers.

***Distribution and Selling Expenses.*** Our distribution and selling expenses increased significantly by 158.4% from RMB1.0 million in 2008 to RMB2.5 million in 2009. The increase in distribution and selling expenses was primarily due to increased commission offered by us to incentivize sales and marketing personnel and increased exhibition and marketing expenses. Our business development fees and exhibition and marketing fees increased by 279.4% and 168.8%, respectively, from 2008 to 2009 due to our increased marketing efforts. Our packing and delivery expenses increased significantly due to our increased sales volume.

***Administrative Expenses.*** Our administrative expenses increased by 7.1% from RMB11.3 million in 2008 to RMB12.1 million in 2009. The increase in administrative expenses reflected an increase in staff costs and benefits and office expenses and taxes as we hired additional administration staff for our planned expansion. In addition, office expenses and research and development expenses also increased.

***Finance Costs.*** Our interest expenses decreased by 68.1% from RMB4.0 million in 2008 to RMB1.3 million in 2009 primarily due to a significant decrease in the average balance of our bank loans. We incurred significant bank loans in 2008 to finance the expansion of our solar cell production capacity, and we repaid most of those loans in 2008 and 2009.

***Tax Credit (Charge).*** Our income taxes were RMB4.6 million for 2009 because Shunfeng Technology benefited from a 50% tax reduction as a result of preferential tax treatment under EIT Law and was granted a RMB2.6 million tax credit from local tax authorities for its purchases of domestically manufactured production equipment. We had a tax credit of RMB0.6 million for 2008 because Shunfeng Technology was exempted from income tax as a foreign-invested enterprise, and we recognized a deferred tax asset arising from an inventory write-down in 2008, which we expect to utilize in the future.

***Profit for the year.*** Our profit for the year decreased from RMB55.4 million in 2008 to RMB53.5 million in 2009. Our net profit margin increased from 9.8% in 2008 to 14.1% in 2009.

## LIQUIDITY AND CAPITAL RESOURCES

### Capital Resources

We have historically financed our operations primarily through cash generated from our operations, various bank borrowings and lines of credit, equity contributions from our Shareholders and loans and advances from our Shareholders. Our primary liquidity requirements are for purposes of working capital, purchases of property, plant and equipment and funding for the growth and expansion of our facilities and operations. In the near term, we expect to continue relying principally on our cash from operations and bank borrowings for our liquidity requirements, and we also plan to use the proceeds from the Global Offering and future bank borrowings to finance a portion of our expansion plan.

For each of the years ended 31 December 2008, 2009 and 2010, our gearing ratio, calculated using the net debt divided by the sum of net debt and equity, was 15%, 0% (net cash position) and 43.1%, respectively. The significant increase in gearing ratio from 2009 to 2010 was primarily due to our substantial bank borrowings incurred in 2010. As of 31 December 2010, we had RMB549.0 million of banking facilities from commercial banks, of which approximately RMB284.0 million was not utilized, and bank balances and cash of RMB55.4 million. We have entered into RMB731.6 million new credit facilities with commercial banks since 1 January 2011. As of the Latest Practicable Date, we had credit facilities in an aggregate amount of up to RMB1,280.6 million from commercial banks, of which approximately RMB375.3 million including the credit facilities of RMB345.3 million we had entered into since 1 January 2011 was not utilized. We believe our existing bank facilities are sufficient to meet our borrowing requirements for 2011. As of 31 May 2011, we had cash and cash equivalent of RMB141.5 million. Taking into account our bank balances and cash, our available credit facilities and expected cash flow from future operations and the estimated net proceeds from the Global Offering, we believe that we will have sufficient funds for the 12 months following the Listing Date to support our current operations, as well as to finance ongoing and planned projects, including those relating to our expansion plan. Up to the Latest Practicable Date, we had obtained letters of intent for loans of RMB680.0 million from commercial banks for our planned expansion in 2012.

## CASH FLOWS

| | Year Ended 31 December | | |
|---|---|---|---|
| | 2008 | 2009 | 2010 |
| | (RMB'000) | (RMB'000) | (RMB'000) |
| **Consolidated Cash Flow Data:** | | | |
| Net cash from operating activities | 7,279 | 114,028 | 29,315 |
| Net cash used in investing activities | (36,738) | (42,750) | (317,771) |
| Net cash from (used in) financing activities | 25,710 | (39,738) | 301,207 |
| Net (decrease) increase in cash and cash equivalents | (3,749) | 31,540 | 12,751 |
| Cash and cash equivalents at beginning of the year | 14,890 | 11,141 | 42,681 |
| Cash and cash equivalents at the end of the year | 11,141 | 42,681 | 55,432 |

**Cash flow from operating activities**

For the year ended 31 December 2010, we had net cash flow from operating activities of RMB29.3 million, which consisted of a cash inflow before movements in working capital but after adjustments for non-cash items of RMB109.9 million, partially offset by an outflow of RMB69.3 million from movements in working capital and a net cash outflow of RMB11.3 million for tax payments. Cash inflow from operating activities before movements in working capital consisted primarily of (i) profit before taxation of RMB94.4 million, (ii) finance costs of RMB4.0 million, (iii) depreciation of property, plant and equipment of RMB11.6 million and (iv) recognition of fair value of financial guarantee contracts issued of RMB2.8 million, partially offset by amortization of financial guarantee liability of RMB3.6 million. The cash outflow from movements in working capital consisted primarily of an increase in trade and other receivables and value-added tax recoverable of RMB74.1 million due to an increase in our credit sales. The cash outflow from movements in working capital also reflected a decrease in trade and other payables and value-added tax payable of RMB26.2 million because, upon the request of suppliers that was prompted by improved market conditions for their products, we began making more cash payments for raw material purchases in lieu of payments in bank drafts. Our relationship with our suppliers is not deteriorating. The cash outflow from movements in working capital was partially offset by a decrease in prepayments to suppliers of RMB12.1 million and an increase in customer deposits received of RMB58.2 million.

