

BUSINESS

BUSINESS OVERVIEW

The Group is China's second largest manufacturer of monocrystalline silicon ingots, measured in terms of production output and sales, in 2004, 2005 and 2006, according to China Electronics Material Industry Association^(Note). Silicon ingots and wafers are used for the manufacturing of PV cells which are important components of solar energy generation systems.

The Group's silicon reclaiming and upgrading facilities, which have an aggregate annual designated throughput of over 2,400 tonnes of reclaimable polysilicon, allow it to have significant production cost advantages for producing solar ingots at better and more attractive margins than those silicon ingot manufacturers which lack such silicon reclaiming facilities. The Group aims to become the world's leading player in the solar energy industry.

In June 2007, the Original Group acquired the Acquired Group, which comprised of, amongst others, established polysilicon reclaiming and upgrading facilities and monocrystalline silicon ingot manufacturing facilities. The following tables show certain key performance measures of the Original Group for each of the three years ended 31 December 2004, 2005 and 2006 and the nine months ended 30 September 2006 and 2007 and of the Acquired Group for each of the three years ended 31 December 2004, 2005 and 2006 and the six months ended 30 June 2006 and 2007, as derived from the financial information in appendices I and II to this prospectus. As the Acquired Group was acquired by the Original Group in June 2007, its results were separately disclosed up to 30 June 2007. The key performance measures of the Original Group for the nine months ended 30 September 2006 and those of the Acquired Group for the six months ended 30 June 2006 are unaudited.

Original Group	Year ended 31 December				Nine months ended 30 September		Growth (06-07)
	2004 RMB'000	2005 RMB'000	2006 RMB'000	CAGR (04-06)	2006 RMB'000	2007 RMB'000	
Turnover	57,658	173,697	413,303	168%	277,730	715,390	158%
Profit from operations	7,988	62,842	156,025	342%	104,896	249,366	138%
Profit for the year/period attributable to equity shareholders of the Company	4,941	41,303	109,670	371%	72,487	211,326	192%

Acquired Group	Year ended 31 December				Six months ended 30 June		Growth (06-07)
	2004 RMB'000	2005 RMB'000	2006 RMB'000	CAGR (04-06)	2006 RMB'000	2007 RMB'000	
Turnover	52,630	141,237	262,912	124%	99,021	220,935	123%
Profit from operations	7,997	22,220	64,992	185%	17,359	60,311	247%
Profit for the year/period attributable to equity shareholders of Solartech	5,688	15,960	54,296	209%	12,654	48,455	283%

Note: China Electronics Material Industry Association is a national industry organization which operates directly under the guidance and leadership of Ministry of Information Industry and implements the tasks entrusted by the PRC government. It has more than 400 members in the PRC. The confirmation on the Original Group's market position is based on data (including but not limited to production output and sales) collected from major members in the industry and reviewed by expert of the industry. China Electronics Material Industry Association's confirmation was issued on 2 January 2008 at the request of the Company. The Directors, the Company and the Sponsor did not commission the issue of such confirmation.

BUSINESS

Set out below are certain unaudited pro forma key performance measures of the Enlarged Group for the year ended 31 December 2006 and the nine months ended 30 September 2007, extracted from the unaudited pro forma financial information set out in appendix III to this prospectus:

Enlarged Group	Year ended 31 December 2006 RMB'000	Nine months ended 30 September 2007 RMB'000
Turnover	654,612	882,465
Profit from operations	274,025	252,911
Profit for the year/period attributable to equity shareholders	221,296	199,668

Note: The basis of preparation of the above unaudited pro forma key performance measures are set out in appendix III to this prospectus. For the preparation of the unaudited pro forma combined income statements, the acquisition of the Acquired Group is assumed to be completed on 1 January 2006. As such, the unaudited pro forma profit attributable to the equity shareholders for the year ended 31 December 2006 reflected several significant individual non-recurring items arisen from the acquisition, which increased the pro forma profit by approximately RMB53.2 million. The significant individual non-recurring items include: (i) gain on acquisition of the Acquired Group of approximately RMB74.8 million; (ii) increase in cost of sales of approximately RMB18.0 million and decrease in income tax expenses thereon of approximately RMB3.3 million as a result of such fair value adjustment of inventory; and (iii) a non-operating expense of approximately RMB6.9 million arisen for the period related to the allotment of certain shares of a subsidiary of the Company as employee incentive compensation.

The Group's key operations, production facilities and operating assets are located in China. As at the Latest Practical Date, the Group has a production base located in Jinzhou which is equipped with a raw material processing facilities, 100 monocrystalline silicon ingots pullers and 8 wiresaws having an aggregate annual designed capacity of 1,032 tonnes monocrystalline silicon ingots and 16,768,000 pieces of monocrystalline silicon wafers. The Group plans to substantially increase its manufacturing capacity in order to meet ongoing demand for the Group's products and maximise economies of scale. In 2008, the Group's annual monocrystalline silicon ingots and wafers production capacities are expected to increase to approximately 2,000 tonnes and 56 million pieces respectively. Upon the completion of the Group's expansion plan with Jinzhou Rixin, it is expected that the Group's annual monocrystalline silicon ingots production capacity will be increased to approximately 2,000 tonnes with an additional 96 monocrystalline silicon ingots pullers and the annual wafer production capacity will be increased to 48 million pieces with an additional 16 wiresaws upon its full commercial production in the second quarter of 2008. In addition, upon full commercial production, Jinzhou Jingji will be equipped with 13 wiresaws, having an annual design production capacity of 8 million pieces of wafers by the end of 2008. The investment in Jinzhou Jingji will be funded by the proceeds of the Global Offering.

Depending on the market demand, the Group also plans to increase its production capacity to approximately 3,000 tonnes of monocrystalline silicon ingots and 88 million pieces of monocrystalline silicon wafers by the end of 2009.

BUSINESS

The Group's principal customers are amongst the major solar energy players in the world measured in terms of production capacity. For the year ended 31 December 2006, the Original Group's largest customer and top 5 customers accounted for approximately 14.2% and 55.7% of the Original Group's turnover, respectively and the Acquired Group's largest customer and top 5 customers accounted for approximately 21.6% and 49.2% of the Acquired Group's turnover, respectively. During the Track Record Period, the Group's products were sold to customers in Japan, Taiwan, PRC, Europe and North America for processing into solar cells.

Set out below is the percentage of the Original Group's sales attributable to the Original Group's five largest customers for the three years ended 31 December 2004, 2005 and 2006 and the nine months ended 30 September 2007, and the percentage of the Acquired Group's sales attributable to the Acquired Group's five largest customers for the three years ended 31 December 2004, 2005 and 2006 and the six months ended 30 June 2007. As the Acquired Group was acquired by the Original Group in June 2007, its results were separately disclosed up to 30 June 2007:

	Year ended 31 December			Nine months ended 30 September
	2004 (%)	2005 (%)	2006 (%)	2007 (%)
Original Group				
Top 5 customers	92.1	81.7	55.7	60.7
Largest customer	60.6	39.3	14.2	27.2
Six months ended 30 June 2007				
Acquired Group				
Top 5 customers	53.2	52.0	49.2	79.2
Largest customer	17.7	17.4	21.6	36.1

The top 5 customers of the Original Group and the Acquired Group were mainly solar wafer or cell manufacturers or traders of solar products. SEC, one of the top 5 customers of the Original Group, is a shareholder of the Company and engages in the production of crystalline silicon-based solar power products. In addition, two of the top 5 customers of the Original Group are engaged in the manufacture and sales of wafers and related intermediate products to the semiconductor and solar industries. WWX, a top 5 customer of the Acquired Group and a substantial shareholder of the Company, belongs to the semiconductor sector. WWX was not a supplier of polysilicon raw material to the Original Group during the Track Record Period. For the year ended 31 December 2006 and the six months ended 30 June 2007, Jinzhou Yangguang was one of the top 5 customers of the Acquired Group where Jinzhou Youhua sold monocrystalline ingots to Jinzhou Yangguang for its wafers production.

COMPETITIVE STRENGTHS

The Directors believe that the principal strengths of the Group include the following:

- **The second largest player in China in terms of production output and sales of monocrystalline silicon ingots in 2004, 2005 and 2006 according to China Electronics Material Industry Association with well-established facilities for polysilicon upgrading and reclaiming in the PRC. It is therefore well positioned to benefit from the anticipated strong growth in the upstream segment of the solar energy value chain in the PRC and the world**

As one of the leading monocrystalline silicon ingot producers in the PRC, the Group has built a sales and manufacturing platform that allows the Group to benefit from the anticipated growth in the world's PV industry. The Group is well positioned to leverage on its leading position in the PRC market and its relationship and strategic tie with some of the world's leading silicon raw material suppliers in order to secure sufficient supply of silicon raw material.

- **Strong relationship within the PV value chain enhances the ability of the Group to secure raw material supply and expand its customer and supplier network**
 - Established long term relationships with certain leading solar energy players, including Isofoton, Motech, Sharp, Sumitomo and Suntech.
 - The Group secures silicon raw materials, which is currently in shortage given the expected growth in the solar energy industry in the world, through entering into of supply and manufacturing contracts simultaneously.
- **Advanced and proprietary know-how that lowers the Group's cost of production and increases productivity**
 - proprietary know-how (including the know-how in respect of crystallisation and crucibles) which differentiates the Group from other competitors. Due to these proprietary know-how, the Group has successfully secured orders from a number of international customers in Japan and Europe.
 - its monocrystalline silicon ingots are exempt from inspection upon delivery by a leading international solar cell producer.
 - advanced and proprietary production technique to combine polysilicon and upgraded scrap silicon materials that results in lower production cost. The addition of Shanghai Jingji, which is engaged in upgrading, recycling and processing of polysilicon raw materials in the PRC, is expected to strengthen the Group's silicon reclaiming ability and to secure supply of reclaimed polysilicon in order to support the Group's anticipated strong growth in the production of solar ingots and wafers.

BUSINESS

- **Experienced management team with solid technical knowledge in the solar energy industry and skilled local staff with proven track records**
 - Mr. TAN has over 10 years' experience in the solar energy industry and has knowledge in various aspects of monocrystalline silicon production process.
 - Mr. HSU You Yuan has over 15 years' experience in the semiconductor and solar industry.
 - Mr. CHUANG Jen Wen has over 13 years' experience in the polysilicon upgrading and silicon related industry.
 - Mr. SAITO Noboru has over 5 years' experience in the PV industry, in particular wafer production.
- **Strategic investors of the Group are renowned suppliers of silicon raw material and distributors of solar related products and well-known in the semiconductor fabrication and polysilicon upgrading and recycling industry.**
 - SEC: a supplier of silicon raw material and distributor of solar related products.
 - WWX: a semiconductor fabrication expert and the world's seventh largest silicon wafer supplier in 2006 according to IEK, an independent research house, a supplier of raw material to the Group and distributor of solar related products.
 - Sumitomo: a distributor of solar related products and a silicon raw material supplier.

The Group has benefited from the shared management experience, strategic guidance and opportunity referrals provided by these strategic investors.

