

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS AND PROSPECTS

The Group aims to become the world's leading player in the solar energy industry. To achieve such mission the Company plans to take the following steps and actions:

1. Expand the production capacity of the Group

It is currently intended that the ingot production capacity of the Group will be increased from currently 1,032,000 kg to 2,000 tonnes by the second quarter of 2008 with the addition of 96 ingot pullers, and the wafer production capacity will be increased from 16,768,000 pieces to 48,000,000 pieces with the addition of 16 wiresaws in the second quarter of 2008. Depending on market demand, the Group's annual production capacity may be further increased so that the aggregate ingot production capacity of the Group will be increased to 3,000 tonnes of ingots and 88 million pieces of wafers with the addition of 104 ingot pullers and 16 wiresaws by the end of 2009. In addition, the Group has formed a solar wafer slicing company, Jinzhou Jingji, which has an initial production capacity of 8 million pieces of wafers and will be equipped with up to 13 wiresaws by the end of 2008, upon its commercial operation. For details, please refer to the subsection headed "Recent Development" in the section headed "History and Business Development" of this prospectus.

As manufacturing of wafers offers a higher overall margin to the Group than ingots, the Group will further increase its wafer slicing capacity by investing in or acquiring more wafer manufacturing plants. The Directors believe that with adequate production capacity, the Group will be in a position to capture the potential growth of the solar energy market.

2. Capital investment to set up a joint venture company for production of polysilicon raw material

The Group's revenue depends significantly on its ability to obtain sufficient raw materials that meet the Group's specifications.

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 RMB62,400,000 for 40% of the registered capital in a joint venture company to be formed for the production of polysilicon raw material. If the following conditions precedent: (i) the approval of the project by the relevant authorities and the completion of the requisite registration and filing with the relevant authorities; and (ii) the technological proposal being settled are fulfilled prior to 29 February 2008, Jinzhou Yangguang will pay its capital contribution within 30 days from the date of fulfilment of the conditions precedent. If such conditions precedent are not fulfilled prior to 29 February 2008, Jinzhou Yangguang shall have the right to terminate the framework agreement. As at the Latest Practicable Date, the conditions precedent have yet to be fully satisfied. The Company expects that manufacturing of polysilicon raw material will commence in August 2008. Jinzhou Yangguang will have pre-emptive right to acquire from such company no less than 40% of its polysilicon output, which is expected to be 400 metric tonnes, at the then prevailing market rate.

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The Group will continue to explore investment or co-operative opportunities to secure polysilicon raw materials for its production.

3. Research and development to improve technology and reduce cost

The Group's technicians have constantly been engaged in the research of improved technology to reduce cost, improve manufacturing process and expand product spectrum. In addition, the Group has entered into a co-operation agreement with Dalian Polytechnic University to set up a research centre to conduct research in solar energy related technology.

Please also refer to the subsection headed "Business strategies" in the section headed "Business" in this prospectus for a more detailed description of the Group's business plans.

USE OF PROCEEDS

The Directors believe that the net proceeds of the Global Offering will finance the Group's capital expenditure and business expansion, strengthen the Group's capital base and improve its financial position.

The net proceeds of the Global Offering to be received by the Company after deducting related expenses, and assuming an Offer Price of HK\$4.48 per Share (being the mid-point of the stated range of the Offer Price of between HK\$4.08 and HK\$4.88 per Share) are estimated to amount to approximately HK\$1,059.5 million (approximately RMB990.2 million). To effect the Group's future plans, the Group currently intends to apply the net proceeds as follows:

- (1) approximately HK\$321.0 million (approximately RMB300.0 million) is to be injected into Jinzhou Rinxi for capital expenditure for the expansion of the ingot manufacturing and wafer production capacity, which will be mainly used for the purchase of machinery and equipment;
- (2) approximately HK\$78.0 million (approximately RMB72.9 million) is to be injected into Jinzhou Jingji as its initial capital contribution for the expansion of the wafer production capacity and approximately HK\$58.5 million (RMB54.7 million) is reserved for Jinzhou Jingji's future development;
- (3) approximately HK\$190.0 million (approximately RMB177.6 million) is intended to be used for the investment in polysilicon supplies, including the potential investment in the solar grade polysilicon manufacturer under the framework agreement (please refer to the sub-section headed "Competition and Challenges" in the section headed "Business" for further details), which amounted to approximately HK\$66.8 million (approximately RMB62.4 million);

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- (4) approximately HK\$101.7 million (approximately RMB95.0 million) will be used for the repayment of bank loans, the details of which are set forth below:

Name of Bank	Drawdown date	Maturity date	Principal amount <i>RMB'000</i>	Amount to be repaid <i>RMB'000</i>	Balance <i>RMB'000</i>	Interest rate	Loan purpose
Jinzhou City Commercial Bank	8 June 2007	8 June 2008	15,000	15,000	0	8.54%	Provide working capital for Jinzhou Huachang
Jinzhou City Commercial Bank	29 August 2007	29 August 2008	50,000	50,000	0	7.02%	Construction of Jinzhou Rixin plant
Jinzhou City Commercial Bank	19 November 2007	19 November 2008	30,000	30,000	0	6.08%	Construction of Jinzhou Rixin plant
			<u>95,000</u>	<u>95,000</u>	<u>-</u>		

- (5) approximately HK\$100.0 million (approximately RMB93.4 million) for the prepayment of raw materials to secure stable source of high purity polysilicon raw materials at a stable price, which are mostly purchased on advance payment, for its current production, as well as to cater for the expansion of production capacity of the Group from 100 ingot pullers as at the Latest Practicable Date to 196 ingot pullers by the second quarter of 2008;
- (6) approximately HK\$60.0 million (approximately RMB56.1 million) for potential acquisitions and strategic investments consistent with business strategies;
- (7) approximately HK\$44.4 million (approximately RMB41.5 million) for research and development on thinner wafer slicing, larger wafer size and lower cost of production process; and
- (8) the balance of approximately HK\$105.9 million (approximately RMB99.0 million) as working capital.

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In the event that the Offer Price is set at the high-end of the proposed Offer Price range, the Company will receive additional net proceeds of approximately HK\$98.4 million (approximately RMB92.0 million) when compared to the net proceeds for the Company with the Offer Price being determined at the mid-point of the stated range, approximately HK\$60 million (RMB56.1 million) additional funding will be applied to the investment in polysilicon suppliers, approximately HK\$20.1 million (RMB18.7 million) additional funding will be applied to potential acquisition and strategic investments, approximately HK\$8.5 million (RMB8.0 million) additional funding will be applied for research and development, and approximately HK\$9.8 million (RMB9.2 million) additional funding will be applied to working capital.

In the event that the Offer Price is set at the low-end of the proposed Offer Price range, the net proceeds of the Global Offering will decrease by approximately HK\$98.4 million (approximately RMB92.0 million) when compared to the net proceeds received by the Company with the Offer Price being determined at the mid-point of the stated range. Under such circumstances, the Company intends to reduce approximately HK\$40.1 million (RMB37.4 million) in the application of prepayment for raw material supplies, and approximately HK\$48.5 million (RMB45.4 million) for acquisition and strategic investments and approximately HK\$9.8 million (RMB9.2 million) in the application of working capital.

The current plan of the Group is to acquire or invest in investment targets which will increase the Group's wafer production capacity. The Group has not, at this stage, identified any specific investment targets nor entered into any legally binding agreement or arrangement with respect to the investments mentioned above and there is no acquisition in progress. For details of the future plans of the Group, please refer to the paragraph headed "Future plans and prospects" above. The above use of proceeds are allocated based on the current business plan of the Group on capital expenditure and future development. As such, the proceeds raised under the Global Offering and allocated may not be sufficient for the Group to complete all the future investment plans. Future acquisitions may have to be funded through various means including but not limited to debt financing and equity funding.

The net proceeds from the sale of the Sale Shares by the Selling Shareholders in the Global Offering after deducting the related expenses, and assuming an Offer Price of HK\$4.48 per Offer Share (being the mid-point of the proposed Offer Price range) are estimated to amount to approximately HK\$706.3 million (approximately RMB660.1 million). In the event that the Over-allotment Option is exercised in full and taking into account the effect of the Over-allotment Option only, assuming an offer price of HK\$4.48 per Share (being the mid-point of the proposed Offer Price range), the Selling Shareholders will receive additional net proceeds of approximately HK\$275.5 million (approximately RMB257.5 million). The Company will not receive any proceeds from the sale of the Sale Shares by the Selling Shareholders in the Global Offering and the exercise of the Over-allotment Option. All of the net proceeds from the sale of the Sale Shares by the Selling Shareholders in the Global Offering and the exercise of the Over-allotment Option will be for the account of the Selling Shareholders.

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To the extent that the net proceeds of the Global Offering are not immediately required for the above purposes, the Directors intend to place such proceeds on short term deposits and/or money-market instruments with licensed banks or financial institutions in Hong Kong and/or in China.