For the year ended 31 December 2009, we had net cash flow from operating activities of RMB114.0 million, which consisted of a cash inflow before movements in working capital but after adjustments for non-cash items of RMB70.6 million and a cash inflow of RMB47.9 million from movements in working capital, partially offset by income tax payments of RMB4.5 million. Cash flow from operating activities before movements in working capital consisted primarily of profit before taxation of RMB58.1 million, depreciation of property, plant and equipment of RMB9.6 million and impairment made on prepayments to suppliers of RMB2.2 million as three suppliers failed to perform their obligations under their silicon wafer supply contracts. The cash inflow from movements in working capital consisted primarily of an increase in trade and other payables and value-added tax payable of RMB66.2 million because we negotiated for bank draft payment for our raw material purchases. The cash inflow from movements in working capital also resulted from a decrease in inventories of RMB25.5 million in order to maintain reasonable levels of inventory. The cash inflow from movements in working capital was partially offset by an increase in trade and other receivables and value-added tax recoverable of RMB11.8 million as we began sales of solar cells on credit terms and a decrease in customer deposits received of RMB31.4 million.

For the year ended 31 December 2008, we had net cash flow from operating activities of RMB7.3 million, which consisted of a cash inflow before movements in working capital but after adjustments for non-cash items of RMB70.6 million and a cash outflow of RMB63.3 million from movements in working capital. Cash inflow from operating activities before movements in working capital consisted primarily of profit before taxation of RMB54.8 million and depreciation of property, plant and equipment of RMB7.4 million. The cash outflow from movements in working capital consisted primarily of an increase in trade and other receivables and value-added tax recoverable of RMB49.7 million because we reclassified prepayments made to a polysilicon supplier who was unable to perform its contractual obligations to trade and other receivables and commenced collection efforts to recover the amount due to us. As of 31 December 2010, we had recovered the full prepayment amount plus interest. For details, see Note 18 to the accountants' report. The cash outflow was also attributable to an increase in inventories of RMB25.7 million as a result of significant increase of our finished goods inventory as of the end of 2008 because sales of solar cells were disrupted by volatile market conditions and the prices of solar products declined rapidly during the fourth quarter of 2008 and increases in prepayments to suppliers of RMB9.7 million to secure our supply of silicon wafers. The cash outflow from movements in working capital was partially offset by an increase in customer deposits received of RMB26.4 million.

**Cash flow used in investing activities**

Net cash used in investing activities for the year ended 31 December 2010 was RMB317.8 million, consisting primarily of deposits paid for and purchases of property, plant and equipment of RMB321.5 million in connection with the expansion of our annual solar cell production capacity by 240 MW and construction of new production facilities and pledged bank deposits of RMB21.8 million. Our pledged bank deposits are used to secure our banking facilities and facilitate our forward contract arrangements. Our forward contract arrangements were settled in August 2010.

Net cash used in investing activities for the year ended 31 December 2009 was RMB42.8 million, consisting primarily of an increase in pledged bank deposits of RMB38.4 million to secure our letters of credit and build our credit history. We also used cash of RMB6.8 million to make deposits paid for and our purchase of property, plant and equipment.

Net cash used in investing activities for the year ended 31 December 2008 was RMB36.7 million, consisting primarily of deposits paid for and purchases of property, plant and equipment of RMB36.3 million incurred in connection with the construction of our 25 MW manufacturing line in 2008.

**Cash flow from (used in) financing activities**

Net cash from financing activities for the year ended 31 December 2010 was RMB301.2 million, consisting primarily of new bank loans of RMB294.5 million, capital contribution from Shareholders of the Company of RMB234.0 million and capital contribution from a non-controlling shareholder of Shunfeng Materials of RMB29.8 million, an advance from Shareholders of RMB40.0 million to fund our production expansion, partially offset by payments to owners of Shunfeng Technology upon the group reorganization of RMB234.0 million and repayment to other Shareholders of RMB60.0 million which was provided to fund our working capital requirements in 2008.

Net cash used in financing activities for the year ended 31 December 2009 was RMB39.7 million, consisting primarily of repayment of bank loans of RMB80.0 million, partially offset by new borrowings of RMB42.0 million that we incurred in anticipation of our production expansion in 2010.

Net cash from financing activities for the year ended 31 December 2008 was RMB25.7 million, consisting primarily of new bank loans of RMB180.0 million and advances from Shareholders of RMB30.0 million, partially offset by repayments of bank loans of RMB169.0 million and repayments of advances from Shareholders of RMB10.0 million.

## SELECTED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION DATA

### Net Current Assets (Liabilities)

The table below sets forth the details of our current assets and liabilities as of the dates indicated:

| | As of 31 December | | | As of 31 May |
|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 |
| | (RMB'000) | (RMB'000) | (RMB'000) | (RMB'000) (unaudited) |
| ***Current assets*** | | | | |
| Inventories | 45,710 | 19,409 | 34,452 | 59,868 |
| Trade and other receivables | 52,166 | 63,141 | 88,018 | 189,609 |
| Value-added tax recoverable | 1,152 | — | 49,224 | 55,121 |
| Prepayments to suppliers | 25,748 | 24,030 | 19,155 | 39,002 |
| Prepaid lease payments-current | 387 | 387 | 3,886 | 4,540 |
| Taxation recoverable | — | 137 | — | — |
| Pledged bank deposits | 1,048 | 39,479 | 17,645 | 136,758 |
| Bank balances and cash | 11,141 | 42,681 | 55,432 | 141,470 |
| Total current assets | 137,352 | 189,264 | 267,812 | 626,368 |
| ***Current liabilities*** | | | | |
| Trade and other payables | 3,818 | 68,633 | 166,913 | 286,834 |
| Value-added tax payable | — | 941 | — | — |
| Customer's deposits received | 31,600 | 190 | 56,846 | 31,884 |
| Loans from Former Shareholders | 20,000 | 20,000 | — | — |
| Amount due to a Director | — | — | 859 | — |
| Taxation payable | — | — | 2,468 | 6,063 |
| Other financial liabilities | 2,136 | 851 | — | — |
| Borrowings | 38,048 | — | 154,500 | 383,340 |
| Deferred income | — | — | 309 | 1,491 |
| Total current liabilities | 95,602 | 90,615 | 381,895 | 709,612 |
| **Net current assets (liabilities)** | 41,750 | 98,649 | (114,083) | (83,244) |