BUSINESS STRATEGY

The Group will further strengthen its established, long-standing relationship with major solar energy players by further improving the quality of its solar ingots and wafers. The Group will further develop its relationship with other potential customers in the world. With a view to maintaining the Group's position as China's second largest manufacturer of monocrystalline silicon ingots in terms of production output and sales and to become the world's leading player in the solar energy industry, the Group will adopt the following strategies:

- **Expand production capacity and increase market share in the monocrystalline silicon ingot and wafer markets in the world**
 - Continuing to focus on the upstream segment of the PV market, namely, monocrystalline silicon ingot and wafer markets in the world.
 - It is anticipated that upon completion of the Group's expansion plan with Jinzhou Rixin, the Group will have 196 monocrystalline silicon ingot pullers and 24 wiresaws (up from 100 pullers and 8 wiresaws as at the Latest Practicable Date), by the second quarter of 2008, which will increase the Group's annual output of silicon ingots to approximately 2,000 tonnes and increase the Group's annual output of wafers to approximately 48 million pieces. This production profile is expected to represent an annual light energy conversion capacity of

BUSINESS

over 200 MW. In addition, the Group will form a solar wafer slicing company in Jinzhou, Jinzhou Jingji, which upon its commercial operation, will have an initial annual design production capacity of 8 million pieces of wafers and will be equipped with up to 13 wiresaws with the Group's initial investment by the end of 2008. Depending on the market demand, the Group's production capacity may be further increased to 3,000 tonnes of ingots and 88 million pieces of wafers by the end of 2009 through the addition of further ingot pullers and wiresaws in Jinzhou Rixin.

- The solar industry requires long-term commitment. As it is expected that there will be sustainable development in the solar industry, participants tend to contract with reliable parties. As such, the Group will continue to seek strategic alliance or long-term relationship with suppliers and customers in the PV industry.
- **Maintain technical know-how advantage to reduce manufacturing cost as well as improve quality**
 - The Group's future success depends on, amongst others, the ability of the Group to maintain its technical know-how advantage in ingot crystallization and wafer slicing and to keep the Group abreast of the latest technological advancement in the industry. In view of the shortage of high purity polysilicon, the Group has resorted to the use of scrap silicon as a source of raw material. As quality of scrap silicon varies, the key to quality production is the relevant technical know-how and the Group's silicon reclaiming and upgrading ability.
 - The Group will continue its efforts towards the development of commercial and cost-effective manufacturing process so as to reduce its manufacturing cost.
- **Maintain cost effective operations through the use of the upgraded and recycled polysilicon provided by the Group's own facility, diversify source of raw materials and secure additional long-term polysilicon raw material suppliers**
 - With the acquisition of Shanghai Jingji to further enhance the Group's polysilicon upgrading and recycling technologies and facilities and raw material supply network, the Group expects to secure more supply of higher quality processed polysilicon raw materials, which can be used to increase the production of monocrystalline silicon ingots and wafers at existing manufacturing capacity.
 - It is expected that with the proceeds from the Global Offering, the Group can further diversify its source of raw material and secure additional long-term polysilicon supplies by entering into longer term supply contracts with suppliers who offer to sell at a lower price but with prepayment terms.
 - the Group's ability to source sufficient polysilicon raw material was further enhanced by the framework agreement and the supplemental agreement entered into between 錦州新世紀石英玻璃有限公司 (Jinzhou New Century Quartz Glass Co., Ltd.*), an Independent Third Party and Jinzhou Yangguang on 25 June 2007 and 31 December 2007, respectively, whereby Jinzhou Yangguang agreed to invest RMB62.4 million for 40% of the registered capital in a joint venture company to be formed for the production of polysilicon raw material. The investment of RMB62.4 million by Jinzhou Yangguang will be funded by the proceeds of the Global Offering. It is expected that upon commercial production of polysilicon raw material, the Group may acquire raw material from this associated company for the Group's ingot production.

* English translation of Chinese official name is for identification purpose only

BUSINESSES

The Group generates its revenue from four broad categories:

- (a) the manufacturing and sale of monocrystalline silicon ingots;
- (b) the manufacturing and sale of monocrystalline silicon wafers;
- (c) the reclaiming and upgrading of polysilicon raw materials, and processing of solar ingots and solar wafers; and
- (d) trading of silicon related materials and products.

The manufacturing and sale of monocrystalline silicon ingots

Since its inception, the Group has engaged in the manufacturing and sale of monocrystalline silicon ingots. The Group focuses on the upstream sales and production of monocrystalline silicon ingots in the PV industry. The Group currently produces monocrystalline silicon ingots with various choices of diameter (ranging from 6 inches to 8 inches).

The manufacturing and sale of monocrystalline silicon wafers

In response to customers' request for one-stop shop services for the manufacturing and sale of monocrystalline silicon wafers, the Group established its monocrystalline silicon wafers facilities in 2006. The Group currently produces wafers of two choices of dimensions (125 x 125 mm and 156 x 156 mm) and a variety of thickness (from 180 μm to 220 μm).

The reclaiming and upgrading of polysilicon raw materials, and processing of solar ingots and solar wafers

The reclaiming, upgrading and recycling of polysilicon raw materials conducted by the Group includes the sorting of scrap silicon, separation of non-silicon material from scrap silicon and etching of scrap polysilicon with the aim to extract polysilicon raw material that can be used for production of solar ingots. The Group purchases scrap polysilicon raw materials and the reclaiming process is conducted mainly through the Group's reclaiming and upgrading facility in Shanghai. Reclaiming, upgrading and recycling has become an increasingly important process in the PV manufacturing value chain because of the current polysilicon shortage. This process is labour-intensive, making it not economical for producers in developed countries to adopt. The Group has a team of skilled employees for cleaning and testing broken wafers and other reclaimable materials.

Trading of silicon related materials and products

In addition to the provision of reclaiming and upgrading services for its customers, the Group also, through Shanghai Jingji, trades various silicon related materials and products, including ingots and wafers for solar cells, and silicon feedstock.

BUSINESS

For those upgraded polysilicon which is not suitable for the Group's use in monocrystalline silicon ingot production, the Shanghai Plant will subcontract an Independent Third Party to manufacture multicrystalline silicon ingots or wafers for a processing fee. After the Independent Third Party has completed the processing work, the Shanghai Plant will subsequently sell such multicrystalline silicon ingots or wafers.

Set out below is a table showing the unaudited sales volume and unaudited turnover of the Original Group for each of the three years ended 31 December 2004, 2005 and 2006 and the nine months ended 30 September 2006 and 2007:

	Years ended 31 December									Nine months ended 30 September					
	2004			2005			2006			2006			2007		
	Volume	Turnover	% Total	Volume	Turnover	% Total	Volume	Turnover	% Total	Volume	Turnover	% Total	Volume	Turnover	% Total
	RMB'000			RMB'000			RMB'000			RMB'000			RMB'000		
Processing and upgrading:															
Upgrading polysilicon	- kg	-	0.0%	- kg	-	0.0%	39,687 kg	271	0.1%	- kg	-	0.0%	299,876	7,156	1.0%
Processing solar ingots	- kg	-	0.0%	4,885 kg	1,686	1.0%	39,432 kg	12,394	3.0%	16,886 kg	5,346	1.9%	385,207	61,939	8.6%
Processing solar wafers	- pc	-	0.0%	- pc	-	0.0%	907,442 pc	9,703	2.3%	428,979 pc	6,249	2.3%	901,137	7,675	1.1%
Subtotal		-	0.0%		1,686	1.0%		22,368	5.4%		11,595	4.2%		76,770	10.7%
Trading and manufacturing:															
Polysilicon	- kg	-	0.0%	- kg	-	0.0%	- kg	-	0.0%	- kg	-	0.0%	16,867	20,717	2.9%
Monocrystalline silicon ingots	96,769 kg	57,658	100.0%	172,549 kg	171,474	98.7%	123,924 kg	147,325	35.7%	79,401 kg	86,145	31.0%	144,312	186,136	26.0%
Monocrystalline silicon wafers	- pc	-	0.0%	21,518 pc	537	0.3%	5,428,620 pc	243,610	58.9%	3,937,250 pc	179,990	64.8%	9,659,876	431,765	60.4%
Others	-	-	0.0%	-	-	0.0%	-	-	0.0%	-	-	0.0%	-	2	0.0%
Subtotal		57,658	100.0%		172,011	99.0%		390,935	94.6%		266,135	95.8%		638,620	89.3%
Total		57,658	100.0%		173,697	100.0%		413,303	100.0%		277,730	100.0%		715,390	100.0%

Notes:

1. The sale of monocrystalline silicon wafers in 2005 represented wafers manufactured by a subcontractor using the Original Group's manufactured ingots. Actual wafers production of the Original Group commenced in 2006.
2. In 2006, approximately 98,000 kg of ingots manufactured by the Original Group were sold as wafers which were further manufactured from such ingots. The Original Group acquired approximately 29,000 kg of ingots from Jinzhou Youhua for its wafers production.
3. The Original Group's top 5 customers are mainly solar wafer or cell manufacturers or traders, except for two of them that also engage in the semiconductor industry.

The average selling prices of monocrystalline silicon ingots manufactured by the Original Group were RMB596, RMB994, RMB1,189 and RMB1,290 per kg for the years ended 31 December 2004, 2005, 2006 and the nine months ended 30 September 2007, respectively. The average selling prices of monocrystalline silicon wafers manufactured by the Original Group were RMB44.9 per piece and RMB46.0 per piece for the year ended 31 December 2006 and for the nine months ended 30 September 2007, respectively.

BUSINESS

Set out below is a table showing the unaudited sales volume and unaudited turnover of the Acquired Group for the three years ended 31 December 2004, 2005 and 2006 and the six months ended 30 June 2006 and 2007. As the Acquired Group was acquired by the Original Group in June 2007, its results were separately disclosed up to 30 June 2007:

	Years ended 31 December									Six months ended 30 June					
	2004			2005			2006			2006			2007		
	Volume	Turnover RMB'000	% Total	Volume	Turnover RMB'000	% Total	Volume	Turnover RMB'000	% Total	Volume	Turnover RMB'000	% Total	Volume	Turnover RMB'000	% Total
Processing and upgrading:															
Upgrading polysilicon	308,863 kg	6,563	12.5%	394,373 kg	11,431	8.1%	421,677 kg	12,010	4.6%	172,187 kg	4,779	4.8%	259,735kg	6,740	3.1%
Processing solar ingot	-	-	na	-	-	na	-	-	na	-	-	na	5,084kg	1,550	0.7%
Processing solar wafers	190,136 pc	552	1.0%	405,892 pc	775	0.5%	247,912 pc	357	0.1%	94,677 pc	118	0.2%	98,023pc	195	0.1%
Subtotal		7,115	13.5%		12,206	8.6%		12,367	4.7%		4,897	5.0%		8,485	3.9%
Trading and manufacturing:															
Polysilicon (note 1)	121,180 kg	29,276	55.6%	184,296 kg	69,170	49.0%	139,864 kg	88,994	46.0%	96,096 kg	54,296	54.8%	55,171kg	37,724	17.1%
Monocrystalline silicon ingots (note 2)	12,419 kg	6,516	12.4%	10,439 kg	12,109	8.6%	82,276 kg	120,984	33.8%	18,245 kg	29,087	29.4%	75,787kg	147,545	66.8%
Monocrystalline silicon wafers (note 3)	828,097 pc	9,685	18.4%	1,319,048 pc	47,741	33.8%	1,333,070 pc	40,426	15.4%	301,023 pc	10,603	10.7%	787,149pc	27,121	12.2%
Others	na	38	0.1%	na	11	0.0%	na	141	0.1%	na	138	0.1%	na	60	0.0%
Subtotal		45,515	86.5%		129,031	91.4%		250,545	95.3%		94,124	95.0%		212,450	96.1%
Total		<u>52,630</u>	<u>100.0%</u>		<u>141,237</u>	<u>100.0%</u>		<u>262,912</u>	<u>100.0%</u>		<u>99,021</u>	<u>100.0%</u>		<u>220,935</u>	<u>100.0%</u>

