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

(Incorporated in the Cayman Islands with limited liability)

Stock code: 00712

ANNUAL REPORT 09

Contents

Corporate Information

Directors

Executive Directors
Mr. John Zhang
Mr. Chau Kwok Keung
Mr. Shi Cheng Qi

Non-executive Director
Mr. Phen, Chun Shing Vincent

Independent non-executive Directors
Mr. Daniel DeWitt Martin
Mr. Kang Sun
Mr. Leung Ming Shu

Company secretary

Mr. Chau Kwok Keung (HKICPA, ACCA, CFA)

Authorised representatives

Mr. John Zhang
Mr. Chau Kwok Keung

Audit committee

Mr. Leung Ming Shu *(Chairman)*
Mr. Daniel DeWitt Martin
Mr. Kang Sun

Nomination committee

Mr. John Zhang *(Chairman)*
Mr. Daniel DeWitt Martin
Mr. Kang Sun

Remuneration committee

Mr. John Zhang *(Chairman)*
Mr. Kang Sun
Mr. Leung Ming Shu

Registered office

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Headquarter

16 Yuan Di Road
Nanhui Industrial Zone
Shanghai 201314
PRC

Principal place of business in Hong Kong

Suite 28
35/F Central Plaza
18 Harbour Road
Wanchai
Hong Kong

Company's website

www.comtecsolar.com

Compliance adviser

Piper Jaffray Asia Limited
39th Floor, Tower 1, Lippo Centre
89 Queensway, Admiralty
Hong Kong

Auditor

Deloitte Touche Tohmatsu

Legal Advisers as to Hong Kong Law

Orrick, Herrington & Sutcliffe

Principal bankers

Agricultural Bank of China

Cayman Islands principal share registrar and transfer office

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 609
Grand Cayman KY1-1107
Cayman Islands

Hong Kong Share Registrar

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Financial Summary

Results

	For the year ended 31 December			
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	135,416	349,064	762,103	506,876
Profit before interest expense and taxation	73,953	162,956	172,860	37,999
Interest expense	(356)	(808)	(6,295)	(6,669)
Profit before taxation	73,597	162,148	166,565	31,330
Taxation	(9,762)	(14,797)	(35,086)	(6,389)
Profit and total comprehensive income for the year, attributable to the owners of the Company	63,835	147,351	131,479	24,941

Assets and liabilities

	As at 31 December			
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	233,682	615,781	817,261	1,410,675
Total liabilities	(125,391)	(467,580)	(257,344)	(349,050)
Net assets	108,291	148,201	559,917	1,061,625

Note:

The results and summary of assets and liabilities for each of the three years ended 31 December 2008 which were extracted from the Company's prospectus dated 19 October 2009 have been prepared on a combination basis to indicate the results of the Group as if the group structure, at the time when the Company's shares were listed on The Stock Exchange of Hong Kong Limited, had been in existence throughout those years.

Chairman's Statement

On behalf of Comtec Solar Systems Group Limited, I am pleased to present the audited annual results of the Group for the year ended 31 December 2009. Despite the exceptional challenging operating environment in 2009, the Group's net profits in 2009 were RMB24.9 million, which exceeded the forecasted net profits of RMB23.9 million as disclosed in the Prospectus by approximately 4.2%. During 2009, we have expanded our production capacity to approximately 200MW. Our shipment volume in 2009 was approximately 81.6 MW, increased from 44.3MW in 2008 by 84.2%. Even under an unfavourable business environment resulted from the global financial crisis, demand for our products by our customers was robust, which, we believe, was attributable to our strong track record on product quality and superior branding.

The "Comtec Solar" brand is synonymous with quality. We maintain the strength of our brand by executing a stringent manufacturing process, tailoring our products to accommodate our customers' needs and leveraging on our extensive track record on superior product quality. With strong commitments on product innovations, we pioneered to commercially launch large size "Perfect Wafers" to market. "Perfect Wafers" refer to completely square wafers. Traditionally, 156mm mono-crystalline solar wafers are in the shape of a "pseudo-square" with the grinded round corners . The grinded round corners result in a smaller area from which solar cells and panels can capture sunlight. With our "Perfect Wafer", the cell and panel-makers can increase the active area of their cells and panels and hence the amount of electricity generated. Neo Solar Power, one of our customers, has newly launched their "Perfect Cell" product using our "Perfect Wafer" which has demonstrated a more than 3% increase in power density and an average conversion efficiency of 17.8%.

During the year, the Company was successfully listed on the Main Board of the Stock Exchange on 30 October 2009 (the "IPO"). Being the only solar wafer and ingot producer successfully closed an IPO on an internationally recognized stock exchange under the challenging macro economic environment in 2009, we obtained worldwide supports from the investors. The IPO proceeds have contributed the source of funding for the Group's long-term development and strengthened our ability to drive innovation, build downstream relationships, increase our production capacity and further our technological expertise to mitigate the unfavorable business conditions brought by the global financial crisis.

Our board of directors and management team have the confidence in the prospects of the solar energy industry. We believe governments of various countries will continue to invest heavily on solar and other clean energies, with the objectives to restore economies, create employment and at the same time to establish a low-carbon emission environment. In respect of the global PV markets, countries including Germany, Spain, Italy and Japan are currently the major end-markets. These countries are promoting solar generation by implementing proactive policies, such as government grants, leading to the fast development of the PV manufacturing industry. China and the United States, being the largest energy consuming countries in the world, together with Greece, France, Australia and the Middle East are promising solar energy markets with substantial potential in the future.

Chairman's Statement

At present, solar energy is still a relatively high cost method for generating power, compared to traditional sources. However, the cost of generating power of solar energy per watt had reduced substantially since the fourth quarter of 2008 due to the decrease of polysilicon costs, continuous upgrading of production techniques and enhancement of operational effectiveness in the industry. The said reduction in polysilicon prices has accelerated the industry's progress towards grid-parity and created opportunities for the Group. I am confident that we have the reputation, the suppliers and customers relationships and the capability to adapt to the new economics and competitive landscape of the solar industry. With the support of our board of directors and management team, who are presented in the following section of this Report, I am equally confident that our business will continue to grow and to develop steadily and healthily.

We are now in the process of further expanding our capacity beyond 200MW. We are going to set up our new production plant in Hai'An Economic Development District of Jiangsu Province. In this connection, as disclosed in the Company's announcement dated 25 January 2010, Jiangsu Hai'An Economic Development District Management Committee (the "Hai'An Committee") had agreed to provide land and construction support, electricity discount, investment incentives to the Company and take other project promoting measures to assist the Company. The Hai'An Committee will also provide certain assistance to our Group to obtain necessary permits for the construction of production facilities, liaising with relevant power department to ensure uninterrupted provision of electricity. Taking into account the various financial and non-financial benefits as set put above, we believe we would be able to implement the production expansion plan cost effectively in Hai'An which would be beneficial to the Company and our shareholders as a whole.

As disclosed in the Prospectus, it is expected that we can achieve the annual production capacity of 504MW by the end of June 2010 with a budget of RMB410.8 million. As a result of the savings in land and construction costs to the credit of the strong support we received from the local government in Jiangsu Province, we expect to increase our annual production capacity to approximately 600MW in the third quarter of 2010 with the same budget. We expect to finance such capital expenditures with the IPO proceeds, our cash inflow from operating activities and the bank borrowings.