Our current assets primarily consist of pledged bank deposits, prepayments to suppliers, bank balances and cash, trade and other receivables, value-added tax recoverable and inventories. Our current liabilities consist primarily of loans from Former Shareholders, customer deposits received and trade and other payables. We had net current asset position of approximately RMB41.8 million and RMB98.6 million, respectively, as of 31 December 2008 and 2009, and net current liabilities of RMB114.1 million as of 31 December 2010. As of 31 May 2011, we had net current liabilities of approximately RMB83.2 million. Our substantial net current liabilities as of 31 December 2010 was primarily due to our incurrence of substantial bank borrowings in 2010 to fund our expansion plan.

In anticipation of our expansion, we increased our banking and credit facilities from RMB42.0 million as of 31 December 2009 to RMB549.0 million as of 31 December 2010. As of 31 December 2010, approximately RMB265.0 million of such banking and credit facilities were utilized and approximately RMB284.0 million were unutilized. Our trade and other receivables increased significantly during the Track Record Period as we began credit sales to selected customers and commenced accepting bank drafts as settlement for payment.

### Inventories

During the Track Record Period, inventories were one of the principal components of our current assets. With the exception of 2008, raw materials used in our production which primarily consisted of silicon wafers accounted for the substantial majority of our inventory, with work-in-progress and finished products representing smaller portions of our inventories. Our management reviews the inventory level of raw materials periodically to ensure a sufficient level of raw materials for our production and to avoid overstocking. We plan our production based on our production capacity and expected demand for our solar products. In light of historical fluctuations in silicon wafer prices caused by polysilicon supply shortages, we generally monitor the level of our inventory of silicon wafers and stock only sufficient amount to sustain our planned production for approximately seven days.

The following table sets forth the breakdown of our inventory as of the dates indicated:

| | As of 31 December | | |
|---|---|---|---|
| | 2008 | 2009 | 2010 |
| | (RMB'000) | (RMB'000) | (RMB'000) |
| Raw materials | 10,202 | 14,598 | 30,367 |
| Work-in-progress | 144 | 126 | 2,415 |
| Finished goods | 35,364 | 4,685 | 1,670 |
| **Total** | 45,710 | 19,409 | 34,452 |

Our average inventory turnover days, which is calculated by dividing the period's average inventory by cost of sales and multiplying by 365 days for a 12-month period, was 25.8 days, 38.8 days and 20.0 days for 2008, 2009 and 2010, respectively. Our inventory turnover days increased in 2009 because solar cell sales slowed substantially towards the end of 2008 during the onset of the financial crisis and our average turnover days decreased in 2010 as we sought to avoid overstocking. In addition, we incurred inventory write-downs of RMB4.5 million and RMB0.8 million in 2008 and 2009, respectively, as the market value of our silicon wafers and finished goods declined significantly as a result of a combination of weak investor sentiment due to poor economic conditions, increased global production capacity and technological improvements that reduced manufacturing costs. As of 31 May 2011, we used approximately RMB32.4 million of inventories, representing 94.0% of the inventories as of 31 December 2010. We did not incur any inventory write-downs in 2010.

### Trade and Bills Receivable

Our trade and bills receivable mainly represent expected payments in relation to sales of our products on credit terms. Since 2009, to maintain the competitiveness of our sales terms, we began extending credit periods ranging from three to 30 days to certain existing customers, but still require our other customers to pay in advance the full purchase price for our solar cells. We also began accepting bank drafts with a maturity date of between 30 to 180 days of issuance in 2009. During 2009 and 2010, 14.3% and 28.9% of our total revenue was settled by bank drafts, respectively.

Trade and bills receivables are initially recognized at fair value and subsequently measured at amortized cost, using the effective interest method, less any allowance made for impairment of these receivables. An allowance for impairment of receivables is recognized when there is objective evidence that we will not be able to collect all amounts due in accordance with the original terms of the receivables. We did not have any trade and bills receivable past due at the end of each reporting period during the Track Record Period and therefore did not make any allowances for doubtful debts.

Our average turnover days of trade receivables and bills receivable, which is calculated by dividing the period's average trade receivables by revenue and multiplying by 365 days for a 12-month period, were nil, 6.2 days and 25.9 days in 2008, 2009 and 2010, respectively. The increase in average turnover days of trade receivables and bills receivable in 2009 and 2010 was a result of our beginning to extend credit periods of up to 30 days to existing customers and our acceptance of bank drafts with a maturity ranging from 30 to 180 days of issuance beginning in 2009. We did not have any trade and bill receivables as of 31 December 2008.

As of 31 December 2010, we factored bills receivable of approximately RMB29.5 million to banks with full recourse which matured in February 2011. We had trade receivables of approximately RMB46.2 million as of 31 December 2010. As of 31 May 2011, all of our trade receivables and bills receivable as of 31 December 2010 had been fully settled.

As of 31 December 2008, 2009 and 2010, we had value-added tax recoverable of RMB1.2 million, nil and RMB49.2 million, respectively. The significant increase in value-added tax recoverable in 2010 was primarily due to increase in our purchase of equipment from overseas which qualified for valued added tax deduction.

Other receivables and prepayments consist primarily of prepayments for our first purchase of polysilicon from Danyang Hairun Semiconductor Materials Limited Company ("Danyang Hairun"), a polysilicon supplier. When this supplier failed to deliver polysilicon under its supply contract with us, we commenced collection efforts to recover our prepayment, which amounted to RMB50.0 million as of 31 December 2008 and 2009 and which amount was fully settled by Danyang Hairun in the form of telegraphic transfer on 14 December 2010.