Notes:

- All the polysilicon sales are trading in nature, in which the Acquired Group purchased scrap silicon and upgraded it into higher quality polysilicon in its Shanghai Plant.
- Most of the monocrystalline silicon ingot sales are trading in nature, in which the Acquired Group purchased scrap silicon and upgraded it into higher quality polysilicon and then sub-contracted the production of monocrystalline silicon ingots to third party solar ingot manufacturers. Starting from September 2006, certain portion of the monocrystalline silicon ingot production has been conducted by Jinzhou Youhua. Approximately RMB90,174,000 and RMB116,832,000 of the turnover in 2006 and the six-month period ended 30 June 2007, respectively, were generated through the sales of monocrystalline silicon ingots which were manufactured by Jinzhou Youhua.
- All of the monocrystalline silicon wafers sales are trading in nature, in which the Acquired Group purchased scrap silicon and upgraded it into higher quality polysilicon and then sub-contracted the production of monocrystalline silicon wafers to third party monocrystalline silicon ingot and wafer manufacturers.
- The monocrystalline silicon ingots and wafers traded by the Acquired Group are of various grades and qualities, and thus selling prices vary accordingly.
- The technical specifications of monocrystalline silicon ingots and wafers used by the semiconductor industry and solar power industry are very different. In short, semiconductor industry requires a higher purity content of polysilicon. Since there is such a high demand in the solar power industry, the Jinzhou Plants' production capacity is allocated for production of monocrystalline silicon ingots and wafers. On the other hand, Shanghai Jingji is engaged in polysilicon processing and upgrading and therefore it often processes and trades polysilicon raw materials of different grades. On occasions where Shanghai Jingji receives polysilicon raw materials that are more suitable for the semiconductor industry, Shanghai Jingji will trade and supply the polysilicon raw materials to customers in the semiconductor industry. Ingots and wafers produced by the Group are mainly applied towards the manufacturing of PV cell for solar power generators.
- The Acquired Group's top 5 customers include solar wafer or cell manufacturers or traders, and a semiconductor industry participant.

BUSINESS

PROCESS TECHNOLOGIES

The Group primarily focuses on the manufacturing of monocrystalline silicon ingots and wafers. The Group also occasionally, at the request of its customers, provides processing services in relation to semi-finished silicon raw materials. The process technologies adopted by the Group in the monocrystalline silicon ingot and wafer production include monocrystalline pulling, ingot cropping and grinding, and wafer slicing.



Cleaning of polysilicon and upgrading of polysilicon (if required)
The polysilicon is cleaned through several steps with various chemicals involved
The polysilicon is etched by mixed acids to remove other metal or impurity



Crystal Pulling
The monocrystalline rod is pulled from a crucible containing silicon melt under vacuum



Ingot grinding
As-grown rod is cropped and ground into square shape



Quality control of ingot
Characteristics of every ingot are measured and verified before shipping



Ground Ingot



Wafer Slicing
The ingot is sliced by multiwire saw into wafers



Quality control of wafer
Characteristics of wafers are measured and inspected before packing



Wafers

PROCUREMENT AND SOURCING

The Group's manufacturing activities require highly specialised raw materials, including polysilicon and reclaimed polysilicon. Polysilicon is generally available from several suppliers, including international and domestic manufacturers and distributors. Nevertheless, with the world's shortage in polysilicon raw material, the Group expanded its procurement to include reclaimable polysilicon raw materials. The Group's reclaimable polysilicon raw material comes from various types of discarded scraps such as tops and tails of ingots, pot scrap and broken wafers, where certain portion of the reclaimable polysilicon is generated through internal production and the remaining is sourced from external suppliers including semi-conductor manufacturers. Based on the assessment by the Company, most of the raw materials used in the production of ingots are reclaimable polysilicon.

During the Track Record Period, there were over 20 and 10 suppliers supplying polysilicon raw material to the Original Group and Acquired Group, respectively. The Original Group's largest supplier accounted for approximately 24.8%, 38.3%, 15.2% and 14.7% of the Original Group's total purchase in 2004, 2005, 2006 and the nine months ended 30 September 2007, respectively. The Acquired Group's largest supplier accounted for approximately 42.0%, 29.0%, 25.4% and 28.1% of the Acquired Group's total purchase in 2004, 2005, 2006 and the six months ended 30 June 2007, respectively. The Original Group's top 5 suppliers accounted for approximately 74.8%, 78.0%, 58.7% and 49.0% of the Original Group's total purchase in 2004, 2005, 2006 and the nine months ended 30 September 2007, respectively. The Acquired Group's top 5 suppliers accounted for approximately 72.5%, 72.6%, 60.0% and 71.0% of the Acquired Group's total purchase in 2004, 2005, 2006 and the six months ended 30 June 2007, respectively.

Save for SEC which is a 7.91% shareholder of the Company upon completion of the Global Offering (without taking into account any Shares which may fall to be sold upon exercise of the Over-allotment Option), none of the Directors, their respective associates, and so far as the Directors are aware Shareholders who will own more than 5% of the Shares in issue immediately following completion of the Global Offering and the Capitalisation Issue (without taking into account any Shares which may fall to be sold upon exercise of the Over-allotment Option and any options that may be granted under the Share Option Scheme), had any interests in any of the five largest suppliers of the Group during the Track Record Period.

The Group's raw material procurement policy is to select only suppliers which have demonstrated quality control and reliability on delivery time, and to maintain multiple sources for each raw material so that a quality or delivery problem with any single supplier will not adversely affect the Group's operations. The quality and delivery performance of each supplier is kept under review and graded. Some of the customers of the Group (including customers of monocrystalline silicon ingots, monocrystalline silicon wafers and reclaimable silicon) are also suppliers of polysilicon raw materials of the Group. Given the shortage of supply in polysilicon raw material, the Group has adopted a practice in requiring some of its customers to procure part of the polysilicon raw materials required for the production of monocrystalline silicon ingots. The raw material that a customer will provide is agreed between the parties after arm's length negotiation and taking into account the relationship of the customer with the Group, the pricing, the availability of polysilicon raw materials or reclaimable polysilicon raw materials, and the customer's accessibility to such raw materials. As such, an ingot sale contract and a polysilicon raw

BUSINESS

materials purchase contract are often entered into simultaneously. Set out below is a summary showing the number of top 10 customers who were also top 10 suppliers of the Original Group and the Acquired Group and their aggregate purchases from and sales to the Original Group and the Acquired Group during the Track Record Period. As the Acquired Group was acquired by the Original Group in June 2007, its results were separately disclosed up to 30 June 2007:

	Year ended 31 December			Nine months ended 30 September 2007 in the case of the Original Group/ Six months ended 30 June 2007 in the case of the Acquired Group
	2004	2005	2006	
Number of top 10 supplier-cum- top 10 customer				
Original Group	1	3	4	2
Acquired Group	4	3	3	3
Aggregate sales to the top 10 supplier-cum- top 10 customer (as a percentage of total turnover of the relevant group)				
Original Group	60.6%	73.7%	39.6%	18.1%
Acquired Group	35.4%	16.8%	33.1%	49.0%
Aggregate purchases from the top 10 supplier-cum- top 10 customer (as a percentage of total costs of sales of the relevant group)				
Original Group	22.7%	50.0%	59.5%	17.3%
Acquired Group	52.5%	38.1%	27.0%	45.7%

The suppliers-cum-customers mainly supplied scrap silicon raw material to the Group. The Original Group mainly sold them monocrystalline silicon ingots and the Acquired Group mainly sold them monocrystalline silicon ingots and wafers. Some of these suppliers-cum-customers also engaged the Acquired Group for processing services, in which case the relevant raw materials are also provided by such customers. Except for SEC, WWX and 上海合晶硅材料有限公司 (Wafer Works (Shanghai) Corp*), none of these suppliers-cum-purchasers are shareholders of the Company or its associates. Given that some of the top 10 suppliers-cum-customers are leading players in the solar industry, measured in terms of production capacity, the Group believes that continuous cooperation with them could enhance the Group's overall reputation and production process as these suppliers conduct periodic review over the Group and its products. Such business relationship with these suppliers-cum-customers also enables the Group to secure sources of polysilicon raw materials. The Directors believe that although some of the suppliers-cum-customers have the ability and capacity to perform their own production work or processing work currently provided by the Group, the Group has a cost advantage over its customers in processing the silicon material due to its know-how, which constitutes a possible reason as to why these suppliers-cum-customers prefer engaging the Group to undertake such production or processing work.

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BUSINESS

Polysilicon raw materials purchased from the suppliers-cum-customers were used in ingot production by the Original Group and scrap silicon raw material upgrading, and the finished products were not specifically dedicated for sales to such suppliers-cum-customers. Major customers that use the Group's processing services will provide the necessary raw material, and the raw material will be dedicated for production of the products required. Usually, trade payables to and trade receivables from these suppliers-cum-customers are settled separately and there are no set-offs.

In addition, since the commencement of wafer production by Jinzhou Yangguang in 2006, the Original Group also bought monocrystalline silicon ingots as raw materials. The Original Group paid RMB30.9 million, RMB69.5 million, RMB257.4 million and RMB262.7 million for polysilicon and monocrystalline silicon ingots in 2004, 2005, 2006 and the nine months ended 30 September 2007, respectively. Jinzhou Yangguang began its wafer production in 2006 and purchased raw materials from various parties. In 2006 and the nine months ended 30 September 2007, Jinzhou Yangguang purchased monocrystalline silicon ingots from other companies of the Enlarged Group, which accounted for 59.9% and 95.3% of its total monocrystalline ingot purchase, respectively. The remaining 40.1% purchase in 2006 and 4.7% for the nine months ended 30 September 2007 were with external parties.

Solartech entered into a memorandum of understanding with an Independent Third Party on 13 September 2007, in which the Independent Third Party agreed to supply and Solartech agreed to purchase 10 tons of polysilicon materials on a monthly basis for a term of 24 months from 1 January 2008 to 31 December 2009. The price of the polysilicon materials will be determined by the parties from time to time. The Independent Third Party and Solartech will enter into a formal agreement to reflect their agreed terms.

The Directors also believe that the Group has maintained a good relationship with its suppliers, and do not envisage any major difficulty in sourcing raw materials in the future.

Some of the equipment used in the Group's production of monocrystalline silicon ingots and wafers, such as ingot pullers and wiresaws, have been customized to the Group's specifications, and therefore are not readily available from other equipment suppliers and would be difficult to repair or replace. The Group sourced its ingot pullers from three domestic suppliers in the PRC and wiresaws from a machine manufacturer in Switzerland, all of which are Independent Third Parties.

The Group generally pays its suppliers in US dollars and Renminbi with credit period of 30 days generally. For settlement, payment methods include telegraphic transfer and letters of credit.

Stock Control

In order to ensure the smooth operations of the Group's manufacturing process, the Group's policy is to maintain a reasonable stock level of polysilicon to meet its production demand according to its annual production plan and budget. In view of the importance and volatility of this principal raw material costs, the Group has set up a special team led by the chairman of the Company to closely monitor the change in principal raw material costs and inventory movement. The Group aims to keep three-month inventory in respect of polysilicon raw materials and one-month inventory in respect of other auxiliary raw

BUSINESS

materials. The Group carries out physical stock-takes each month to identify slow moving stocks and makes proper provision accordingly, if required. In scheduling the Group's production plan, the Group takes into account sale orders on hand, production capacity and closing inventories.