The Group will continue to strive for improving product quality and reducing the cost of production to further strengthen our competitive advantages. At present, the Group is proactively refining the existing business strategies and identifying potential business opportunities, in an effort to capture enormous opportunities in the upcoming era of clean and economical power of solar energy, in order to create the greatest reward for our shareholders.

I look forward to reporting to the shareholders at the annual general meeting and in the next interim and annual reports in respect of the effective stewardship of your Company's business and assets and the continuous delivery of value to our shareholders.

John Zhang
Chairman

Shanghai, 29 March 2010

Management Discussion and Analysis

Business Review

During 2009, the impact of the collapse of the U.S. mortgage market quickly spread into the wider financial sector and then, inevitably, into what is often referred to as the "real economy". The financial crisis also created a short-term challenging environment for the solar industry. The overall demand on solar products was negatively affected. Further, severe drop in overall raw material and product prices was observed.

Despite the impacts of global economic downturn in 2009, the long-term prospect of solar industry is still promising. The resulting reduction in pricing has accelerated the grid-purity. Government of various countries invest heavily on solar and other clean energies, with the objectives to restore economies, create employment and at the same time to establish a low-emission environment.

In respect of the global PV markets, countries including Germany, Spain, Italy and Japan are currently the major end-markets. China and the United States, being the largest energy consuming countries in the world, together with Greece, France, Australia and the Middle East are emerging markets with substantial potential in the future. These countries have offered or planned to offer substantial incentives in the form of direct subsidies for solar power system installations or rebates for electricity produced from solar power, leading to the fast development of the PV manufacturing industry. Increasing government supports for solar power use drive demand for solar power.

On the other hand, the economic downturn also created opportunities for us. Our customers realize the value in buying high-quality wafers from a reputable and well-established producer with the strength and stability to support their long-term development. It resulted in strong demand on our high-quality wafers even in the challenging environment in 2009.

Our shipment volume for the year ended 31 December 2009 was 81.6 MW which was approximately 84.2% higher than the sales volume of approximately 44.3 MW for the year ended 31 December 2008. Even during the first half of 2009 when the solar industry and global economy were severely threatened by the financial crisis, we still secured strong demand for our products. During the first half of 2009, we achieved approximately 41.8% growth in shipment volume of 25.8MW, as compared to 18.2MW in first half of 2008.

Our top 5 customers in 2009 represented approximately 58.0% of our total revenues comparing to approximately 66.1% in 2008. Our largest customers accounted for approximately 17.2% of our total revenues in 2009 while it represented approximately 21.6% in 2008. It was mainly due to our efforts to diversify the customer base. We believe product quality and cost advantage would be crucial in the upcoming era of solar energy.

We have been able to gradually increase the number of customers we served, as well as the geographic markets we reached during 2009. In addition to our strong customer base of solar cell and module manufacturers located in the PRC, we were able to expand our customer base to include leading solar cell and module manufacturers in other parts of the world. Our solar products are currently sold to the PRC, Taiwan, Germany, United States, Thailand, Singapore, Canada, India and other countries to diversify our customer base for the on-going and sustainable growth of our business.

Management Discussion and Analysis

During 2009, our sales to PRC based customers represented approximately 79.9% of our total revenue, comparing to approximately 86.6% in 2008. Our sales to overseas customers represented approximately 20.1% of our total revenue in 2009, as compared to approximately 13.4% in 2008. It was mainly due to our efforts to further develop our customer base in markets outside of China. Our strong track record on production quality, advanced proprietary technology and efforts on reducing production costs have contributed, and we believe will continue to contribute to sustaining a strong and sustainable demand for our products.

Our ability to manufacture high quality monocrystalline solar wafers in terms of industry metrics, including conversion efficiency, size and thickness of wafers, affords us many competitive advantages, including market differentiation and higher barriers to entry. Our origin as a manufacturer of semiconductor wafers and ingots since 1999 provides us with a strong technical background which we have been able to utilise to attain high quality standards in the production of monocrystalline solar wafers.

During 2009, we pioneered to commercially launch the large sized “Perfect Wafer” to market. “Perfect Wafers” refer to completely square wafers. Traditionally 156mm mono-crystalline solar wafers are in the shape of “pseudo-square” with the grinded round corners. The grinded round corners result in a smaller area from which solar cells and panels can capture sunlight. With our “Perfect Wafer”, cell and panel-makers can increase the active area and hence the amount of electricity generated. Neo Solar Power, one of our customers, has newly launched their “Perfect Cell” product using our “Perfect Wafer” which has demonstrated the ability to increase power density by more than 3% and achieve an average conversion efficiency of 17.8%.

We plan to devote substantial resources to research and development in order to enhance our manufacturing processes, reduce our production costs, and improve our product quality and performance. We believe these efforts, combined with the industry experience of our management team, will enable us to continue to improve production efficiencies and enhance product quality, which, we believe, will help enhance our reputation in product innovation within the solar market.

In order to meet the anticipated growth in demand for our solar products, we expanded our production capacity from approximately 55 MW to approximately 200 MW during 2009. We are now in the process of further expanding the production capacity beyond 200 MW. We will set up a new production plant in Hai’An Economic Development District of Jiangsu Province to accommodate the expanding capacity as disclosed in our announcement dated 25 January 2010. Under the favorable offers from equipment vendors and strong supports from Jiangsu local government, it is expected the original budget of RMB410.8 million not only allow us to achieve the annual production capacity of 504MW by the end of June 2010 as disclosed in the Company’s prospectus dated 19 October 2009 but also enable us to further increase our annual production capacity to approximately 600MW in the third quarter of 2010 because of the savings in land and construction costs as a result from the strong support from the Jiangsu local government. We believe that it is important to keep pace with the general growth of the industry to be able to increase our market share and remain competitive. We believe that increased production scale will enable us to achieve greater economies of scale.

Management Discussion and Analysis

Since the industry-wide shortage of polysilicon has ended and is not expected to recur in the near future, we have continued to limit our long-term purchase commitments for polysilicon. As a result, a substantial amount of our total polysilicon requirement for 2009 was satisfied through spot or short-term supply contracts. We believe that our procurement strategy of pursuing a strategic mix of long-term and short-term supply sources for polysilicon allowed us to take advantage of lower market prices for polysilicon when polysilicon prices decreased dramatically in 2008 and 2009.

Our diversified procurement strategy also involves purchases from multiple suppliers to minimize disruptions to our operation in the event one supplier is unable to fulfill all of our order requirements on a timely basis, despite such suppliers may offer polysilicon at a more competitive unit price than that of other suppliers in the market. To ensure a successful implementation of this strategy, we will develop strategic alliances with key suppliers, continue to maintain existing relationships and expand our network of suppliers to include, among others, emerging suppliers who are able to provide us with high-quality polysilicon.

The past 12 months have not been easy. The prudent business strategy we have pursued in recent years, including a disciplined approach to capacity expansion, lock-up on polysilicon prices and supply, and the maintenance of a conservative capital structure, has rewarded us with a position in the market that is able to weather the economic storm and to capture future growth opportunities. We managed and mitigated the risks to our business which arose from the volatile and difficult economic environment in 2009. We were not only able to ride out the storm, but came out of it stronger than ever to capture the opportunities that the renewable energy sector will offer in the coming years.