**Trade and Bills Payable**

Our average turnover days for trade and bills payables, which is calculated by dividing the period's average trade and bills payables by cost of sales and multiplying by 365 days for a 12-month period, were 2.4 days, 39.9 days and 36.4 days in 2008, 2009 and 2010, respectively. Average turnover days for trade and bills payable increased in 2009 as suppliers granted us longer credit periods. Average turnover days for trade and bills payable decreased in 2010 as certain suppliers began to require cash payment due to stronger demand for their products.

We purchase some of our raw materials in cash. Payment for the remaining of our raw materials is generally due within 90 days of the invoice date, but certain suppliers grant us credit periods up to 180 days. During the Track Record Period, our suppliers adjusted the credit periods they granted us based on supply and demand conditions in the solar power industry and generally required cash payment when our demand for their products was strong. The following table sets forth an aging analysis of our trade payables as of the dates indicated:

| | As of 31 December | | |
|---|---|---|---|
| | 2008 | 2009 | 2010 |
| | (RMB'000) | (RMB'000) | (RMB'000) |
| **Outstanding balances with ages:** | | | |
| Within 30 days | 1,074 | 19,464 | 33,295 |
| 31 to 60 days | 435 | — | 262 |
| 61 to 90 days | 354 | — | 75 |
| 91 to 180 days | 294 | 15 | 25 |
| Over 180 days | 219 | 108 | 46 |
| **Total** | 2,376 | 19,587 | 33,703 |

### Prepayments to Suppliers

We make prepayments to certain raw material suppliers. Our prepayments to suppliers primarily represent prepayments to silicon wafer suppliers and are offset against future purchases during the term of the relevant supply contract. Our total prepayments to suppliers as of 31 December 2008, 2009 and 2010 were RMB25.7 million, RMB24.0 million and RMB36.2 million, respectively. All these prepayments are unsecured and have been interest-free, which we believe is consistent with prevailing industry practice. Our Directors review the credit quality and recoverability of our prepayments to supplier at the end of each reporting period. In 2009, we recognized a one-time impairment of RMB2.2 million on prepayments to three suppliers who failed to perform their obligations under their silicon wafer supply contracts with us.

In September 2010, we entered into purchase contracts with two major suppliers for contractual terms of one year and three years respectively. According to the terms of contracts, we made prepayments to these suppliers in 2010. These prepayments are unsecured, interest-free and will be used to offset our purchases in the last supply period before the contract expiration.

### Customer Deposits Received

We generally require substantially all of our customers to make prepayments equivalent to approximately 1% to 5% of total contract price before product delivery. Such customer deposits are generally unsecured, interest-free and are offset by the delivery of our products. The total customer deposits as of 31 December 2008, 2009 and 2010 were RMB31.6 million, RMB0.2 million and RMB58.3 million, respectively.

## INDEBTEDNESS

### Bank Borrowings

The following table sets forth our bank borrowings as of the dates indicated:

| | As of 31 December | | | As of 30 April |
|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 |
| | (RMB'000) | (RMB'000) | (RMB'000) | (RMB'000) (unaudited) |
| Bank loans — unsecured | 31,048 | — | 265,000 | 629,211 |
| Bank loan — secured | 7,000 | — | 29,500 | 44,329 |
| **Total** | 38,048 | — | 294,500 | 673,540 |
| Carrying amount repayable: | | | | |
| On demand or within one year | 38,048 | — | 154,500 | 320,540 |
| More than one year, but no exceeding two years | — | — | 70,000 | 70,000 |
| More than two years but not more than five years | — | — | 70,000 | 283,000 |
| | 38,048 | — | 294,500 | 673,540 |
| Fixed-rate borrowings | 31,048 | — | 54,500 | 171,540 |
| Variable-rate borrowings | 7,000 | — | 240,000 | 502,000 |
| | 38,048 | — | 294,500 | 673,540 |

All of our bank loans are denominated in RMB. The variable-rate borrowings were based on the benchmark interest rate issued by the PBOC. The range of effective interest rate of the borrowings are as follows:

| | As of 31 December | | |
|---|---|---|---|
| | 2008 | 2009 | 2010 |
| Effective interest rate: | | | |
| Fixed-rate borrowings | 5.86% | NA | 5.84% |
| Variable-rate borrowings | 6.30% | NA | 5.61 to 5.88% |

Our credit facilities with commercial banks allow us to borrow short-term loans at anytime during the term of the credit facilities, which ranges from six months to one year. Such arrangements provide us with more flexibility in our long-term financial planning than long-term loans. In addition, short-term loans normally have lower interest rates than long-term loans. Therefore, we mainly borrow short-term loans from commercial banks.

At the close of business on 30 April 2011, being the latest practicable date prior to the printing of this prospectus, the Group had bank borrowings of approximately RMB673.5 million (of which approximately RMB44.3 million was secured by fixed charge on the Group's bank balances and bills receivable of carrying values of approximately RMB14.0 million and RMB30.8 million, respectively).

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, the Group did not have outstanding at the close of business on 30 April 2011 any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

Our Directors have confirmed that as of the Latest Practicable Date, there had been no material change in the indebtedness or contingent liabilities of our Group since 30 April 2011.

**Loans from Former Shareholders**

We have received advances from various Shareholders during the Track Record Period primarily to fund our working capital requirements. These advances were unsecured, interest-free and repayable on demand. We had fully repaid all loans from Former Shareholders during the year ended 31 December 2010.

Other than as disclosed above, there has been no material change in our indebtedness as of the Latest Practicable Date and there has been no material change in our indebtedness or contingent obligations since 30 April 2011.

## WORKING CAPITAL

We had net current liabilities of RMB114.1 million as of 31 December 2010. We require cash primarily for our working capital expenditures. Our Directors believe that we will have sufficient working capital for our present requirements for at least 12 months following the date of this prospectus, after taking into account our anticipated cash flows from operating and financing activities, presently available banking facilities, current cash and cash equivalents on hand, and the estimated net proceeds from the Global Offering.

## CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

Our future contractual obligations primarily relate to obligations incurred as a result of our acquisition of property, plant and equipment, land use rights and buildings, as well as silicon wafers from our key suppliers. We had the following purchase commitments and commitments of lease obligations and capital expenditure as of the indicated dates below:

| | As of 31 December | | |
|---|---|---|---|
| | 2008 | 2009 | 2010 |
| | (RMB'000) | (RMB'000) | (RMB'000) |
| **Lease obligations** | | | |
| Within one year | 55 | 60 | 528 |
| In the second to fifth year, inclusive | 95 | 44 | 12 |
| | 150 | 104 | 540 |

As of 31 December 2010, we were committed to pay consideration of approximately RMB6.2 million to acquire land use rights.

| | As of 31 December | | |
|---|---|---|---|
| | 2008 | 2009 | 2010 |
| | (RMB'000) | (RMB'000) | (RMB'000) |
| **Capital expenditures in respect of the acquisition of property, plant and equipment:** | | | |
| contracted for but not provided in the consolidated financial statements | 425 | 123,960 | 707,231 |
| authorised but not contracted for | — | — | 1,686,890 |
| | 425 | 123,960 | 2,394,121 |

As of the Latest Practicable Date, we have outstanding purchase contracts of an aggregate amount of RMB711.2 million to purchase production equipment for our capacity expansion.

In September 2010, we entered into purchase contracts with two major suppliers for terms of one year and three years respectively, pursuant to which we will purchase a minimum of approximately 53 MW, 33 MW and 33 MW of silicon wafers in 2011, 2012 and 2013, respectively. Under the terms of the contracts, the price of the silicon wafers will be determined on the basis of the prevailing market prices in each month before delivery.

Other than the contractual obligations and commercial commitments described above, we did not have any other long-term debt obligations, operating lease obligations, purchase obligations or other long-term liabilities.

## CAPITAL EXPENDITURES

We had capital expenditures of RMB36.3 million, RMB6.8 million and RMB350.0 million for the years ended 31 December 2008, 2009 and 2010, respectively. We incurred capital expenditures primarily to build our solar cell and silicon wafer manufacturing facilities, purchase production equipment and acquire land use rights. The following table sets forth our historical capital expenditures for the Track Record Period:

| | Year ended 31 December | | |
|---|---|---|---|
| | 2008 | 2009 | 2010 |
| | (RMB'000) | (RMB'000) | (RMB'000) |
| Property, plant and equipment | 36,344 | 6,791 | 321,491 |
| Land use rights | — | — | 28,472 |
| **Total** | 36,344 | 6,791 | 349,963 |

We expect to continue to incur capital expenditures in the future as we implement our expansion plan to take advantage of market opportunities in the solar power industry, specifically, by expanding our production capacity of silicon wafers and solar cells.

We expect to incur capital expenditure of RMB1,565 million in 2011 and RMB950 million in 2012 primarily for our planned expansion. See "Business — Manufacturing Facilities — Planned Expansion." The amounts of expenditures which we expect to incur in the future may vary from actual amounts of expenditures incurred for a variety of reasons, including changes in market conditions. Any expansion of our capacity beyond our current plan may require additional debt or equity financing. Our ability to obtain additional funding in the future is subject to a variety of uncertainties including but not limited to our future results of operations, financial condition and cash flows, economic, political and other conditions in PRC and Hong Kong, and the PRC government's policies relating to bank borrowings.

We will seek to optimize our capital structure to finance our capital expenditures in the most efficient manner. Towards that end, we plan to manage our use of equity and debt financing from various sources, including the net proceeds from the Global Offering as well as loans from commercial banks, to fund our capital expenditures. We expect that cash from operating activities and the expected net proceeds from this offering, either alone or in conjunction with bank loans, will be sufficient to allow us to procure all additional equipment necessary to implement our expansion plan. We may, however, require additional cash due to changing business conditions or other future developments, including any investments or acquisitions we may decide to pursue. If our future cash flow is insufficient to meet our needs, we may seek to issue additional equity securities or debt securities or borrow from lending institutions.

## PROFIT FORECAST

We believe that on the basis and assumptions as set forth in Appendix III to this prospectus, and in the absence of unforeseen circumstances, our consolidated profit attributable to owners of our Company for the six months ending 30 June 2011 is expected to be not less than RMB86.98 million. The profit forecast has been prepared by our management based on our audited consolidated result for the year ended 31 December 2010 as well as our unaudited management accounts for the five months ended 31 May 2011 and the forecast results of the consolidated results for the remaining one month ending 30 June 2011.

The forecast is presented on a basis consistent in all material respects with the accounting policies currently adopted by us as set out in the accountants' report set out in Appendix I of this prospectus. The average selling price of solar cells for the five months ended 31 May 2011 is based on the actual selling price achieved by us during the same period. The average selling price of solar cells for the one month ending 30 June 2011 is projected based on our average selling price from 1 June 2011 to 17 June 2011. Net profit attributed by our new solar cell manufacturing lines with an annual production capacity of 120 MW, which commenced production in June 2011, is forecasted to be approximately RMB3.6 million, representing 4.2% of the forecasted profit for the six months ending 30 June 2011. Upon production of silicon wafers by our new silicon ingot/wafer manufacturing lines with an annual production capacity of 216.5 MW in May 2011 and June 2011, our forecast gross margin is expected to be increased by approximately 0.2% in the remaining month ending 30 June 2011, as we expect the production of silicon wafers will secure a steady supply of key raw materials in our solar cell production and enable us to achieve cost savings, partially offset by increases in depreciation charge and operating costs in relation to silicon wafer manufacturing. It is necessary for such additional capacity to be installed to attain the profit forecast. For further information about our planned expansion, see "Business — Manufacturing Facilities — Planned Expansion."