Electricity

The Group uses substantial amounts of electricity supplied by a local electricity company in its manufacturing process. To ensure no disruption in its operations, the Group's manufacturing facilities in Jinzhou are connected to two main power transformer stations to ensure that when there is an electricity blackout in the area, the production process of the Group will not be affected as the other power transformer station can continue to supply the required electricity. The Group has not experienced any material interruption to the supply of power during the Track Record Period.

QUALITY CONTROL

The Directors believe that the Group's management experience, production capabilities and manufacturing processes have allowed it to maintain the quality and reliability of its products. The Directors further believe that products manufactured by the Group allow the Group's customers to determine with greater certainty the appropriate quantity of products to order while keeping the cost of monocrystalline silicon wafer competitive.

Monocrystalline silicon ingots manufactured by Jinzhou Huachang have been certified exempt from quality surveillance inspection by the State General Administration for Quality Supervision and Inspection and Quarantine for a term of 3 years from December 2006. The quality control system of Jinzhou Huachang have been adopted by the other Jinzhou Plants and will be adopted by Jinzhou Rixin upon its commencement of production. Pursuant to 產品免於質量監督檢查管理辦法 (the Administrative Regulations on Exemption from Quality Supervision and Inspection and Quarantine), to be exempt from quality surveillance inspection, certain criteria, including the following will be required to be met:

- a. the products have to have a stable quality and the manufacturer has to have a good quality control system;
- b. the products have to be a market leader;
- c. the quality of the products have to meet the relevant national or industry standard;
and
- d. the passing of three consecutive inspection and tests by provincial authority.

BUSINESS

Jinzhou Yangguang, Jinzhou Huari, Jinzhou Youhua, Jinzhou Huachang and Jinzhou Xinri have been awarded GB/T 19001-2000 idt ISO 9001:2000 certificates in respect of their monocrystalline silicon ingot design, development and production with the following validity periods:

Plant	Validity Period
Jinzhou Huari	23 August 2006 to 22 August 2009
Jinzhou Huachang	15 June 2006 to 14 June 2009
Jinzhou Yangguang	23 August 2006 to 22 August 2009
Jinzhou Youhua	23 August 2006 to 22 August 2009
Jinzhou Xinri	15 June 2006 to 14 June 2009

and Jinzhou Yangguang has been awarded the same certification in respect of its design, development and production of wafers expiring in August 2009. It is expected that Jinzhou Rixin will apply for similar certificate after its commencement of production. Shanghai Jingji has been accredited with OHSAS 18001 in respect of its upgrading facilities, which will expire on 19 November 2008.

As at the Latest Practicable Date, the Jinzhou Plants employed 15 staff in quality control, 7 of them having more than 5 years of experience in quality control. One of the members of the quality control team is accredited with QMS Provisional Auditor by the China Certification & Accreditation Association, and has over 13 years of experience in quality control. The Shanghai Plant's quality control was conducted by a team of 4 staff, 3 of them having over 3 years of experience in carrying out quality assurance and control procedures. The processing lines in the Jinzhou Plants and the Shanghai Plant are monitored at various stages to ensure high quality in the Group's silicon ingots and wafers manufactured.

CUSTOMER, MARKETING AND SALES

The Group seeks to expand its customer base by taking advantage of the current upswing in the solar energy industry.

Sales Process

The Group's sales cycle, meaning the time between the Group's first contact with a customer in relation to a particular product and its shipment of that product to the customer, generally lasts for 1 to 2 months. The typical stages in the sales process from initial contact until production are:

1. **Technical evaluation** – the Group's product managers work closely with current and potential customers to ensure its products meet customers' specifications.
2. **Quotation and Confirmation** – the Group's technical support staff will confirm with the customers on the specifications of the products prior to the commencement of the production.
3. **Production schedule arrangement** – the production control manager will arrange the production schedule and to ensure that the same is strictly adhered to.

BUSINESS

Major Customers

The Group's customers include Isofoton, Motech, Sharp, Sumitomo and Suntech, some of which are leading international PV players, measured in terms of production capacity.

The Original Group's five largest customers in aggregate accounted for 92.1%, 81.7%, 55.7% and 60.7% of the Original Group's turnover in 2004, 2005, 2006 and the nine months ended 30 September 2007, respectively. In 2004, 2005, 2006 and the nine months ended 30 September 2007, the Original Group's then largest customer accounted for 60.6%, 39.3%, 14.2% and 27.2% of the Original Group's turnover, respectively.

The Acquired Group's five largest customers in aggregate accounted for 53.2%, 52.0%, 49.2% and 79.2% of the Acquired Group's turnover in 2004, 2005, 2006 and the six months ended 30 June 2007, respectively. In 2004, 2005, 2006 and the six months ended 30 June 2007, the Acquired Group's then largest customer accounted for 17.7%, 17.4%, 21.6% and 36.1% of the Acquired Group's turnover, respectively.

Save for SEC which holds 7.91% of the issued share capital of the Company upon completion of the Global Offering and the Capitalisation Issue (without taking into account any Shares which may fall to be sold upon exercise of the Over-allotment Option), none of the Directors, their respective associates, and so far as the Directors are aware Shareholders who will own more than 5% of the Shares in issue immediately following completion of the Global Offering and the Capitalisation Issue (without taking into account any Shares which may fall to be sold upon exercise of the Over-allotment Option and any options that may be granted under the Share Option Scheme), had any interests in any of the five largest customers of the Group in the Track Record Period.

During the Track Record Period, the Original Group's revenue was generated mainly from sales to customers in the PRC and Japan. Sales to Japanese market was due to the strategic relationship with SEC, which is a Japanese-based company. In 2006, the Original Group's production capacity was substantially increased with the commencement of production of monocrystalline silicon wafers by Jinzhou Yangguang. Since the monocrystalline silicon wafers produced by the Original Group were then newly introduced, the management of the Company considered that it was more appropriate to market such products in the PRC where they were more familiar with. The sales of wafers to the PRC customers amounted to RMB240 million in 2006. As such, whilst the sales to foreign countries remained stable (mainly to Japan), the sales to the PRC customers substantially increased in 2006. Having earned reputation in both the PRC and Japan, the Original Group began in 2007 to broaden its customer base to include European and North American customers, where solar energy products are well promoted and received. Given the shortage in the supply of polysilicon raw material which limits the total output of the Original Group's products, strategically the Original Group has chosen to co-operate with international solar cell producers whose factories are located in Japan, Europe and North America during the Track Record Period.

BUSINESS

The following table shows the unaudited geographic composition of the Original Group's and the Acquired Group's turnover during the Track Record Period:

Original Group

	Years ended 31 December						Nine months ended 30 September			
	2004		2005		2006		2006		2007	
	RMB'000	% of Turnover	RMB'000	% of Turnover	RMB'000	% of Turnover	RMB'000	% of Turnover	RMB'000	% of Turnover
Japan	43,653	75.7%	96,677	55.7%	99,334	24.0%	67,562	24.3%	284,666	39.8%
Taiwan	3,722	6.5%	–	0.0%	32,220	7.8%	18,434	6.6%	91,506	12.8%
Europe	–	0.0%	7,237	4.2%	8,158	2.0%	240	0.1%	61,874	8.6%
North America	–	0.0%	–	0.0%	–	0.0%	–	0.0%	68,286	9.6%
PRC	9,368	16.2%	61,713	35.5%	272,639	66.0%	191,494	69.0%	203,895	28.5%
Hong Kong	915	1.6%	8,070	4.6%	952	0.2%	–	0.0%	–	0.0%
Other	–	0.0%	–	0.0%	–	0.0%	–	0.0%	5,163	0.7%
Turnover	<u>57,658</u>	<u>100.0%</u>	<u>173,697</u>	<u>100.0%</u>	<u>413,303</u>	<u>100.0%</u>	<u>277,730</u>	<u>100.0%</u>	<u>715,390</u>	<u>100.0%</u>

Acquired Group

	Years ended 31 December						Six months ended 30 June			
	2004		2005		2006		2006		2007	
	RMB'000	% of Turnover	RMB'000	% of Turnover	RMB'000	% of Turnover	RMB'000	% of Turnover	RMB'000	% of Turnover
Japan	1,045	2.0%	336	0.2%	6,414	2.4%	–	0.0%	–	0.0%
Taiwan	4,699	8.9%	8,459	6.0%	60,123	22.9%	11,314	11.4%	108,271	49.0%
Europe	–	0.0%	520	0.4%	2,443	0.9%	183	0.2%	1,322	0.6%
North America	1,540	2.9%	3,129	2.2%	5,554	2.1%	943	1.0%	4,866	2.2%
PRC	44,520	84.6%	127,189	90.1%	183,086	69.7%	80,530	81.3%	104,913	47.5%
Hong Kong	826	1.6%	61	0.0%	–	0.0%	–	0.0%	–	0.0%
Other	–	0.0%	1,543	1.1%	5,292	2.0%	6,051	6.1%	1,563	0.7%
Turnover	<u>52,630</u>	<u>100%</u>	<u>141,237</u>	<u>100.0%</u>	<u>262,912</u>	<u>100.0%</u>	<u>99,021</u>	<u>100.0%</u>	<u>220,935</u>	<u>100.0%</u>

Pricing Policy

Monocrystalline silicon ingots and wafers are priced according to kg and pieces, respectively. Processing fees are charged according to complexity and volume of the processing work required. During the Track Record Period, the prices of monocrystalline silicon ingots increased as a result of increases in silicon prices due to the shortage in high grade silicon raw material. The Group determines the price applicable to a specific customer based on factors such as its prior dealings with the customer, the purchase volume, and prevailing market conditions.

Payment Terms

The Group's customers are generally allowed to have a credit period of 30 to 90 days. New customers are required to make advance payment upon signing sales contracts. For customers which require the Group to conduct processing work, they are allowed to have a longer payment term.

Sales Channels

The Group conducts marketing and sales activities through its own marketing and sales personnel. The Group benefits from the extensive contacts of its management team and staff, many of whom are experienced in the solar silicon ingot and wafer manufacturing industry. As at the Latest Practicable Date, the Group employed 9 marketing and sales staff. They conduct sales through direct marketing efforts by visiting the Group's customers and potential customers. The Directors expect to expand the Group's marketing network by (i) the appointment of distributors and agents and (ii) expanding the marketing and sales force to help develop markets outside China. With the appointment of Sumitomo as the distributor for sales in Japan, the marketing and sales staff will concentrate their selling efforts in other territories, such as the PRC, Europe and the United States.

The Group has appointed Sumitomo as the distributor of the Group's products in Japan to further expand the Japanese market, being one of the key markets where solar power is encouraged by the government. Pursuant to the distribution agreement dated 28 June 2007, the Jinzhou Plants and the Shanghai Plant have appointed Sumitomo as their respective exclusive distributor for 2008 (renewable for a term of one year) in respect of monocrystalline silicon ingots and wafers manufactured by the Jinzhou Plants and the Shanghai Plant to their target customers in Japan, save that the Jinzhou Plants and Shanghai Plant may appoint SEC as an additional distributor. In respect of Jinzhou Rixin which has yet to commence production, Jinzhou Rixin and Sumitomo will further agree on the targeted sales amount for 2008. Payment shall be made by Sumitomo to the relevant company within 30 days of the bill of lading. Risk and title of the product will pass from the Jinzhou Plants to Sumitomo upon delivery and revenue will be recognised accordingly. Selling price will be determined from time to time having reference to the prevailing market price, and goods return provision will be agreed upon on a case by case basis. Sumitomo is expected to provide the Group with its retail sales data in respect of the Group's products to assist the Group in evaluating the Japanese market's acceptance of the Group's products. The agreement will not be renewed if Sumitomo fails to purchase the targeted amount (unless the same is caused by defects in quality or insufficient quantity provided by the Group). Given that Sumitomo is appointed as a distributor and not an agent, there is no need for provision for obsolete stock or commission arrangement. Nevertheless, on termination, Sumitomo shall offer to sell unsold products to the Group at costs. The Group shall have the right but not the obligation to buy the unsold products. If the Group does not buy the unsold stock, Sumitomo is free to sell them.