Financial Review

Revenue

Revenue decreased by RMB255.2 million, or 33.5%, from RMB762.1 million for the year ended 31 December 2008 to RMB506.9 million for the year ended 31 December 2009, primarily as a result of a decrease in the average selling price of our solar products, partially offset by an increase in our sales volume. The decrease in the average selling price of our solar products was generally due to the significant fall in the market prices for solar products, which was triggered by the recent financial crisis and global economic downturn. The increase in our sales volume was generally due to the increase in customer demand for our monocrystalline solar products. The sales volume of our solar products increased by 84.2% from 44.3 MW for the year ended 31 December 2008 to 81.6 MW for the year ended 31 December 2009.

For the year ended 31 December 2009, sales of our 156 mm by 156 mm monocrystalline solar wafers comprised 46.3% of total revenues and sales of our 125 mm by 125 mm monocrystalline solar wafers comprised 45.7% of total revenues. For the year ended 31 December 2008, sales of our 156 mm by 156 mm monocrystalline solar wafers comprised 29.9% of total revenues and sales of our 125 mm by 125 mm monocrystalline solar wafers comprised 42.6% of total revenues. In aggregate, solar wafer sales for the year ended 31 December 2009 comprised 92.0% of our total sales, as compared to 72.5% for the year ended 31 December 2008. It was mainly due to our strategy to focus on sales of wafers, especially focusing on the sales of 156mm by 156mm monocrystalline wafers. Sales of solar ingots comprised 3.8% of our total sales for the year ended 31 December 2009, as compared to 22.7% for the year ended 31 December 2008. Sales of our semiconductor products comprised 1.9% of our total sales in the year ended 31 December 2009, compared to 4.2% in the year ended 31 December 2008.

Sales of 156 mm by 156 mm monocrystalline solar wafers

Revenue from sales of 156 mm by 156 mm monocrystalline solar wafers increased by RMB7.0 million, or 3.1%, from RMB227.7 million for the year ended 31 December 2008 to RMB234.7 million for the year ended 31 December 2009, primarily as a result of an increase of sales volume by 206.3% from 12.8 MW for the year ended 31 December 2008 to 39.2 MW for the year ended 31 December 2009, partially offset by a decrease in our average unit price for this product by 66.3% from RMB17.8 per watt for the year ended 31 December 2008 to RMB6.0 per watt for the year ended 31 December 2009.

Sales of 125 mm by 125 mm monocrystalline solar wafers

Revenue from sales of 125 mm by 125 mm monocrystalline solar wafers decreased by RMB92.7 million, or 28.6%, from RMB324.5 million for the year ended 31 December 2008 to RMB231.8 million for the year ended 31 December 2009, primarily as a result of a decrease in our average unit price for this product by 64.5% from RMB16.6 per watt for the year ended 31 December 2008 to RMB5.9 per watt for the year ended 31 December 2009, partially offset by an increase in our sales volume by 100% from 19.6 MW for the year ended 31 December 2008 to 39.2 MW for the year ended 31 December 2009.

Sales of solar ingots and semiconductor products and other revenues

Revenue from sales of solar ingots decreased by RMB154.0 million, or 88.9%, from RMB173.2 million for the year ended 31 December 2008 to RMB19.2 million for the year ended 31 December 2009, primarily due to a decrease in the average unit price of our solar ingots by 58.9% from RMB14.6 per Watt for the year ended 31 December 2008 to RMB6.0 per Watt for the year ended 31 December 2009, and a decrease in sales volume from 11.9 MW for the year ended 31 December 2008 to 3.2 MW for the year ended 31 December 2009. The sales volume of our solar ingots was higher in the year ended 31 December 2008 compared to that in the year ended 31 December 2009 because some of our major customers increased the purchase of solar ingots from us during a period of shortage of solar ingots in 2008. Revenues from sales of semiconductor products decreased by RMB22.7 million, or 70.3%, from RMB32.3 million for the year ended 31 December 2008 to RMB9.6 million for the year ended 31 December 2009, primarily due to a decrease in demand by our customers. Our other revenues increased by RMB7.2 million, or 163.6%, from RMB4.4 million for the year ended 31 December 2008 to RMB11.6 million for the year ended 31 December 2009, primarily due to an increase in our sale of materials such as monocrystalline silicon and recyclable silicon.

In relation to the analysis of our revenue by geographical market, approximately 79.9% of total revenue for the year ended 31 December 2009 was generated from our PRC-based customers (2008: 86.6%). Remaining portion was generated from oversea customers, mainly from Taiwan, Germany and Thailand. The more diversified scenario was mainly due to our efforts to further develop customer base in markets outside China.

Cost of sales

Cost of sales decreased by RMB79.0 million, or 14.9%, from RMB530.8 million for the year ended 31 December 2008 to RMB451.8 million for the year ended 31 December 2009, primarily as a result of the decrease in the prices of polysilicon and the improvement in our production efficiency during the period, partially offset by the increase in polysilicon costs incurred in the manufacturing of thicker wafers as required by many of our customers. The average prices of polysilicon we purchased during the year ended 31 December 2009 was RMB501.2 per kg, decreased 66.0% from the average prices of RMB1,474.2 per kg for the year ended 31 December 2008.

Gross profit

Gross profit decreased by RMB176.2 million, or 76.2%, from RMB231.3 million for the year ended 31 December 2008 to RMB55.1 million for the year ended 31 December 2009, primarily as a result of the above.

Other income

Other income decreased by RMB40.4 million, or 85.8%, from RMB47.1 million for the year ended 31 December 2008 to RMB6.7 million for the year ended 31 December 2009, primarily due to the decrease in our processing services fees income. Our processing services fees income decreased due to our business strategy to focus on the production and sale of our solar products.

Other expenses

Other expenses decreased by RMB76.9 million, or 95.8% from RMB80.3 million for the year ended 31 December 2008 to RMB3.4 million for the year ended 31 December 2009. Other expenses for the year ended 31 December 2009 were mainly legal and professional fees which were incurred for the listing of shares of the Company. Other expenses incurred for the year ended 31 December 2008 were non-recurring write-down on advance to a supplier and fair values of share options granted during the year then ended accelerated in the profit or loss due to cancellation in that year. Significant drop in legal and professional fees in current year was due to the fact that most of the related costs were incurred in 2008. All these factors resulted in a drop in other expenses in the current year.

Distribution and selling expenses

Distribution and selling expenses increased by RMB0.8 million, or 58.5% from RMB1.4 million for the year ended 31 December 2008 to RMB2.2 million for the year ended 31 December 2009, primarily due to the material increase of our sales volume to 81.6MW for the year ended 31 December 2009 from 44.3MW for the year ended 31 December 2008.

Administrative and general expenses

Despite the material increase in production capacity and operation scale, administrative and general expenses decreased by RMB5.7 million, or 23.9%, from RMB23.9 million for the year ended 31 December 2008 to RMB18.2 million for the year ended 31 December 2009, primarily as a result of our cost control measures to improve operating efficiency.

Interest expenses

The Group's short-term bank loans carry variable interest rates based on the benchmark interest rates issued by the People's Bank of China. Interest expenses in relation to bank loans increased by RMB0.4 million, or 5.9%, from RMB6.3 million for the year ended 31 December 2008 to RMB6.7 million for the year ended 31 December 2009, primarily as a result of an increase in the amount of bank loans borrowed, partially offset by a decrease in interest rates of these bank loans.

Profit before taxation

Profit before taxation decreased by RMB135.2 million, or 81.2%, from RMB166.6 million for the year ended 31 December 2008 to RMB31.3 million for the year ended 31 December 2009, as a result of the foregoing.