During the Track Record Period, we derived substantially all of our revenue from the sales of crystalline solar cells. Historically, when the selling price of crystalline solar cells decreased, the purchase price of raw material in the production of solar cells, i.e. silicon wafers, would also decrease, and vice versa. Silicon wafers accounted for 91.4%, 80.4% and 82.8% of our cost of sales in the years ended 31 December 2008, 2009 and 2010, respectively. Therefore, we have identified the selling price of crystalline solar cells and the purchase price of silicon wafers as the most sensitive areas to the profit forecast.

The following table sets forth the sensitivity analyses of the forecast net profit for the six months ending 30 June 2011 with respect to changes in the average selling price of crystalline solar cells and the purchase price of silicon wafers. The sensitivity analyses below assume that there are no changes in other input variables, including selling price, sales quantities and cost of sales of other products, and operating expenses. In addition, the sensitivity analyses below assume that there is no correlation between the selling price of crystalline solar cells and the purchase price of silicon wafers.

| | Adjusted selling price of crystalline solar cells/ purchase price of silicon wafers | Effect on net profit for the six months ending 30 June 2011 | Revised net profit for the six months ending 30 June 2011 |
|---|---|---|---|
| | (RMB per Watt) | (RMB'000) | (RMB'000) |
| Selling price of crystalline solar cells increased by | | | |
| 15% | 6.26 | 24,287 | 110,248 |
| 10% | 5.98 | 16,191 | 102,152 |
| 8% | 5.88 | 12,953 | 98,914 |
| 5% | 5.71 | 8,096 | 94,057 |
| 1% | 5.49 | 1,619 | 87,580 |
| Selling price of crystalline solar cells decreased by | | | |
| 1% | 5.39 | (1,619) | 84,342 |
| 5% | 5.17 | (8,096) | 77,865 |
| 8% | 5.00 | (12,953) | 73,008 |
| 10% | 4.90 | (16,191) | 69,770 |
| 15% | 4.62 | (24,287) | 61,674 |
| Purchase price of silicon wafers decreased by | | | |
| 15% | 3.07 | 16,109 | 102,070 |
| 10% | 3.25 | 10,739 | 96,700 |
| 8% | 3.32 | 8,591 | 94,552 |
| 5% | 3.43 | 5,370 | 91,331 |
| 1% | 3.57 | 1,074 | 87,035 |

| | Adjusted selling price of crystalline solar cells/ purchase price of silicon wafers | Effect on net profit for the six months ending 30 June 2011 | Revised net profit for the six months ending 30 June 2011 |
|---|---|---|---|
| | (RMB per Watt) | (RMB'000) | (RMB'000) |
| Purchase price of silicon wafers increased by | | | |
| 1% | 3.65 | (1,074) | 84,887 |
| 5% | 3.79 | (5,370) | 80,591 |
| 8% | 3.90 | (8,591) | 77,370 |
| 10% | 3.97 | (10,739) | 75,222 |
| 15% | 4.15 | (16,109) | 69,852 |

The above sensitivity analyses are for reference only and are intended to show possible outcomes under different market conditions given our exposure to movement in the selling price of crystalline solar cells and the purchase price of silicon wafers in the six-month period ending 30 June 2011. Any actual variation could exceed the ranges of prices shown above. The above sensitivity analyses are (i) not meant to be exhaustive and (ii) not meant to predict the worst-case scenarios. The changes in the selling price of crystalline solar cells and the purchase price of silicon wafers for the year ending 31 December 2011, as at the relevant time during the year, may differ materially from the assumed ranges above and are dependent on market conditions and other factors which are beyond our control.

Our Company's interim report for the six months ending 30 June 2011 will be audited pursuant to Rule 11. 18 of the Hong Kong Listing Rules. If the Shares are listed on the Hong Kong Stock Exchange, we expect our audited interim report will be published on or before 30 September 2011.

## RELATED PARTY TRANSACTIONS

For details of the related parties transactions, see Note 35 to our accountants' report in Appendix I of this prospectus. Our Directors confirm that these transactions were conducted on normal commercial terms and that their terms are fair and reasonable. Our PRC legal advisers, King & Wood, have reviewed relevant contracts for provision of loans/advances to Shunfeng Technology by Oriental Fortune Capital, Shanghai Orica and Shanghai Lianyang as disclosed in Note 35 in Appendix I to the prospectus and noticed that such loans/advances were made by way of entrustment loans through eligible banks. Based on the above, King & Wood have confirmed that the provision of the above loans/advances by the above related parties did not violate applicable PRC laws and regulations including the General Rules on Loans.

In April 2010, Wujin Equipment Factory provided a loan of RMB40.0 million to Shunfeng Technology without fully complying with applicable PRC laws and regulations including the General Rules on Loans. However, the loan was made free of any interest and was fully repaid by Shunfeng Technology in July 2010. Even if there is any risk of being fined by the relevant authority, such fine would be imposed on the lender, not the borrower. Therefore, Shunfeng Technology is not subject to such potential risk. Based on the above, King & Wood have advised us that the above noncompliance which had been rectified will not have any material adverse effect on us or the Global Offering.

## OFF-BALANCE SHEET ARRANGEMENTS

During the Track Record Period, we entered into financial guarantee contracts with banks in favor of independent third parties to secure the banking facilities of these third parties. As of 31 December 2008, 2009 and 2010, RMB43.8 million, RMB30.8 million and nil of such guarantees, respectively, were outstanding. In return, these third parties provided guarantees in our favor to secure our banking facilities and enhance our credit quality.

As of 31 December 2008, 2009 and 2010, RMB80.0 million, RMB45.0 million and RMB265.0 million, respectively, of such guarantees were outstanding. We have not entered into any derivative contracts that are not reflected in our consolidated financial statements.

As of 31 December 2010, being the date of our most recent financial statements, all the foregoing guarantees had been settled and we did not have any off-balance sheet arrangements.