For details, please refer to the section headed "Connected Transactions" of this prospectus. Save for the distributorship arrangement with Sumitomo, the Group does not currently have any other distributor/agent for its products.

The Group did not encounter any disruptions to any of its processing operations nor was there any incidents that result in the loss of revenue and compensation to customers for late delivery of products of the Group during the Track Record Period.

COMPETITION AND CHALLENGES

The global solar silicon ingot and wafer industry is competitive and continually evolving. The Group expects to face increased competition from other participants in the PV industry. The Directors believe that the Group competes primarily by offering reasonable pricing, quality products, production flexibility, and customer-oriented services.

There is currently an industry-wide shortage of high-purity polysilicon. Given the demand and supply imbalance, supply chain management is a critical element for the continued growth of the solar energy industry and for controlling polysilicon raw material and solar cell supply and costs. The current cost to implement and operate a solar power system may be economically unattractive to consumers compared to the cost of retail electricity from an utility network. While government programs and consumer preferences have accelerated the use of solar power for on-grid applications, product costs remain one of the impediments to growth. To provide an economically attractive alternative to conventional electricity network power, the solar energy industry must continually reduce manufacturing and installation costs and find ways to make the use of solar power cost-efficient over time without requiring government subsidies.

Domestically, the Group is the second largest manufacturer of monocrystalline silicon ingots, measured in terms of production output and sales, in 2004, 2005 and 2006, according to China Electronics Material Industry Association. Nevertheless, when the shortage of high grade silicon raw material is over, given the production capacity of silicon ingots and wafers production facilities has substantially increased in recent years, ingot manufacturers are believed to have excess production capacity, which may lead to fierce competition. Some of the Group's competitors may be more established or have better reputation than the Group, or may have greater financial resources or production capacity, more advanced technology, lower production costs, more reliable supply of production materials, or better market access. Apart from competition from other monocrystalline silicon ingot and/or wafer manufacturers in the PRC which are growing in number, the Company expects competition will also come from manufacturers in other Asian countries or regions, including Japan and Taiwan.

Moreover, competition may also come from other PV upstream manufacturers, and producers of alternate solar energy devices such as thin films, as well as competition from the Group's customers themselves. However, the Company believes that these players only account for an insignificant portion of the market and may not constitute major competitors with the Group in the next few years. In addition, each of WWX, SEC and Sumitomo is in an industry closely related to that of the Group. The Directors consider that competition between the Group and these strategic investors is minimal. Currently, SEC's annual production volume for crystalline silicon-based solar power products is considerably less than the Group's total annual production volume. WWX is engaged in the production and sale of semiconductor wafers and related products, and does not engage in any production of crystalline silicon-based solar power products.

BUSINESS

To strengthen the Group's competitiveness and to secure higher quality processed polysilicon raw materials for its ingot production, the Company acquired the Acquired Group, which comprised of Shanghai Jingji, which operates an established scrap polysilicon reclaiming facility. In addition, the Group plans to increase its ingot production capacity to 200 MW and increase its wafer production capacity to 56 million pieces of wafers upon full commercial production of Jinzhou Rixin by the second quarter of 2008 and Jinzhou Jingji by the end of 2008. In addition, Jinzhou Jingji will be equipped with up to 13 wiresaws having an annual design production capacity of 8 million pieces of wafers by the end of 2008. Depending on market demand, the Group's annual production capacity may be further increased to 300 MW of ingots and 88 million pieces of wafers by the end of 2009.

To secure raw material sources and sales network, Jinzhou Yangguang has entered into a framework agreement and a supplemental agreement with 錦州新世紀石英玻璃有限公司 (Jinzhou New Century Quartz Glass Co., Ltd.*), an Independent Third Party, whereby Jinzhou Yangguang agreed to invest RMB62.4 million for 40% of the registered capital in a joint venture company to be formed for the production of polysilicon raw material, which is planned to have an annual production capacity of 1,000 metric tonnes.

There is no non-competition agreements between the Group and its customers and/or suppliers save in respect of the distributorship agreements entered into with Sumitomo where the Group has granted exclusive rights to Sumitomo to distribute the Group's products in Japan (save in respect of sales through SEC).

INTELLECTUAL PROPERTY RIGHTS

The technology and operation process that the Group has adopted in its manufacturing process has not been patented or registered. Certain aspect of the production chain involves the mixing or formulating different grades of polysilicon raw materials for crystallization in the ingot pullers to ensure that high quality solar ingots are produced. The technical know-how in the crystallisation process of ingots is important to the success of the Company. This is in particular the case in view of the current shortage of high purity polysilicon, as a result of which the Company has to use scrap silicon instead of high purity polysilicon for the manufacturing of monocrystalline silicon ingots. The Group's staff are skilled in the reclaiming and upgrading process.

The whole operation process cannot be used or applied partially without deploying the entire chain of the Group's production facilities, and the process is undertaken by a limited number of entrusted employees, who have signed a non-disclosure agreement not to disclose the details of the Group's proprietary know-how. In view of this, the Directors are of the view that the Group's proprietary know-how has been adequately protected from infringement.

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BUSINESS

As the know-how has been developed during the production process, there was no separate account for research and development cost. Nevertheless, of the research and development project conducted in the past by the Original Group, RMB300,000, nil, RMB2,106,307 and RMB967,873 incurred in year 2004, 2005, 2006 and the nine months ended 30 September 2007, respectively, were subsidised by government grants. Apart from using government grants, the Group incurred around RMB1 million additional research and development expense in the nine months ended 30 September 2007.

Jinzhou Huachang has registered “華日 Huari” trademark with the Trademark Office of the State Administration of Industry and Commerce in respect of, amongst others, monocrystalline silicon ingots.

So far as the Directors are aware, there was no incident of intellectual property rights infringement claims or litigation initiated by others against the Group during the Track Record Period.

PRODUCTION FACILITIES

The Group's manufacturing activities were carried out in the Jinzhou Plants and the Shanghai Plant. The Jinzhou Plants mainly engage in the manufacturing of monocrystalline silicon ingots and wafers. Occasionally, at the request of its customers, the Jinzhou Plants also provide processing services in respect of polysilicon materials. The Shanghai Plant mainly engages in processing of polysilicon materials.

As at 30 November 2007, the Jinzhou Plants occupied two sites in Jinzhou with a total site area of 39,221.5 sq.m. for its production use. The manufacturing process at the Jinzhou Plants is comparatively capital intensive. As at the Latest Practicable Date, the Jinzhou Plants are equipped with 100 monocrystalline silicon ingot pullers (which were purchased domestically) having an annual production capacity of 1,000 tons ingots, and 8 wiresaws having an annual production capacity of approximately 17 million pieces of wafers. The annual ingot production capacity is expected to have the light energy conversion capability of approximately 100MW.

Given the establishment of Jinzhou Rixin, it is expected that the annual ingots production capacity of the Jinzhou Plants will be doubled with 96 additional monocrystalline silicon ingot pullers, and the annual wafer production capacity will be increased with 16 additional wiresaws upon its full commercial production in the second quarter of 2008. In addition, upon full commercial production, Jinzhou Jingji will be equipped with 13 wiresaws, having an initial annual design production capacity of 8 million pieces of wafers by the end of 2008. Depending on market demand, the Group's annual production capacity may be further increased with the addition of 104 ingot pullers and 16 wiresaws by the end of 2009.

The manufacturing process at the Shanghai Plant is comparatively labour intensive. As at the Latest Practicable Date, the Shanghai Plant is equipped with a raw material processing facility having an aggregate annual throughput of 1,200 tonnes of polysilicon materials (up from 600 tonnes in 2006).

BUSINESS

The Directors are of the view that the existing facilities and the new facilities are adequate and suitable to meet the Group's needs in the next few years and that additional space can be obtained on commercially reasonable terms to meet the Group's longer term future requirements.

Set out below is a summary of the Enlarged Group's historic, and existing key production facilities in the manufacturing of ingots and wafers and provision of polysilicon upgrading services:

	As at 31 December 2004	As at 31 December 2005	As at 31 December 2006	As at 30 September 2007
Ingot pullers (set) ¹	18	30	100	100
Designed annual capacity (kg'000 per year)	113	184	759	1,032
Wiresaws (set) ²	0	0	3	8
Designed annual capacity (pcs'000 per year)	–	–	9,144	16,768
Reclaiming and Processing facilities ³	2	2	2	2
Designed annual throughput (tonnes per year)	800	1,000	1,800	2,400

Notes:

1. As at 30 September 2007, the average designed annual production capacity of an ingot puller of the Group is approximately 10,000 kg of ingots per year.
2. As at 30 September 2007, the average designed annual production capacity of a wiresaw is approximately 2,096,000 pieces of wafers per year.
3. The reclaiming and processing facility in Jinzhou Plant is mainly for internal use. The facility at the Shanghai Plant is for servicing customers. The Group's silicon reclaiming and upgrading facilities have an aggregate annual designed throughput of 2,400 tonnes of reclaimable polysilicon. Expansion will be made within existing premises.
4. The designed production capacities are derived based on certain manufacturing conditions and inputs, in particular, the availability of high quality polysilicon and other auxiliary raw materials, uninterrupted round the clock operation throughout the year, which represent the theoretical and optimum production profiles. According to the Directors' understanding of the general situation of the industry and the actual uses of polysilicon raw material of the Group in the past, it is very rare that only high quality polysilicon raw material (without scrap raw material) is used for the production of ingots, which is a key assumption for calculating the designed output level. With the increase in the use of scrap silicon materials, the actual production output is usually significantly lower than the designed output. In addition, customers' product specifications also influence the yield rate.

The Group's ingot pullers are designed to be operated non-stop daily to meet the Group's production requirements. Ingot pullers are operated under high temperature and wiresaws with slicing compartments. The Group has placed strong emphasis on safety to avoid accident. In order to avoid any curtailment in the Group's ingot and/or wafer production caused by any unexpected equipment failure, the equipment are kept under regular repairs and maintenances, and can be operated independently.

BUSINESS

Due to the prolonged shortage of high purity raw materials, although the Group's manufacturing facilities has been fully operational throughout the Track Record Period, the Group has not experienced any period where all the designed production capacity have been fully utilized. Given the Group is engaged in monocrystalline silicon ingot production where silicon particles are arrayed to form the ingots, the production volume and the production time vary depending on the quality of the raw materials being processed, customers' product specifications, and the skills of the workers in controlling the crystallization process. During the Track Record Period, ingot pullers are also used to upgrade the silicon raw material to such quality for production of ingots.