Taxation

Taxation decreased from RMB35.1 million for the year ended 31 December 2008 to RMB6.4 million for the year ended 31 December 2009, primarily as a result of the decrease in our profit before taxation. Our effective tax rate remained stable at 20.4% for the year ended 31 December 2009 compared to 21.1% for the year ended 31 December 2008.

Profit for the year

Net profit decreased by RMB106.5 million, or 81.0%, from RMB131.5 million for the year ended 31 December 2008 to RMB24.9 million for the year ended 31 December 2009, as a result of the foregoing. Net profit margin decreased from 17.3% for the year ended 31 December 2008 to 4.9% for the year ended 31 December 2009.

Inventory turnover days

The inventories of the Group mainly comprised raw materials (namely polysilicon, crucibles and other auxiliary materials), work-in-progress and finished goods. The increase in inventories was mainly due to the expansion in the production capacity of the Group and attractive offers from polysilicon suppliers by the end of 2009. Included in the balance of the inventories as at 31 December 2008 was a write-down of inventories of RMB43.4 million (2009: Nil). It was mainly due to the continuous fall in the prices of raw material and product selling prices caused by the global economic slowdown. The inventory turnover days as at 31 December 2009 totalled 88 days (2008: 23 days). Unless we get attractive offers from suppliers, the optimal inventory level should be around one to two months of our sales volume to meet the Group's production requirements.

Trade receivable turnover days

The trade receivable turnover days as at 31 December 2009 totaled 88 days (2008: 14 days). The increase in turnover days was mainly due to the change in general market environment and it was still within the credit periods of the Group grants to its customers. The Group normally grants a credit period of 30 to 90 days to its customers.

Trade payable turnover days

The trade payable turnover days as at 31 December 2009 totalled 62 days (2008: 16 days). Given the established relationship and the change in general market environment, suppliers allowed the Group to have a reasonable payment period throughout the year.

Liquidity and financial resources

The Group's principal sources of working capital included cash flow from operating activities, bank and other borrowings and the proceeds from the initial public offering. As at 31 December 2009, the Group's current ratio (current assets divided by current liabilities) was 2.2 (2008: 1.4) and it was in a net cash position. The Group's financial position remains healthy and it is well-positioned to overcome the possible adverse impacts from the global economic slowdown as well as to facilitate future development. The Group has always pursued a prudent treasury management policy. The Group places strong emphasis on the safety and liquidity of funds and is in a strong liquidity position with sufficient standby banking facilities to cope with daily operations and future development demands for capital. As at 31 December 2009, the Group was in a net cash position of RMB253.2 million (2008: RMB25.1 million) which included cash and cash equivalent of RMB399.2 million (2008: RMB165.1 million) and short-term bank loans of RMB146.0 million (2008: RMB140.0 million). The Group's borrowings were denominated in RMB while its cash and bank balances were denominated in RMB, US$,

Management Discussion and Analysis

HK$ and Euro. As at 31 December 2009, RMB86 million of the Group's short-term bank loans was secured by fixed charges on certain of the Group's assets, including certain buildings and construction in progress having book values of approximately RMB79,691,000 and RMB10,804,000, respectively. The Group's net debt to equity ratio (net debt divided by shareholders' equity) decreased from -4.5% as at 31 December 2008 to -23.9% as at 31 December 2009, the minus signs represented the net cash position at the respective year end dates.

The Group have budgeted RMB410.8 million for its, production capacity expansion, which will be funded by proceeds from the initial public offering, our cash flows from operations and/or bank loans.

During 2009, the Group has not entered into any financial instrument to for hedging purposes nor any currency borrowings and other hedging instruments to hedge against foreign exchange rate risks.

Contingent Liabilities

As at 31 December 2009, we did not have any material contingent liabilities.

Related Party Transactions

The Group did not have any related party transactions for the year ended 31 December 2009. Information about certain related party transactions of the Group discontinued prior to 2009 are set out in note 37 to the consolidated financial statements.

Acquisition of subsidiary

No subsidiary of the Company was acquired during the year ended 31 December 2009.

Use of Proceeds

The shares of the Company were listed on the main board of the Hong Kong Stock Exchange on 30 October 2009 with net proceeds from the global offering of the Company of approximately HK$526.3 million (after deducting underwriting commissions and related expenses).

The use of the net proceeds from the global offering as at 31 December 2009 was as follows:

Use	Percentage of net proceeds	Amount of net proceeds *(in HK$ million)*	Amount utilised *(in HK$ million)*	Amount remaining *(in HK$ million)*
Expansion of production capacity	50%	263.2	28.1	235.1
Purchase or prepay for polysilicon feedstock	40%	210.5	65.5	145.0
Research and development	5%	26.3	0.7	25.6
Working capital	5%	26.3	7.1	19.2
	100%	526.3	101.4	424.9

The Directors intend to apply the remaining net proceeds in the manner set out in the prospectus of the Company dated 19 October 2009.

Human resources

As at 31 December 2009, the Group had 741 (2008: 455) employees. The remuneration of the existing employee includes basic salaries, discretionary bonuses and social security contributions. Pay levels of the employees are commensurate with their responsibilities, performance and contribution.

Biographical Details of Directors and Senior Management

Executive Directors

Mr. John Zhang, aged 47, is as an executive Director, the chairman of our Board and our CEO, responsible for the overall strategy and operation of our Group. Mr. Zhang has accumulated over ten years of experience in the semiconductor and solar industries from both his founding and development of our Group and his prior professional experience. Prior to founding our Group, Mr. Zhang joined Silicon Systems Inc. which was a semiconductor technology company in California, U.S., in 1992 as an engineer and was responsible for developing and designing communication firmware used in silicon chips. Mr. Zhang graduated from 清華大學 (Tsinghua University) in July 1985 with a Bachelor's degree in Electrical Engineering and from Utah State University with a Master's degree in Electrical Engineering in August 1988.

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

Mr. Shi Cheng Qi, aged 66, is an our executive Director and our CTO, responsible for production, technology and research and development. He is in charge of the production technology and equipment design of our Group. Mr. Shi has over 30 years of experience in semiconductor, solar and materials engineering, which was accumulated from the multiple engineering and management positions held by Mr. Shi in the production, technology and research and development departments of 上海半導體材料廠(Shanghai Semiconductor Materials Factory) in the PRC from 1969 to 2000. He was accredited by 上海市有色金屬總公司(Shanghai Non-Ferrous Metals Company) as a senior engineer in March 1993 based on the review and evaluation of 高級評審委員會 (senior appraisal committee) of Shanghai Non-Ferrous Metals Company.

Non-executive Director

Mr. Chun Shing Vincent, Phen, aged 33, is a non-executive Director. He has approximately ten years of experience in direct investment and corporate banking. He is currently the investment manager of CMS Capital (HK) Co., Ltd., formerly known as CMTF Asset Management Limited, and has served in such position since 11 May 2009. He worked as an associate in CLSA Capital Partners from 26 February 2007 to 10 May 2009. Prior to that, Mr. Phen worked in the international corporate banking division of various financial institutions for approximately seven years. Mr. Phen obtained a bachelor degree in business administration and marketing from the University of North Texas, the USA, in 1999. Mr. Phen holds a SFC license of asset management.