## CONTINGENT LIABILITIES

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

## QUANTITATIVE AND QUALITATIVE INFORMATION ABOUT MARKET RISKS

### Commodity Price Risk

We are exposed to fluctuations in the prices of silicon wafers, which represented approximately 91.4%, 80.4% and 82.8%, respectively, of our cost of sales for each of the years ended 31 December 2008, 2009 and 2010, respectively. The prices of wafers are significantly affected by polysilicon prices. As we commenced production and sales of wafers, polysilicon has become one of our primary raw materials. The price of polysilicon has been extremely volatile in recent years due to supply and demand imbalances. We purchase raw materials through a strategic mix of long-term and short-term supply contracts, as well as from the spot market, to maintain a steady supply of raw materials. Our long-term supply contracts contain flexible pricing terms to take into consideration market price fluctuations. We are not aware of an industry norm to hedge against the fluctuations in the prices of silicon, polysilicon or silicon wafers. Since raw materials prices move in correlation with the prices of solar cells and solar modules, we believe we are able to pass a substantial portion of any price increase in raw materials to our downstream customers. As a result, we do not believe there is a need to hedge against the fluctuations in the prices of silicon, polysilicon or silicon wafers and we currently do not maintain any such hedging arrangements. We are not aware of any financial instruments in the market available for us to hedge against the fluctuations in the prices of silicon, polysilicon or silicon wafers. See the section headed "Business — Suppliers" in this prospectus.

### Credit Risk

Our principal financial assets are trade and other receivables, pledged bank deposits and bank balances and cash. Our credit risk is primarily attributable to the trade and other receivables and the financial guarantees provided by us. We have a concentration of credit risk on trade and bills receivables as of 31 December 2009 and 2010 as the balance of trade and bills receivables were attributed from mainly two and five customers, respectively. In addition, there is a concentration of credit risk on other receivable that are refundable. Our balance of other receivables of RMB50.0 million as of 31 December 2008 and 2009 was related to the prepayment we made to a supplier in connection with our purchase of raw materials. We did not receive any materials under the contract and subsequently reclassified such prepayment as other receivable, which was settled in full in 2010. See "— Cash Flows — Cash flow from operating activities."

To minimize the credit risk, our management periodically review the credit quality and financial condition of our customers and debtor and our level of exposure to recover any overdue debts and to lower exposure as necessary. We have adopted and will continue to implement a customer appraisal program in which we review our customers' payment records each month as an internal control measure to monitor our trade receivables and assess each customer's creditworthiness. We evaluate the credit quality and financial conditions of our customers and debtor based on their financial results, press releases and informal communications from time to time.

Our credit risk on bank balances and pledged bank deposits is limited because the majority, if not all of, our counter parties are reputable major banks or banks with good credit rating assigned by international credit-rating agencies.

### Interest Rate Risk

We are exposed to interest rate risk due to fluctuations in interest rates on our bank deposits and bank loans. As of 31 December 2010, we had RMB240 million in bank loans that bore interest at floating rates ranging from 5.61% to 5.88%, with a weighted average interest at such date of 5.79%. Historically we have not been exposed to material interest rate risk and, thus, have not used any derivative financial instruments to manage this risk. However, our future interest income may decrease or interest expenses on our bank loans may increase due to changes in market interest rates.

As of 31 December 2008, 2009 and 2010, if the interest rates on our variable bank balances and pledged bank deposits increased or decreased by 10 basis point, with all other variables held constant, our profit for the year would correspondingly increase or decrease by RMB12,000, RMB39,000 and RMB62,000, respectively. As of 31 December 2008, 2009 and 2010, if the interest rates on our variable-rate bank loans increased by 100 basis points, with all other variables held constant, our profit for the year after capitalization of interest would decrease by RMB70,000, nil and RMB1,922,000, respectively. We had RMB294.5 million in bank loans outstanding as of 31 December 2010.

### Foreign Currency Exchange Risk

Our sales in China are denominated in RMB and our costs and capital expenditures, with the exception of production equipment from European and Japanese suppliers, are also largely denominated in RMB. However, we sometimes collect our trade receivables and settle our purchases of machinery and equipment in foreign currencies such as Euro and Japanese Yen. Our export sales are generally denominated in U.S. dollars and Euro, and we maintain bank balances and cash in U.S. dollars, Euro and Japanese Yen. Accordingly, we are exposed to foreign exchange risk between the RMB and the U.S. dollar, the RMB and the Euro and the RMB and the Japanese Yen.

In addition, as we expand our sales to overseas markets through sales of solar modules, we expect our foreign exchange exposures will increase. We evaluate such exposure from time to time and may consider engaging in hedging activities in the future to the extent we deem appropriate. We entered into foreign currency forward contracts to manage our foreign currency exchange risks in connection with equipment purchases from European suppliers. These forward contracts matured in August 2010, and we currently do not have any plans to engage in hedging activities. We cannot predict the impact of future exchange rate fluctuations on our results of operations and may incur net foreign currency losses in the future.

## DIVIDEND AND DIVIDEND POLICY

We paid a dividend of approximately RMB1.9 million in 2008 and declared a dividend of approximately RMB124.0 million in July 2010 which was paid out prior to the Listing and was then recapitalised as capital of Shunfeng Technology. No other dividends were paid by us or any of our subsidiaries during the Track Record Period.

After the completion of the Global Offering, our Shareholders will be entitled to receive dividends we declare. Any amount of dividends we pay will be at the discretion of our Directors and will depend on our future operations and earnings, financial condition, capital requirements and surplus, contractual restrictions and other factors that our Directors deem relevant. Any such declaration and payment will be subject to our constitutional documents and applicable PRC laws and regulations. Our Shareholders in a general meeting may approve any declaration of dividends, which must not exceed the amount recommended by our Board. No dividend will be declared or payable except out of our profits and reserves lawfully available for distributions. Our future declarations of dividends may not be consistent with our historical practice and will be at the absolute discretion of the Board. In particular, in line with our planned expansion, we expect to incur significant capital expenditure in 2011 and 2012, as the result of which, we may not declare any dividends at all in the foreseeable future.