Set out in the tables below are the utilisation rate of the ingot pullers and wiresaws of the Original Group and the Acquired Group for the periods indicated:

The Original Group

	Unit	Years ended 31 December			Nine months ended
		2004	2005	2006	30 September 2007
Designed capacity					
Ingot pullers	Kg	113,190	183,837	448,169	658,514
Wiresaws	Pc	na	na	8,280,375	11,294,489
Actual Production					
Ingots	Kg	96,441	178,534	316,167	531,298
Wafers	Pc	na	na	7,555,991	8,733,857
Utilisation					
Ingot pullers	%	85.2%	97.1%	70.5%	80.7%
Wiresaws	%	na	na	91.3%	77.3%

Note:

1. Designed capacity of a machine for each year is calculated with reference to the time the machine first started commercial production. The annual designed production capacities are estimated on the basis and assumptions that the machineries are operated with optimal performance under the prevailing production technology and know-how, which in reality varies according to the expertise of the technicians operating the relevant machineries, the quality of the raw material used in the production, and customers' product specifications, etc.
2. In 2006, approximately 120,000 kg of ingots manufactured by the Original Group were used in the manufacturing of wafers.
3. The designed production capacities are derived based on certain manufacturing conditions and inputs, in particular, the availability of high quality polysilicon and other auxiliary raw materials, uninterrupted round the clock operation throughout the year, which represent the theoretical and optimum production profiles. According to the Directors' understanding of the general situation of the industry and the actual uses of polysilicon raw material of the Group in the past, it is very rare that only high quality polysilicon raw material (without scrap raw material) is used for the production of ingots, which is a key assumption for calculating the designed output level. With the increase in the use of scrap silicon materials, the actual production output is usually significantly lower than the designed output. In addition, customers' product specifications also influence the yield rate.

BUSINESS

The Acquired Group

	Unit	Years ended 31 December			Six months ended
		2004	2005	2006*	30 June 2007
Designed capacity for ingot pullers ⁽¹⁾	Kg	na	na	60,906	98,755
Actual Production ⁽²⁾	Kg	na	na	59,381	73,331
Utilisation for ingot pullers ⁽³⁾	%	na	na	97.5%	74.3%

Note:

1. Designed capacity of a machine for each year is calculated with reference to the time the machine first started commercial production. The annual designed production capacities are estimated on the basis and assumptions that the machineries are operated with optimal performance under the prevailing production technology and know-how, which in reality varies according to the expertise of the technicians operating the relevant machineries, the quality of the raw materials used in the production, and customers' product specifications, etc.
2. Capacity of Jinzhou Youhua was included since September 2006 when it was acquired by the Acquired Group.
3. The designed production capacities are derived based on certain manufacturing conditions and inputs, in particular, the availability of high quality polysilicon and other auxiliary raw materials, uninterrupted round the clock operation throughout the year, which represent the theoretical and optimum production profiles. According to the Directors' understanding of the general situation of the industry and the actual uses of polysilicon raw material of the Group in the past, it is very rare that only high quality polysilicon raw material (without scrap raw material) is used for the production of ingots, which is a key assumption for calculating the designed output level. With the increase in the use of scrap silicon materials, the actual production output is usually significantly lower than the designed output. In addition, customers' product specifications also influence the yield rate.

* *Designed capacity and actual production only accounted for 4 months (September to December) in 2006*

Depending on the experience of the workers and the quality of the polysilicon processed, experienced workers can control 3 to 4 ingot pullers simultaneously. As at 31 December 2004, 2005 and 2006, 30 September 2007 and the Latest Practicable Date, the Jinzhou Plants employed 36, 83, 90, 123 and 123 workers and technicians to operate the ingot pullers in three shifts and 11, 22, 78, 78 and 78 workers and technicians were employed in the processing of reclaimed polysilicon materials and other related ingot manufacturing process.

As at 31 December 2006, 30 September 2007 and the Latest Practicable Date, the Jingzhou Plants employed 29, 32 and 39 workers and technicians to engage in the wafer manufacturing process.

As at 31 December 2004, 2005 and 2006, 30 September 2007 and the Latest Practicable Date, 85, 99, 105, 128 and 128 workers and technicians were employed in the upgrading and related process by the Shanghai Plant.

BUSINESS

PROPERTY INTERESTS

As at the Latest Practicable Date, the Group owns and leases various real properties in the PRC, Hong Kong and Taiwan as set out below:

PRC

Summary of real properties in the PRC owned and occupied by the Group

As at the Latest Practicable Date, the Group owns and occupies the following real properties at the following location for its business operations:

Location	Number of properties for production, storage and office uses	Vacant Land	Site area	Gross floor area (m ²)	Expiry Date of Land Use Right (m ²)
Liaoning Province, the PRC	1	0	30,643.5	16,530.89	50 years until 29 April 2055
Liaoning Province, the PRC	1 <i>(Note 1)</i>	0	72,901	23,789.08	15 August 2057
Liaoning Province, the PRC	0	1	62,863	–	50 years until 27 August 2057

Note 1: Portion of the property has been leased to a third party tenant and the remaining portion is occupied by the Group for production, office and ancillary uses.

Vigers Appraisal & Consulting Limited has valued the above premises at an aggregate market value of HK\$39,890,000 as at 30 November 2007.

Summary of real properties in the PRC leased and occupied by the Group

As at the Latest Practicable Date, the Group leases lands at the following location from an Independent Third Party, pursuant to various tenancy agreements, and leases/owns and occupies buildings erected thereon for its business operations:

Location	Number of properties for production, storage and office uses	Vacant Land	Site area (m ²)	Gross floor area (m ²)
Liaoning Province	4	0	8,578	4,045.17

The rents for the properties leased by the Group were agreed between members of the Group and Independent Third Parties, after arm's length negotiation with reference to market rentals, and the independent valuer, Vigers Appraisal & Consulting Limited, has confirmed that the rents are comparable to market level. The leases of the lands of the 4 plants in Liaoning Province are long-term leases of 20 years each. Due to the long-term nature of the leases, the Group does not consider acquiring its own properties as necessary because the annual rentals for these long-term leases are quite reasonable and would allow the Group the flexibility to locate its production plants at the strategic locations according to the sources of supply of raw materials at the time.

BUSINESS

The Group's Shanghai Plant occupies an industrial complex with a site area of 5,200 sq.m. and gross floor area of 2,743.9 sq.m. provided by the local co-operative joint venture partner of Shanghai Jingji. The parcel of land was a piece of collective land and not a state-owned land. As such, the land may only be occupied and used by the registered owner of the land and not others. Shanghai Jingji paid a land use rights fee of approximately RMB38,000 for the use for the year 2006 and 2007. Shanghai Jingji may be requested to relocate.

Shanghai Jingji has formulated a relocation plan for its future development. Such plan includes relocation alternatives such as (1) renting premises from 上海晶盟硅材料有限公司 (Wafer Works Epitaxial Corp.*), an affiliate of WWIC engaged in the semiconductor industry, which has granted an option to Shanghai Jingji to lease at the then prevailing market rent part of a parcel of industrial land of a total site area of 15 mu (畝) at Qingpu District, Shanghai together with the vacant premises erected thereon, which was within 30 minutes driving distance from that of the existing premises of Shanghai Jingji, with a lease term of three years commencing from such date as Shanghai Jingji may notify the landlord and (2) purchasing new land for the construction of new plant premises. The Company estimates that relocation to nearby location in Shanghai would take less than 6 months and the relocation cost would be less than RMB5,000,000. WWX, the ultimate owner of Solartech (which holds Shanghai Jingji), has given an indemnity to the Group to indemnify the costs of relocation if relocation to a nearby area is required as a result of the lack of the long term title certificate.

Given the confirmation by the local government, the standby option to relocate to a nearby venue in Shanghai granted by an affiliate of WWIC, and the various possibilities to relocate to nearby location, the Directors are of the view that the absence of title certificate for the industrial complex will not have a material adverse effect to the Company's overall business or the financial position of the Group as a whole.

Because the Group also has an upgrading and processing facility in Jinzhou which can be expanded to cater for its ingot production requirement with the expertise of Shanghai Jingji and there is a readily available premises from an affiliate of WWX, the Directors do not consider that there will be any material adverse effect to the Group's overall ingot production, in case the upgrading and processing activities at Shanghai Jingji have to halt due to relocation.

For each of three years ended 31 December 2006 and six months ended 30 June 2007, Shanghai Jingji's turnover as compared with that of the Original Group are 91.28%, 81.31%, 56.65% and 40.05%, respectively. Shanghai Jingji's profit as compared with that of the Original Group for each of the three years ended 31 December 2006 and the six months ended 30 June 2007 are 82.08%, 28.00%, 17.74% and 10.55%, respectively.

Hong Kong Office

The Group rented office premises of 1,161 sq. ft. in Hong Kong from Richzone Industries Limited to serve as the Company's head office in Hong Kong at a monthly rental of HK\$54,584 for a term of 2 years until 31 August 2009.

* English translation of Chinese official name is for identification purpose only

BUSINESS

Taiwan Office

The Group rented an office premises of 4,160.82 sq. ft. in Taiwan from USI Corporation, the ultimate owner of USIFE, which holds approximately 1.24% of the Company's interest, to serve as the Group's Taiwan office for a term of 5 years until 29 February 2012. For the first three years, monthly rental will be NT\$188,959 (equivalent to HK\$45,350.16). The rental starting from the fourth year will be adjusted in accordance with the consumer price index to be promulgated by the Taiwan Executive Yuan every year.

For details of the real properties owned and leased by the Group, please refer to the valuation report set out in appendix V to this prospectus.

RESEARCH AND DEVELOPMENT

The Group's research and development activities are principally directed towards the development and implementation of more advanced process technologies to reduce cost and achieve a higher production efficiency. In particular, the Group seeks to reduce the amount of polysilicon required in its production of ingots and wafers while maintaining and improving the electricity conversion capability of its outputs.

As at 30 September 2007, the Group employed 7 researchers in its research and development department, all of whom are based in the PRC. This research and development team includes experienced engineers with undergraduate degrees in the PRC. The Directors believe that the research and development team has enabled the Group to successfully develop product and process technologies that meet customers' specific needs.

During the course of 2007, the research and development team successfully introduced 20 inch hot zone for the production of ingots, which can in turn be used to produce 156 x 156 mm wafers. 156 x 156 mm wafers were previously produced by using 18-inch hot zone in a limited scale. Compared with 18 inch hot zone, 20 inch hot zone has a higher production capacity of 156 x 156 mm wafers. 156 x 156 mm wafers have been put into commercial production in 2007. In 2006, only 41,702 pieces of 156 x 156 mm wafers were sold. For the nine months ended 30 September 2007, the Group sold over 330,000 piece of 156 x 156 mm wafers, which are produced mainly with 20 inch hot zone.

With the success in introducing 156 x 156 mm wafers in 2007, it is expected that the research and development team will continue to focus on the research and development in respect of larger and thinner wafers.

In view of the worldwide shortage of polysilicon raw material, the Group may also commence research and development on the use of metallurgical silicon in the production of ingots. Furthermore, with the increase in production capacity of monocrystalline silicon wafers starting from the second quarter of 2008, the Group will explore whether the waste silicon powder produced during the wafer manufacturing process can be reclaimed for ingot production.

As the know-how has been developed during the production process, there was no separate account for research and development cost. Nevertheless, of the research and development project conducted in the past by the Original Group, RMB300,000, nil, RMB2,106,307 and RMB967,873 incurred in year 2004, 2005, 2006 and nine months ended 30 September 2007, respectively, were subsidized by government grants.

BUSINESS

Apart from using government grants, the Group incurred around RMB1 million additional research and development expense during the nine months ended 30 September 2007.

The Group does not have a sophisticated MES, ERP or logistics management system but has un-integrated systems to capture the breakdown of certain cost items. This was mainly because the production and sales process was considerably simple. Notwithstanding there was no MES, ERP or logistics management system, the accounting software adopted by the Group was capable of collecting data and producing worksheet for auditing and management review purpose. In addition, the Original Group and the Acquired Group did prepare annual budgets (which include target profits for the year). Based on the comparison of the budgets and the actual outcomes, it is noted that the budgets have been substantially met.