Biographical Details of Directors and Senior Management

Independent non-executive Directors

Mr. Leung Ming Shu, aged 34, is an our independent non-executive Director. Mr. Leung is currently the CFO, qualified accountant and company secretary of China ITS (Holdings) Co., Ltd. Mr. Leung is experienced in the areas of corporate finance and accounting from his various roles detailed below. From November 2006 to January 2008, Mr. Leung served as the CFO of Beijing Lingtu Spacecom Technology Co., Ltd, a subsidiary of Beijing Lingtu Software Co., Ltd, a PRC digital mapping and navigation software company. From February 2006 to October 2006, Mr. Leung served as the CFO of Beijing Xinwei Telecom Technology Co., Ltd, a related party of 大唐電信科技股份有限公司(Datang Telecom Technology Co., Ltd, a company listed on the Shanghai Stock Exchange) which is engaged in the development of a telecommunications standard and the manufacturer of telecommunications equipment. Prior to that, Mr. Leung spent approximately three years from February 2003 at CDC Corporation, a NASDAQ-listed company, as a senior manager in the mergers and acquisitions department, and as the CFO of China.com Inc., a subsidiary of CDC Corporation and a company listed on the Stock Exchange. Mr. Leung started his professional career at PricewaterhouseCoopers in Hong Kong in auditing in 1998, and subsequently worked at the global corporate finance division of Arthur Andersen & Co. in Hong Kong, which subsequently merged with PricewaterhouseCoopers, until December 2000. From July 2001 to February 2003, he also worked as a business consultant in Market Catalyst International (Hong Kong) Limited, where he advised companies on issues of strategy, organisation and operations. Mr. Leung obtained a First Class Honours Bachelor's degree in accountancy from the City University of Hong Kong in June 1998 and a Master's degree in accountancy from the Chinese University of Hong Kong in November 2001. He is a Fellow of the Association of Chartered Certified Accountants since February 2007 and a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants since March 2006.

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

Mr. Kang Sun, aged 55, is an independent non-executive Director. Mr. Sun is currently the president and chief executive officer of RayTracker Inc., Pasadena, California, USA and a venture partner of WI Harper Group, San Francisco, California USA. Prior to that, Mr. Sun worked from September 2007 to August 2008 as the president and chief operating officer of JA Solar Holding Ltd, China, a company listed on NASDAQ (Code: JASO), managing director of new business development at Applied Materials Inc., USA since 2005. Prior to that, in different periods of time between 1990 and 2005, he had served as the vice president of Microfabrica Inc., the vice president of Honeywell International Inc., USA and the general manager of Optical Devices Business, AlliedSignal Inc., USA, respectively. Mr. Sun received a Ph.D. degree in Materials Science from Brown University, USA in 1988, a M.S. degree in Physical Chemistry from University of Georgia, USA in 1983 and a B.S. degree in Polymer Chemistry from 南京大學 (Nanjing University), China in 1978.

Biographical Details of Directors and Senior Management

SENIOR MANAGEMENT

Mr. James J. Wang, aged 48, is the COO of our Company. He joined our Group in April, 2009 and is mainly responsible for our business development in the PRC and overseas market. Prior to joining Comtec Solar, he was employed for over 10 years by multiple companies in U.S. and China in various senior business management positions, including Sr. Director of business development at JA Solar (NSDQ: JASO), a solar cell manufacturing company; vice president of China Operations at Legend Semiconductor Manufacturing Corp., an IC chip foundry company; and China director of operations at Lam Research Corporation (NADQ: LRCX), a U.S. semiconductor equipment manufacturing company. James received his master of engineering degree in Precision Mechanical Engineering from Tokyo Institute of Technology, Tokyo, Japan in 1988.

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

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

Biographical Details of Directors and Senior Management

Ms. Yi Xin, aged 34, is the head of our import and export department. She is mainly in charge of importing and exporting and keeping communication documents with our customers. She joined us in July 2002. Ms. Yi has over five years of experience in the trading industry and she is in charge of our imports and exports. Prior to joining us, Ms. Yi Xin worked in the marketing department of 上海智率醫療器械有限公司(Shanghai Intelligent Medical Apparatus Company Limited) responsible for market survey and analysis from February 2000 to July 2002. Ms. Yi received a junior college degree in economy and trading from 上海冶金高等專科學校(Shanghai College of Metallurgy), which is now 上海應用技術學院 (Shanghai Institute of Technology) in July 1997.

Ms. Zhu Hao, aged 42, is the head of our human resources and administration department. She is mainly responsible for our daily administrative management, human resources management and coordinating with our suppliers. She joined us in March 2004. Ms. Zhu has approximately seven years of experience in the human resources and administrative functions. Prior to joining us, Ms. Zhu Hao was the office manager of 易學(上海)咨詢有限公司 (Yi Xue (Shanghai) Consulting Co., Ltd.) from May 2000 to October 2001. She was the office manager of 上海優異科技有限公司(Shanghai Youyi Science and Technology Co., Ltd.) from April 2002 to February 2003. During the period she served as the office manager, she was mainly responsible for human resources management. She was the purchasing clerk of 格蘭吉斯(上海)鋁業有限公司 (Granges Shanghai Aluminum Co., Ltd.) from November 1998 to May 2000. Ms. Zhu majored in economy and management at 華東師範大學 (East China Normal University) and graduated in July 1988.

Mr. Hu Ru Quan, aged 42, is the head of our crystal pulling department. He is mainly responsible for quality control and manufacturing costs control. He has been with us since March 2000 and was not with our Group between March 2006 and July 2006 due to family reasons. Mr. Hu rejoined our Group in July 2006. Mr. Hu has about 15 years of experience in the semiconductor and silicon material industry. Prior to joining us, he worked as the cutting operator and was responsible for cutting wafers in 上海半導體材料廠 (Shanghai Semiconductor Factory) from March 1991 to March 2000. Mr. Hu Ru Quan obtained a junior college diploma in law from 中央廣播電視大學 (China Central Radio and TV University) in July 2007.

Mr. Cheng Yu Wei, aged 58, is the head of our equipment department. He is mainly responsible for daily operation of electromechanical department and equipment maintenance. He joined us in October 2000. Mr. Cheng has approximately 15 years of experience in the electrical engineering industry. Prior to joining us, he worked in 中南地質勘查局實業公司 (Zhongnan Geological Prospecting Bureau Industrial Company) as an electrical engineer in 1992 and as a vice chief engineer in 1993. From June 1994 to December 1996, Mr. Cheng worked as an engineer in 中南金剛石工業公司 (Zhongnan Diamond Industry Co., Ltd.). Mr. Cheng majored in electrical engineering of 湖北廣播電視大學(Hubei TV & Radio University) and graduated in July 1987.

Report of the Directors

The Directors have pleasure in presenting their report together with the audited consolidated financial statements for the year ended 31 December 2009.

PRINCIPAL ACTIVITIES

The Company and its subsidiaries are principally engaged in the design, development, manufacture and marketing of solar wafers and ingots, with a focus on high quality monocrystalline solar wafers.

SUBSIDIARIES

Details of the principal subsidiaries of the Group as at 31 December 2009 are set out in note 38 to the consolidated financial statements.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2009 and the state of the Company's and the Group's affairs as at that date are set out in the consolidated financial statements on pages 34 to 98 of this annual report.

DIVIDENDS

The Board recommended a final dividend of HK0.83 cents (equivalent to RMB0.73 cents) per Share for the year ended 31 December 2009, subject to approval by the Shareholders at the annual general meeting to be held on 24 May 2010. The total dividends for the year ended 31 December 2009, which represent the final dividend, amounted to approximately RMB7.532 million and represented approximately 30% of the profit for the year.