As we are a holding company, our ability to declare and pay dividends will depend on receipt of sufficient funds from our subsidiaries, particularly Shunfeng Technology, our operating company incorporated in the PRC. Shunfeng Technology must comply with its constitutional documents and the laws and regulations of China in declaring and paying dividends to us. Being a foreign-invested enterprise, Shunfeng Technology is required under applicable PRC laws and regulations to retain 10% of its accumulated profit as a legal reserve until such legal reserve reaches an amount equal to 50% of its registered capital. This legal reserve is not available for distribution as cash dividends.

## DISTRIBUTABLE RESERVES

As of 31 December 2010, our reserves available for distribution to our owners amounted to approximately RMB225.7 million which included our Share premium. The Companies Law provides that any Share premium account of a company incorporated in the Cayman Islands, such as our Company, may be applied in such manner as it may from time to time determine, subject to the provisions, if any, of its Memorandum and Articles of Association. However, no distribution or dividend may be paid to its members out of the Share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, such company shall be able to pay its debts as they fall due in the ordinary course of business.

## UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following is an illustrative and unaudited pro forma statement of adjusted net tangible assets of the Group, which has been prepared based on the audited consolidated net tangible assets of the Group attributable to the owners of our Company as of 31 December 2010 as extracted from the accountants' report, the text of which is set out in Appendix I to this prospectus, adjusted as described below.

The unaudited pro forma statement of adjusted net tangible assets has been prepared to show the effect of the Global Offering as if it had taken place on 31 December 2010 assuming the Over-allotment Option is not exercised. The statement has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of our financial position as of 31 December 2010 or at any future dates following the Global Offering.

| | Audited consolidated net tangible assets of the Group as of 31 December 2010(1) | Estimated net proceeds from the Global Offering(2) | Unaudited pro forma adjusted consolidated net tangible assets | Unaudited pro forma adjusted net tangible assets per Share | |
|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB(3) | HK$(4) |
| Based on the Offer Price of HK$1.09 per Offer Share . . . | 286,539 | 329,925 | 616,464 | 0.40 | 0.48 |
| Based on the Offer Price of HK$1.42 per Offer Share . . . | 286,539 | 432,058 | 718,597 | 0.46 | 0.55 |

(1) The audited consolidated net tangible assets of the Group attributable to the owners of the Company as of 31 December 2010 is approximately RMB286,539,000, as extracted from Accountant's Report on the financial information for the three years ended 31 December 2010 of the Group which is set out in Appendix I to this prospectus.

(2) The estimated net proceeds from the Global Offering is based on the indicative offer prices of HK$1.09 (equivalent to RMB0.91) and HK$1.42 (equivalent to RMB1.18) per Share, after deduction of the estimated underwriting fees and related expenses incurred since January 2011 by the Group and does not take into account of any Shares which may be issued/repurchased according to the general mandate or issued upon exercise of the over-allotment option or upon exercise of any options which may be granted upon the Share Option Scheme. The estimated net proceeds from the Global Offering are converted from Hong Kong dollars into Renminbi at an exchange rate of RMB1 to HK$1.2032.

(3) The unaudited pro forma adjusted consolidated net tangible assets per Share has been arrived at after making the adjustments referred to in this section and on the basis of a total of 390,000,000 Shares in issue immediately following completion of the Global Offering and Capitalisation Issue. It does not take into account of any Shares which may be issued/repurchased according to the general mandate or issued upon exercise of the over-allotment option or upon exercise of any options which may be granted under the Share Option Scheme.

(4) The unaudited pro forma adjusted consolidated net tangible assets per Share amount in RMB are converted to HK$ with exchange rate at RMB1 to HK$1.2032. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

(5) The property interests of the Group as of 30 April 2011 have been valued by Savills Valuation and Professional Services Limited, an independent property valuer. By comparing the valuation of the Group's property interests of approximately RMB117,400,000 as set out in Appendix IV of this prospectus and the unaudited carrying amounts of these properties of approximately RMB79,802,000 as of 30 April 2011, the valuation surplus is approximately RMB37,598,000, which has not been included in the above net tangible assets of the Group. The revaluation surplus will not be incorporated in our Group's consolidated financial statements. If the revaluation surplus was recorded in our Group's consolidated financial statements, the annual depreciation of the Group for the year ending 31 December 2011 would be increased by approximately RMB1,880,000.

## PROPERTY VALUE RECONCILIATION

Particulars of our property interests are set out in Appendix III to this prospectus. Savills, an independent property valuation firm, has valued our property interests as of 30 April 2011. The full text of the letter, summary of valuation and valuation certificates with respect to our property interests are included in Appendix III to this prospectus.

A reconciliation of our property interests and the valuation of such property interests as required under Rule 5.07 of the Hong Kong Listing Rules is set forth below:

| | RMB'000 |
|---|---|
| Net book value of our property interests as of 31 December 2010 | 71,078 |
| Addition | 9,670 |
| Depreciation | 945 |
| Disposal | — |
| Net book value as of 30 Apr 2011 | 79,802 |
| Valuation surplus as of 30 Apr 2011 | 37,598 |
| Valuation as of 30 Apr 2011 | 117,400 |

## DISCLOSURE REQUIRED UNDER THE HONG KONG LISTING RULES

Our Directors confirm that as of the Latest Practicable Date, there were no circumstances which would give rise to the disclosure requirements under Rules 13.13 to 13.19 of the Hong Kong Listing Rules had the Shares been listed on the Hong Kong Stock Exchange on that date.

## NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, up to the Latest Practicable Date, there has been no material adverse change in our financial or trading position or prospects since 31 December 2010, being the date to which our most recent audited financial statements were prepared, and there is no event since 31 December 2010 that would materially affect the information shown in our consolidated financial statements included in the accountants' report set out in Appendix I to this prospectus, in each case except as other disclosed herein.