In view of the plan in increasing the designed annual production capacity of ingots and wafers in 2008, the Directors believe that a ERP system shall be adopted in order to meet the increasing need of the growing business. The Directors intend to fund such adoption by its internal resources.

Further, the Group has joined force with academic institutions to further explore the application of lower grade polysilicon in its production of ingots and wafers. Pursuant to the co-operative agreement between the Group and Dalian University of Technology, a research centre will be set up with a funding of RMB1 million together with annual contribution by the Group of RMB0.5 million to conduct research on solar energy related topics. Patents derived from the research results will be jointly owned by the Group and the university.

ENVIRONMENTAL PROTECTION

The Group generates chemical wastes, waste water and other industrial waste at various stages of the manufacturing process, and in upgrading and processing reclaimed polysilicon raw material. The Group's operations are subject to regulation and periodic inspection by China's State Environmental Protection Bureau. Chinese national and local environmental laws and regulations impose fees for the discharge of waste substances above prescribed levels, require the payment of fines for serious violations and provide that the Chinese national and local governments may, at their discretion, close or suspend any facility that fails to comply with orders requiring it to cease or remedy operations that cause environmental damage.

Anti-pollution equipment has been installed to process certain waste materials before disposal. The Group treats waste water and other liquid waste produced during the manufacturing process before discharge. Further, the Jinzhou Plants and the Shanghai Plant have set up environmental teams dedicated to ensure the relevant plant's compliance with environmental laws and regulations. The Jinzhou Plants' environmental team comprises of 2 members who have over 5 and 6 years of environmental compliance experience, respectively. The Shanghai Plant's environmental team comprises of 5 members, 2 of whom have more than 9 years of environmental compliance experience. Members of the Group's environmental team are mainly responsible for the general implementation and management of environmental protection measures within the Group, including inspection and reporting of and improvement in environmental issues in a timely manner. Inspection and supervision are carried out regularly in order to address any potential pollution problem in a timely manner. In addition, environmental protection will be monitored closely during production. With these environmental measures, the Group's emission of dust particles, waste water and smoke is in line with the relevant PRC standards.

BUSINESS

The Directors believe that the anti-pollution measures adopted by the Group are adequate and in compliance in all material respects with local environmental protection standards. However, failure to treat waste water and other liquid waste in accordance with environmental laws and regulations may subject the Group to fines and fees imposed by the government. The Group's production could also be interrupted if its treatment facilities fail to function. The Group intends to further enhance the environmental awareness of its staff. In addition to complying with the standards required by any environmental authorities of the PRC, the Group will further invest in environmental protection equipment and strengthen its management, inspection and supervision efforts over environmental issues. In this regard, the Jinzhou Plants have been awarded GB/T 24001-2004 idt ISO 14001:2004 and the Shanghai Plant has been awarded ISO14001:2004 accreditation, being sets of international standards on environmental management.

The Group has fully complied with the relevant environmental rules and regulations.

According to the PRC legal advisor to the Company, each member of the Group has obtained all necessary environmental permit and approvals for its production facilities. As at the Latest Practicable Date, Shanghai Jingji's environmental permit has yet to be renewed as a matter of governmental procedural process indicated in a notice issued by the local environmental bureau that environmental permit issued in 2002 is deemed valid and no renewal is required unless there is a change in the class, density and amount of the waste discharged. The management of Shanghai Jingji is not aware of any such change. Shanghai Jingji has been issued a fee note by the relevant authority in August 2007 indicating that the waste emission limit as permitted under its permit is complied with. As such, Shanghai Jingji is not required to renew its environmental licence. The PRC legal advisor of the Company is of the view that the environmental permit held by Shanghai Jingji is valid. The Jinzhou Plants have complied with the environmental management standards pursuant to GB/T 24001-2004 idt ISO 14001:2004 and the Shanghai Plant has complied with the environmental management standards as required under its ISO14001:2004 accreditation, in particular:

- a. prevention of pollution: the Group constantly evaluates every aspects of its production process, including facilities employed and raw material, utilities and packaging materials used, so as to ensure compliance with environmental regulations. In addition, the Group also recycles waste water and reclaims waste polysilicon (such as pot scrap silicon in ingot production and silicon carborundum/carrier in wafer production) to reduce overall waste emission;
- b. control of emission: during the production process, the contents of waste water emitted by the Group's production facilities are monitored daily with readings recorded;
- c. third party/governmental checking and monitoring: the environmental bureau conducts random checks to monitor the Group's waste emissions; and
- d. staff awareness: results of the emission readings and third party checking are shared with staff members and they are invited to give suggestion to the management to improve the Group's overall environmental protection in its production process.

BUSINESS

There has not been any environmental pollution incident discovered during the Track Record Period. Based on confirmation from the relevant environmental authorities, the Jinzhou Plants had been in compliance with PRC environmental laws and regulations during the Track Record Period. It was also confirmed that no administrative penalty was imposed on the Shanghai Plant as a result of violation of environmental laws and regulations during the Track Record Period.

The Group has not been imposed any environmental condition by its customers as part of the pre-condition to place order for the Group's products, and the Group has not imposed any such condition on its contracted manufacturers.

SAFETY ISSUES

The PRC laws and regulations applicable to the Group in relation to labour and safety are Law of the People's Republic of China on Work Safety, Law of the People's Republic of China on Prevention and Control of Occupational Diseases, Labour Law of the People's Republic of China, Interim Regulation on the Collection and Payment of Social Insurance Premiums, Regulation on the Work-related Injury Insurance, Law of the People's Republic of China on Work Safety, and Regulation on Supervision and Control of Labour Protection Products. The Group has maintained a relatively clean safety records without the occurrence of any major work-related injury, and the Group's operations are in compliance with the currently applicable labour and safety regulations in all material respects during the Track Record Period.

The Group provides safety-related training to all new employees, who are required to pass an examination before they can start working in the production site. Moreover, the Group provides training to its workers on the use of equipment and on safety standards when using equipment. The Group has also devised a number of internal safety guidelines and instructions for its production process, including the operation of production equipment and handling of chemicals. Employees who do not follow the internal safety guidelines and instructions will be penalised. Furthermore, in order to comply with the applicable PRC laws and regulations and to ensure the safety of the employees, a work safety group led by personnel who have relevant experience has been set up within the Jinzhou Plants and the Shanghai Plant, each comprising of 6 members and acting as safety patrol prefects, monitoring whether all workers are in compliance with these guidelines and instructions.

Continuous training and testing will also be carried out for technical staff to enhance their work safety awareness as well as to update them with new safety measures. There is also regular inspection of the Group's factory equipment by relevant governmental authorities for compliance with relevant national standards.

During the Track Record Period, there was no serious personal injury or damage to properties of the Group recorded as a result of unexpected equipment failure or accident occurred in the premises of the Group, nor was there any material unexpected equipment failure or accident occurred in the premises of the Group. There was no material violation in laws in respect of work safety and no material costs and expenses incurred.

RISK MANAGEMENT AND INSURANCE

The Group has developed comprehensive plans for the prevention of, and the response to, emergencies and disasters. The Group focuses on loss prevention, emergency response, crisis management and business recovery. It maintains fire insurance with respect to its facilities and equipment generally up to their respective replacement values. The Directors believe that the Group's overall insurance coverage is adequate in view of the customary requirements to the business of the Group. However, notwithstanding that the Group maintains property, equipment and employee injury insurance, such insurance policies may not cover all risks associated with the hazards of its business. For instance, in accordance with customary practice in China, the Group does not carry any business interruption insurance or third party liability insurance. The Group may incur losses beyond the limits, or outside the coverage, of the Group's insurance policies, including liabilities for environmental remediation and product liability. Furthermore, the Group may not be able to obtain coverage at current levels, and the premium on the Group's insurance coverage may increase significantly, in the future.

COMPLIANCE AND LEGAL MATTERS

For the purpose of carrying on the Group's business in the PRC, the Group has been advised by its PRC legal advisor that it has obtained all requisite licenses, certificates, permits and approvals, and that the Group has complied with all material rules and regulations.

RELATIONSHIP WITH THE FOUNDER

The Directors consider that upon Listing, the Group will be able to operate, financially and operationally, independently from the Founder and/or the Directors and their respective associates as evidenced as follows:

- (i) Whilst the Founder is an executive Director and is the president and general manager of the Jinzhou Plants, the Group has a team of managerial staff in addition to the Founder or his associates.
- (ii) The Group is financially independent of the Founder and/or the Directors and their respective associates and it is not anticipated that there will be any outstanding balances due to or from any of them, or any personal guarantee provided by any of them for the indebtedness of the Group after Listing.
- (iii) The Group has a production base for the production of monocrystalline silicon ingots and wafers independent from that of the Founder, the Directors and their respective associates.
- (iv) The sales and marketing team of the Group has been operating independently from the Founder and/or the Directors and their respective associates, and therefore does not rely on the Founder and/or the Directors and their respective associates to solicit or obtain purchase orders from any customers.

BUSINESS

- (v) Although the Group will continue to source graphite materials and quartz crucibles from Jinzhou Changhua and Jinzhou Youxin (which are associates of the Founder and Mr. CHONG, respectively) after the Listing, the Group has alternative access to independent sources of raw materials in the market without placing excessive reliance on the Founder and/or the Directors. Although Jinzhou Youxin is currently owned as to 30% by PLC, a company controlled by Mr. CHONG, and as to 70% by an Independent Third Party, Jinzhou Youxin is a quartz crucible producer and is not engaged in the production and sale of monocrystalline silicon ingots and wafers. The Directors believe that the Group is able to engage independent suppliers without any reliance on Jinzhou Changhua and Jinzhou Youxin, given the strong competition in the graphite and quartz crucible supply market in the PRC.

As disclosed above, the Group is financially and operationally independent from the Founder, with independent management teams, sales and marketing channels, and alternative access to independent sources of raw materials. Hence, the Directors are satisfied that the Group is capable of carrying its business independently from the Founder and his associates.

RELATIONSHIP WITH WWX AND WWIC

WWIC, a wholly-owned subsidiary of WWX, will be a substantial shareholder and the second largest shareholder of the Company upon the Listing Date, and will hold 21.2% of the Company. STIC, an indirect non-wholly owned subsidiary of WWX acquired Jinzhou Youhua from Huaxin Silicon, Shanghai Chaori Solar Energy Science Technology Development Co., Ltd. and PLC in September 2006. Subsequent to a reorganisation of WWX, interests in Jinzhou Youhua and Shanghai Jingji, the other subsidiary of STIC engaging in the solar energy industry, were transferred to Solartech, a special purpose vehicle then having the same ultimate shareholder as STIC, and established for the purpose of holding investment interests in the solar energy industry. Certain of the management staff of WWX were transferred to the Acquired Group. On 28 June 2007, the Company acquired Solartech from its shareholders and these ex-WWX management staff thereby joined the Enlarged Group. Such persons include Mr. HSU You Yuan, the managing director of STIC, Mr. WANG Chun Wei and Mr. MAO Jui Yuan. In addition, Mr. CHIAO Ping Hai, the Chairman and the General Manager of WWX has been appointed as a non-executive director of the Company.