RESERVES

Details of movements in reserves of the Group are set out in the consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2009, the Company's reserves available for distribution, calculated in accordance with the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to approximately RMB958,008,000. The amount of approximately RMB958,008,000 represents the Company's share premium account of approximately RMB809,519,000 and retained profits of approximately RMB148,489,000 in aggregate as at 31 December 2009, which may be distributed provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

OPERATING RESULTS AND PUBLISHED PROFIT FORECAST

The Group's consolidated profit attributable to Shareholders for the year was approximately RMB24.9 million, being approximately 4.2% higher than the profit forecast as set out in the Prospectus, primarily due to higher amount of revenue for strong demand on our high quality wafers and lower amount of operating expenses due to our cost control efforts.

CHARITABLE DONATIONS

The Company did not make any charitable and other donations during the year under review.

Report of the Directors

PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment of the Group for the year ended 31 December 2009 are set out in note 16 to the consolidated financial statements.

A surplus of approximately RMB28,036,000 arising as a result of an independent valuation of the Group's property as at 31 July 2009 carried out by American Appraisal China Limited have not been incorporated in the Group's consolidated financial statements for the year ended 31 December 2009. It is the Group's policy to state its property, plant and equipment at cost less subsequent accumulated depreciation and accumulated impairment losses. If such revaluation surplus was included in the Group's consolidated financial statements, additional annual depreciation charges of approximately RMB1,396,000 would be incurred.

SHARE CAPITAL AND PREFERRED SHARE CAPITAL

Details of the movements in share capital and preferred share capital of the Company during the financial year are set out in notes 28 and 29 to the consolidated financial statements.

DIRECTORS

The Directors during the financial year and as of the date of this annual report were:

Executive Directors
Mr. John Zhang (Chairman)
Ms. Chau Kwok Keung
Mr. Shi Cheng Qi

Non-Executive Director
Mr. He Xin *(resigned on 26 March 2010)*
Mr. Phen, Chun Shing Vincent *(appointed on 26 March 2010)*

Independent Non-Executive Directors
Mr. Daniel DeWitt Martin *(appointed on 31 July 2009)*
Mr. Kang Sun *(appointed on 31 July 2009)*
Mr. Leung Ming Shu
Dr. Wu Po Chi *(resigned on 5 May 2009)*
Mr. Lawrence Lee *(resigned on 5 May 2009)*

The Company has received annual confirmations of independence from each of the existing independent non-executive Directors in accordance with Rule 3.13 of the Listing Rules. The Company considers that all the independent non-executive Directors are independent in accordance with the Listing Rules.

In accordance with article 84 of the Company's articles of association, Mr. John Zhang, Mr. Chau Kwok Keung and Mr. Phen, Chun Shing Vincent, who was appointed on 26 March 2010 to fill the casual vacancy resulted from the resignation of Mr. He Xin on the same date, will retire from the Board by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election. No Director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and senior management are set out on pages 13 to 16 of this annual report.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed below, there was no contract of significance to which the Company, its holding company, or any of its subsidiaries was a party, and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted during or at the end of the year ended 31 December 2009.

DIRECTORS' SERVICE CONTRACTS

Each of the Directors in the Board has entered into a service contract with the Company for an initial fixed term of two years commencing from 26 March 2010 and 30 October 2009 for Mr. Phen Chun Shing Vincent and all other Directors, respectively, and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other, which notice shall not expire until after the fixed term. No director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2009, the Directors and the chief executive of the Company and their respective associates had the following interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which have been notified to the Company and the Hong Kong Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO, including interests and short positions which the Directors and the chief executive of the Company are taken and deemed to have under such provisions of the SFO, or which are required to be and are recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code:

Long positions in the Company:

Name of Director	Nature of interest	Number of shares interested	Approximate percentage of interest in the issued share capital of the Company
Mr. John Zhang[1]	Beneficial owner, interest in a controlled corporation, interest of spouse and interest of children under 18	663,867,550	64.34%
Mr. Chau Kwok Keung	Beneficial owner	9,676,139	0.94%
Mr. Kang Sun[2]	Beneficial owner	249,574	0.00%
Mr. Daniel DeWitt Martin[3]	Beneficial owner	199,659	0.00%
Mr. Leung Ming Shu[4]	Beneficial owner	124,787	0.00%

Notes:

(1) Mr. Zhang legally owns the entire issued share capital of Fonty, which beneficially owns 564,037,844 Shares. Mr. Zhang is therefore deemed to be interested in all the Shares held by Fonty. Mr. Zhang is also deemed to be interested in 99,829,706 Shares for the purposes of the SFO, which are beneficially owned by Mr. Zhang, Mr. Zhang's spouse and child under the age of 18, as beneficiaries of JZ GRAT of 2009, an irrevocable grantor retained annuity trust set up by Mr. Zhang for the benefit of himself and his family members and of which J.P. Morgan Trust Company Delaware is the trustee.

(2) The 249,573 Shares in which Mr. Kang Sun is deemed to be interested represent 249,574 Shares which may be issued to him upon the exercise of the Pre-IPO Share Options granted to him on 3 August 2009 and 2 October 2009.

(3) The 199,659 Shares in which Mr. Daniel DeWitt Martin is deemed to be interested represent 199,659 Shares which may be issued to him upon the exercise of the Pre-IPO Share Options granted to him on 3 August 2009 and 2 October 2009.

(4) The 124,787 Shares in which Mr. Leung Ming Shu is deemed to be interested represent 124,787 Shares which may be issued to him upon the exercise of the Pre-IPO Share Options granted to him on 3 August 2009 and 2 October 2009.

Save as disclosed above, as at 31 December 2009, none of the Directors or chief executive of the Company had or was deemed to have any interests or short position in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which had been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which had been notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

At no time was the Company, its holding company, or any of its subsidiaries a party to any arrangements to enable the Directors and chief executive of the Company (including their spouse and children under 18 years of age) to hold any interest or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporations (within the meaning of Part XV of the SFO).

SHARE OPTION SCHEMES

Pre-IPO Share Option Scheme

The Company has adopted a share option scheme on 2 June 2008 (the "**Pre-IPO Share Option Scheme**") for the purpose of giving its employees an opportunity to have a personal stake in the Company and helping motivate its employees to optimize their performance and efficiency, and retaining its employees whose contributions are important to the long-term growth and profitability of the Group. Options to subscribe for an aggregate of 574,020 Shares (the "**Underlying Shares**") were granted to three independent non-executive Directors on 3 August 2009 and 2 October 2009, in respect of 230,000 Underlying Shares and 344,020 Underlying Shares, respectively. The exercise price per Share is HK$2.51, which is at a 19.5% premium to the final Offer Price in the Global Offering. No further options would be granted under the Pre-IPO Share Option Scheme on or after the Listing Date.

All options granted under the Pre-IPO Share Option Scheme (the "Pre-IPO Share Options") can only be exercised in the following manner: (a) Shares representing 1/12th of the Shares which may be issued upon the exercise of options granted under the Pre-IPO Share Option Scheme shall vest on 1 November 2009; (b) from 1 November 2009 onwards, the remaining 11/12th of the Underlying Shares shall vest in equal quarterly instalments of 1/12th of the Underlying Shares at the end of each three-month period subject to continued employment with our Company during that period and all other terms and conditions as described in the Pre-IPO Share Option Scheme; and (c) all outstanding Pre-IPO Share Options shall lapse on the date falling 10 years from the offer date of the Pre-IPO Share Options.