During the Track Record Period, WWX Group was supplier of scrap polysilicon, scrap ingots and scrap wafers to the Acquired Group and purchaser of upgraded and processed polysilicon, solar ingots and solar wafers from the Acquired Group. For the three years ended 31 December 2006 and the nine months ended 30 September 2007, the aggregate amount of the purchase price paid by the Acquired Group to WWX Group in relation to the supply of scrap polysilicon raw material, scrap ingots and scrap wafers amounted to approximately RMB18,338,000, RMB53,506,000, RMB67,804,000 and RMB45,066,000, respectively and the aggregate amount of the purchase price received by the Acquired Group from WWX Group in relation to the sale of upgraded and processed polysilicon, solar ingot and solar wafers amounted to approximately RMB724,000, RMB4,511,000, RMB94,671,000 and RMB134,765,000, respectively. In addition, the Acquired Group also provided services in respect of acidic wash of silicon, the processing and production of polysilicon and wafers to WWX Group. For the three years ended 31 December 2006 and the nine months ended 30 September 2007, the fees received by the Acquired Group

BUSINESS

from WWX Group in relation to acidic wash of silicon, the processing and recycling of top and tail scrap, pot scrap and scrap silicon amounted to approximately RMB5,128,000, RMB7,510,000, RMB4,585,000 and RMB2,657,000, respectively. As recycled polysilicon is a cheaper source of polysilicon raw material for semi-conductor production, WWX may seek to use a greater portion of the recycled polysilicon for its semi-conductor production.

On 12 January 2008, the Company entered into three framework agreements with WWX in respect of the following matters respectively:

- (i) the supply of scrap polysilicon, scrap ingots and scrap wafers;
- (ii) the sale of upgraded and processed polysilicon, solar ingots and solar wafers;
- (iii) the provision of services in respect of acidic wash of silicon, the processing and recycling of top and tail scrap, pot scrap and scrap silicon into polysilicon and other raw materials necessary for the production of solar ingots as well as the processing and production of solar wafers.

For the purpose of applying for a waiver from strict compliance with the relevant requirements under Chapter 14A of the Listing Rules, the Company has agreed to be subject to certain annual cap amount for each of the above transactions, details of which are set out in the section headed “Connected Transactions” of this prospectus.

Despite the abovementioned transactions, the Directors consider that the Group has been and will be independent from WWX Group and therefore its suitability of listing would not be affected by its relationship with WWX for the following reasons:

- (i) The Group has never subject itself to any obligation or commitment to transact with WWX Group. All the transactions have been and will be conducted based on arm's length negotiation. The Group's proposed caps for the transactions with WWX Group are only intended to set upper limits for these transactions for regulatory purpose, and in no way an indication of the Group's commitment to sell or to buy from WWX Group.
- (ii) The pricing of the transactions between the Group and WWX Group has been and will be comparable to prevailing market prices.
- (iii) The Group has maintained its own team of technical, managerial, financial and administrative professionals, independent from WWX Group. Although some of the Group's employees and directors had worked for WWX Group in the past, all of their employments with WWX Group were terminated before they joined the Group.
- (iv) Only one non-executive director of the Company is currently also on the board of WWX. No executive directors of the Company currently hold any position in WWX or have any financial ties with WWX, except for their minority investment in WWX. WWX's representatives or directors do not represent a majority of the board of the Company or any of its subsidiaries.
- (v) The Group shares no resources with WWX Group, whether technical or operational. The Group shares no physical assets with WWX Group, whether premises or production facilities.

BUSINESS

- (vi) Based on the pro forma combined accounts of the Enlarged Group for the year ended 31 December 2006 and the nine months ended 30 September 2007, WWX only accounted for 10.2% and 15.4% of the total sales of the Enlarged Group, and 11.1% and 12.0% of the total purchase of the Enlarged Group, respectively.
- (vii) WWX has no exclusive rights to act as the distributor or agent for the Group in Taiwan or anywhere else.
- (viii) Financially, WWX Group has not provided any support to the Group in the form of shareholders' loan or guarantee. WWIC acquired interest in the Company, in return for its transfer of interest in its then subsidiary to the Company. No fresh capital has been injected by WWX to the Group directly.

Measures to manage conflict of interests possibly arising from the Group's businesses with WWX

- (i) With regard to purchase of raw materials from or sales of products to WWX Group

The Company will comply with all the relevant provisions under the Listing Rules such that transaction with WWX Group, which will be regarded as a connected party of the Company, will be subject to relevant disclosure and shareholders' approval requirements.

If the transactions are deemed not in the ordinary course of business of the Group, or not comparable to market price, the independent non-executive Directors, with the assistance of the auditors of the Company, shall report such findings in the interim or annual results announcements of the Group. In the case such opinion of the independent non-executive Directors are issued, the Group will cease to transact with WWX Group until such situation are rectified.

- (ii) With regard to WWX's role as the Group's distributor

WWX will not be appointed as the Group's sole distributor for any product or in any region. All the distribution arrangement with WWX will be regarded as sales or purchases with WWX and therefore will also be subject to the above mentioned scrutiny by the independent non-executive Directors and the auditors of the Company.

- (iii) With regard to human resources

The Group will not share any human resources with WWX Group, and no executive directors of the Company will have any role in WWX Group upon the Listing.

- (iv) With regard to any board decision relating to WWX

In case any decision relating to WWX (including any sale or purchase of assets, or co-operation), any Director with a role in WWX (currently Mr. CHIAO Ping Hai) will abstain from voting at the Board. Any resolution to approve the relevant decision will also be subject to approval by the majority of the independent non-executive Directors.

BUSINESS

(v) Non competition undertaking

WWX is principally in the provision of a wide range of products, including polished silicon wafers, silicon ingots, epi wafers, solar wafers, and sapphire substrates for use in blue/white LEDs. WWX has undertaken to the Company and its subsidiaries that, for so long as WWX remains a substantial shareholder of the Company and any of the shares of the Company remains listed on the Stock Exchange,

- (i) it will not, whether directly or indirectly, and will procure that its associates (excluding the Company and its subsidiaries) will not, whether as principal or agent, whether undertaken directly or indirectly (including through any associate, body corporate, partnership, joint venture or other contractual arrangement), manufacture solar ingots and wafers; sell or distribute solar ingots and solar wafers to anyone other than the companies incorporated or registered in Taiwan; and
- (ii) it shall refer all solar ingots and solar wafers manufacturing business to the Company and its subsidiaries; or enter into the manufacturing contract but sub-contract all manufacture to the Company or its subsidiaries, or enter into the manufacturing contract but sub-contract all manufacture to third parties with the prior written consent of the Company.

Other measures to reduce the Group's reliance on WWX Group

While the Directors consider that no undue reliance was placed by the Group on WWX Group, the Group has taken steps to broaden its raw material sourcing base, and will continue to do so in the future. Steps taken by the Group include the following:

- (a) As disclosed in the subsection headed "Competition and Challenges" under this section of this prospectus, the Group entered into a framework agreement and a supplemental agreement with 錦州新世紀石英玻璃有限公司 (Jinzhou New Century Quartz Glass Co., Ltd.*) for investment in a new company to be established for polysilicon raw material manufacturing, and the investment to be made by the Group will be financed by the proceeds of the Global Offering. As far as the Directors are aware, 錦州新世紀石英玻璃有限公司 (Jinzhou New Century Quartz Glass Co., Ltd.*) is also independent to WWX.
- (b) The Company has earmarked HK\$100 million of the proceeds of the Global Offering, for pre-payment of raw materials so as to secure stable source of high purity polysilicon raw materials. It is the intention of the Company that such pre-payment arrangements will be made with parties other than WWX Group.

DIRECTORS' INTEREST IN OTHER RELATED BUSINESSES

Mr. TAN, Mr. HSU You Yuan, being the executive Directors, and Mr. CHONG and Mr. CHIAO Ping Hai, being the non-executive Directors, are interested in other related businesses, particulars of which are set out below:

Mr. TAN

Mr. TAN is interested in 53% interest in 錦州華昌光伏科技有限公司 (Jinzhou Huachang Guangfu Technology Co., Ltd.*) ("Huachang Guangfu") and 40% interest in Jinzhou Changhua. Huachang Guangfu is engaged in the manufacturing of PV and solar cells. Jinzhou Changhua is engaged in the manufacturing of graphite and graphite related

* English translation of Chinese official name is for identification purpose only

BUSINESS

products. The businesses of Huachang Guangfu and Jinzhou Changhua do not compete with that of the Group. Huachang Guangfu, being a manufacturer of PV and solar cells, or some other materials (not being polysilicon), is a downstream company because PV and solar cells are made from wafers, which the Group manufactures. Huachang Guangfu does not manufacture any polysilicon, ingots or wafers. On the other hand, Jinzhou Changhua, as a company which manufactures graphite, is also not a competitor of the Group because (a) the Group is not engaged in the manufacture of graphite or any graphite related products; and (b) graphite is not a substitute for, or alternative raw material to, polysilicon in the manufacture of solar related products.

Mr. HSU You Yuen

Mr. HSU has a direct interest in WWX and an indirect interest in Helitek Company Ltd., which is a subsidiary of WWX. Mr. HSU also has an indirect interest in Neo Solar Power Corp. Both WWX and Helitek Company Ltd. are engaged in the semi-conductor industry. WWX's scope of business includes the manufacture of silicon wafers for the semi-conductor industry, and Helitek Company Ltd. is involved in the sale of such silicon wafers in the USA whereas the Group is engaged in the manufacture of solar wafers. Although polysilicon is the basic raw material used in the production of semiconductors and solar cells or solar-related products, the quality and purity level of the polysilicon required for the production of semiconductors is higher than that required for the production of solar cells or solar-related products. Even though WWX manufactures silicon wafers by using polysilicon, it is not a competitor to the Group because it would not be cost effective for solar product manufacturers to use costly semi-conductor grade polysilicon or silicon wafers to manufacture solar products. Besides, Neo Solar Power Corp., as a manufacturer of solar cells, uses wafers or other materials (not being polysilicon) as a raw material. Neo Solar Power Corp. is a downstream company, since it uses the products that the Group manufactures. Thus, Neo Solar Power Corp. is not a competitor of the Group.

Mr. CHIAO Ping Hai

Mr. CHIAO has interests in WWX, 上海合晶硅材料有限公司 (Wafer Works (Shanghai) Corp*) and Wafer Works Epitaxial Corp. These three companies are all engaged in the business of manufacturing silicon wafers used in the semiconductor industry. Mr. CHIAO also has indirect interests in Helitek Company Ltd. and Heli-Vantech, Inc., both of which are engaged in the trading of silicon wafers used in the manufacture of semiconductors. As explained above, the semiconductor industry is different from that of the solar technology industry; thus, WWX, 上海合晶硅材料有限公司 (Wafer Works (Shanghai) Corp*) and Wafer Works Epitaxial Corp., Helitek Company Ltd., and Heli-Vantech, Inc., are not engaged in any competing business of the Group.

Mr. CHONG

Like Mr. TAN, Mr. CHONG holds interest in Huachang Guangfu and Jinzhou Changhua. Huachang Guangfu is engaged in the manufacture of PV and solar cells, Jinzhou Changhua is engaged in the manufacture of graphite and graphite related products. As explained above, Huachang Guangfu and Jinzhou Changhua are not competitors of the Company, as the Company, Huachang Guangfu and Jinzhou Changhua are engaged in different industries. Mr. CHONG also holds an interest in Jinzhou Youxin, which is principally engaged in the trading of quartz crucibles. Jinzhou Youxin is not a competitor to the Group because (a) quartz crucibles is an auxiliary raw material for the manufacture of polysilicon products which the Group manufactures. Jinzhou Youxin, being in the business of trading quartz crucibles, is an upstream company which supplies auxiliary raw materials to the Group; and (b) Jinzhou Youxin does not manufacture any polysilicon or polysilicon related products.

* English translation of Chinese official name is for identification purpose only