There was no exercise of any Pre-IPO Share Options granted for the year ended 31 December 2009.

Share Option Scheme

The Company has adopted the Share Option Scheme on 2 October 2009 for the purpose of motivating eligible persons to optimize their future contributions to the Group and/or reward them for their past contributions, attracting and retaining or otherwise maintaining on-going relationships with such eligible persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group.

The maximum number of Share which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Group shall not in aggregate exceed 10% of the Shares in issued as at the Listing Date, that is, 100,000,000 Shares. No option may be granted to any participant of the Share Option Scheme such that the total number of Shares issued and to be issued upon exercise of the options granted and to be granted to that person in any 12-month period up to the date of the latest grant exceeds 1% of the Company's issued share capital from time to time.

An option may be exercised in accordance with the terms of the Share Option scheme at any time during a period as determined by the Board and not exceeding 10 years from the date of the grant. There is no minimum period for which an option must be held before it can be exercised. Participants of the Share Option Scheme are required to pay the Company HK$1.0 upon acceptance of the grant on or before the 28 days after the offer date. The exercise price of the options is determined by the Board in its absolute discretion and shall not be less than whichever is the highest of:

(a) the nominal value of a Share;

(b) the closing price of a Share as stated in the Hong Kong Stock Exchange's daily quotations sheets on the offer date; and

(c) the average closing price of a Share as stated in the Hong Kong Stock Exchange's daily quotation sheets for the five Business Days immediately preceding the offer date.

The Share Option Scheme shall be valid and effective for a period of 10 years from the Listing Date, after which no further options will be granted or offered.

No options have been granted under the Share Option Scheme since its adoption up to 31 December 2009.

Report of the Directors

ARRANGEMENT FOR DIRECTORS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed in "Share Option Schemes" above, at no time during the year were rights to acquire benefits by means of the acquisition of share in or debentures of the Company granted to any Director of the Company or their respective spouses or minor children, or were such rights exercised by them, or was the Company, its holding company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

So far as is known to any Director or chief executive of the Company, as at 31 December 2009, the persons or corporations (other than Director or chief executive of the Company) who had interest or short positions in the shares and underlying shares of the Company which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO were as follows:

Name of Shareholders	Nature of interest	Number of shares interested	Approximate percentage of interest in the issued share capital of the Company
Mr. John Zhang[1]	Beneficial owner, interest in a controlled corporation, interest of spouse and interest of children under 18	663,867,550	64.34%
Fonty Holdings Limited	Beneficial owner	564,037,844	54.67%
J.P. Morgan Trust Company of Delaware[2]	Trustee of a trust	99,829,706	9.68
Ms. Carrie Wang[3]	Beneficiary of a trust	99,829,706	9.68
Mr. Alan Zhang[3]	Beneficiary of a trust	99,829,706	9.68
Tai Fook Fund Managers Limited[4]	Interest in a controlled corporation	61,893,203	6.00
Taifook (BVI) Limited[4]	Interest in a controlled corporation	61,893,203	6.00
Taifook Investment Management Inc.[4]	Interest in a controlled corporation	61,893,203	6.00
Taifook Securities Group Limited[4]	Interest in a controlled corporation	61,893,203	6.00
CMS Capital (HK) Co., Limited (formerly known as "CMTF Asset Management Limited")[4]	Interest in a controlled corporation	61,893,203	6.00
CMTF Private Equity One[4]	Beneficial owner	61,893,203	6.00

Note:

(1) Mr. Zhang legally owns the entire issued share capital of Fonty, which beneficially owns 564,037,844 Shares. Mr. Zhang is therefore deemed to be interested in all the Shares held by Fonty. Mr. Zhang is also deemed to be interested in 99,829,706 Shares for the purposes of the SFO, which are beneficially owned by Mr. Zhang, Mr. Zhang's spouse and child under the age of 18, as beneficiaries of JZ GRAT of 2009, an irrevocable grantor retained annuity trust set up by Mr. Zhang for the benefit of himself and his family members and of which J.P. Morgan Trust Company of Delaware is the trustee.

(2) J.P. Morgan Trust Company of Delaware is the legal owners of 99,829,706 Shares as trustee for JZ GRAT of 2009.

(3) Ms. Carrie Wang is the spouse of Mr. John Zhang and Mr. Alan Zhang is a child of Mr. John Zhang under the age of 18. Each of Ms. Carrie Wang and Mr. Alan Zhang is a beneficiary of JZ GRAT of 2009 and is deemed to be interested in the 99,829,706 Shares held by J.P. Morgan Trust Company of Delaware as trustee for JZ GRAT of 2009.

(4) Each of Tai Fook Fund Managers Limited, Taifook (BVI) Limited, Taifook Investment Management Inc., Taifook Securities Group Limited, CMS Capital (HK) Co., Limited is interested in the 61,893,203 beneficially held by CMTF Private Equity One, a company controlled by each of them.

Save as disclosed above, as at 31 December 2009, the Directors of the Company are not aware of any other person or corporation having an interest or short position in shares and underlying shares of the Company which would require to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2009.

CONTRACTS WITH CONTROLLING SHAREHOLDERS

No contract of significance has been entered into between the Company or any of its subsidiaries and the controlling shareholders during the year ended 31 December 2009.

NON-COMPETE UNDERTAKINGS

Each of the controlling shareholders has confirmed to the Company of his/her compliance with the non-compete undertakings provided to the Company under the Non-competition Deeds (as defined in the Prospectus). The independent non-executive Directors of the Company have reviewed the status of compliance and confirmed that all the undertakings under the Non-competition Deeds have been complied with by the controlling shareholders.

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the Directors is or was interested in any business apart from the Group's business, that competes or competed or is or was likely to compete, either directly or indirectly, with the Group's business at any time during the year ended 31 December 2009 and up to and including the date of this annual report.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Report of the Directors

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of Cayman Islands where the Company is incorporated applicable to the Company.

EMOLUMENT POLICY

The Group's emolument policies are based on the merit, qualifications and competence of individual employees and are reviewed by the remuneration committee periodically.

The emoluments of the Directors are recommended by the remuneration committee and are decided by the Board, having regard to the Group's operating results, individual performance and comparable market statistics.

The Company has adopted two share option scheme to motivate and reward its Directors and eligible employees. Details of the scheme are set out in the paragraph headed "Share Option Schemes" above and note 30 to the consolidated financial statements.

None of the directors waived any emoluments during the year.

RETIREMENT BENEFITS SCHEMES

The Group participates in a defined contribution mandatory provident fund scheme (the "MPF Scheme") established under the Mandatory Provident Fund Schemes Ordinance in December 2000 for eligible employees. Contributions by the Group, which are matched by the employees, are made based on a percentage of the employees' basic salaries and are charged to the consolidated income statements as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group and are invested in funds under the control of independent trustees. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the PRC subsidiaries are members of the state-managed retirement benefits scheme operated by the PRC government. The PRC subsidiaries are required to contribute certain percentages of basic salaries of the employees to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme. The contributions are charged to the consolidated income statements as they become payable in accordance with the rules of the state-managed retirement benefits scheme.

The Group has no other material obligation for the payment of pension benefits beyond the annual contributions described above.

MAJOR CUSTOMERS AND SUPPLIERS

Aggregate sales attributable to the Group's largest and five largest customers were 17.2% and 58.0% of the Group's total sales respectively.

Aggregate purchases attributable to the Group's largest and five largest suppliers were 35.1% and 64.1% of the Group's total purchases respectively.

At no time during the year did a Director, his/her associate(s) or a Shareholder, which to the knowledge of the Director owns more than 5% of the Company's share capital) have an interest in any of the Group's five largest customers and suppliers.

AUDITOR

Deloitte Touche Tohmatsu will retire and, being eligible, offer themselves for re-appointment. A resolution for their re-appointment as auditors of the Company will be proposed at the forthcoming annual general meeting of the Company.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the Company has maintained the prescribed public float of not less than 25% of the Company's issued Shares as required under the Listing Rules for the period from the Listing Date to 31 December 2009.

BANK LOANS AND OTHER BORROWINGS

Particulars of short-term bank loans of the Group as at 31 December 2009 are set out in note 27 to the consolidated financial statements. Other than such short-term bank loans, the Group had no other bank loans or borrowings.

SUMMARY FINANCIAL INFORMATION

A summary of the results and of the assets and liabilities of the Group for the four financial years ended 31 December 2009 is set out on page 3 of this annual report.

On behalf of the Board
John Zhang
Chairman

Shanghai, 29 March 2010

Corporate Governance Report

Good corporate governance is conducive to enhancing overall performance, transparency and accountability and is essential in modern corporate administration. The Board of Directors continuously observes the principles of good corporate governance in the interests of Shareholders and devotes considerable effort to identifying and formalizing best practice.

CORPORATE GOVERNANCE CODE

The Company was a private company for most of the year under review as it was only listed on the Main Board of the Stock Exchange on 30 October 2009. Upon the listing of the Company, the Company has complied with the vast majority of the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

In accordance with the requirement of the Listing Rules, the Company has established an audit committee with defined terms of reference and appointed a chief financial controller to oversee the financial reporting procedures and internal control of the Group. The Company has also established a nomination committee and a remuneration committee with defined terms of reference.

As the Company was listed on the Stock Exchange on 30 October 2009, no audit committee meeting of the Company has been held during the financial year ended 31 December 2009, and deviated from code provision C3.3(e)(i) of the Corporate Governance Code. The first audit committee meeting of the Company was held on 1 March 2010, which was after the year under review. Going onward, the Company will convene audit committee meeting on a quarterly basis if feasible but in any event at least once a year in compliance with code provision C3.3(e)(i) of the Corporate Governance Code

Since the listing of the shares of the Company on the Main Board of the Stock Exchange on 30 October 2009, all code provisions set out in the Code were fulfilled by the Company except for the deviation from code provision C3.3(e)(i) as explained above and the deviation from code provision A.2.1 as disclosed below.

(A) BOARD OF DIRECTORS

The overall management of the Company's operation is vested in the Board.

The Board takes overall responsibility to oversee all major matters of the Group, including the formulation and approval of all policy matters, overall strategic development of the Group, monitoring and controlling the Group's operation and financial performance, internal control and risk management systems, and monitoring of the performance of the senior management. The Directors have to make decisions objectively in the interests of the Company.

The day-to-day management, administration and operation of the Company are delegated to the chief executive officer and the senior management of the Company. The delegated functions and work tasks are periodically reviewed.

The Board comprises seven Directors, consisting of three executive Directors, one non-executive Director and three independent non-executive Directors. Biographical information of the Directors are set out in the section headed "Directors and Senior Management" of this annual report. To the best knowledge of the Company, there is no other financial, business or family relationship among the members of the Board.

Model Code

The Company has also adopted the Model Code set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by the Directors. Having made specific enquiry with all Directors of the Company, all Directors confirmed that they have complied with the required standard set out in the Model Code and its code of conduct regarding directors' securities transactions from the Listing Date to 31 December 2009.

Chairman and Chief Executive Officer

Under provision A.2.1 of the Corporate Governance Code, the roles of the chairman and chief executive officer should be separate and should not be performed by the same individual. The Group does not at present separate the roles of the chairman and chief executive officer. Mr. John Zhang is the chairman and chief executive officer of the Group. He has extensive experience in solar wafer industry and is responsible for the overall corporate strategies, planning and business management of the Group. The Board considers that vesting the roles of chairman and chief executive officer in the same individual is beneficial to the business prospects and management of the Group. The balance of power and authorities is ensured by the operation of the Board and the senior management, which comprise experienced and high caliber individuals. The Board currently comprises three executive Directors, one non-executive Director and three independent non-executive Directors and has a strong independence element in its composition.

Independent Non-Executive Directors

Independent non-executive Directors have played a significant role in the Board by bringing their independent judgment at the Board meeting and scrutinizing the Group's performance. Their views carry significant weight in the Board's decision, in particular, they bring an impartial view to bear on issues of the Group's strategy, performance and control. All independent non-executive Directors possess extensive academic, professional and industry expertise and management experience and have provided their professional advices to the Board. The independent non-executive Directors provide independent advice on the Group's business strategy, results and management so that all interests of Shareholders can be taken into account, and the interests of the Company and its Shareholders can be protected.

The Board has three independent non-executive Directors with one of them, Mr. Leung Ming Shu, possessing appropriate professional accounting qualifications and financial management expertise in compliance with the requirements set out in Rule 3.10(1) and (2) of the Listing Rules.

The Company has received annual confirmations of independence from each of the existing independent non-executive Directors in accordance with Rule 3.13 of the Listing Rules. The Company considers that all the independent non-executive Directors are independent in accordance with the Listing Rules.

Corporate Governance Report

Training and Support for Directors

All Directors must keep abreast of their collective responsibilities. Any newly appointed Director would receive an induction package covering the Group's businesses and the statutory regulatory obligations of a director of a listed company. The Group also provides briefings and other training to develop and refresh the Directors' knowledge and skills.

Directors' and Officers' Insurance

The Company has arranged appropriate insurance cover in respect of potential legal actions against its Directors and Officers.

Meetings

The Board meets to discuss the overall strategy as well as the operation and financial performance of the Group from time to time. Directors may participate either in person or through electronic means of communications. The number of the meetings held and the attendance of each Director at these meetings for the year ended 31 December 2009 have been set out as follows:

	Board Meeting
No. of meetings held	9
No. of meetings attended	
Executive Directors	
Mr. John Zhang *(chairman)*	9/9
Mr. Shi Cheng Qi	9/9
Mr. Chau Kwok Keung	9/9
Non-Executive Director	
Mr. He Xin[1]	9/9
Independent Non-Executive Directors	
Mr. Leung Ming Shu	9/9
Mr. Daniel DeWitt Martin[2]	6/9
Mr. Kang Sun[2]	6/9

Note:

1. Mr. He Xin resigned as a Director on 26 March 2010. On the same date, Mr. Phen, Chun Shing Vincent was appointed as a Director to fill the vacancy resulted from Mr. He Xin's resignation.

2. Mr. Daniel DeWitt Martin and Mr. Kang Sun were appointed on 31 July 2009.

All Directors are provided with relevant materials relating to the matters brought before the meetings. They have separate and independent access to the senior management and the company secretary of the Company at all time and may seek independent professional advice at the Company's expense. Where queries are raised by Directors, steps would be taken to respond as promptly and fully as possible. All Directors have the opportunity to include matters in the agenda for Board meetings. Notices of at least 14 days of Board meetings are given to the Directors and Board procedures comply with the articles of association of the Company, as well as relevant rules and regulations.

Appointments, Re-election and removal of Directors

Each of the executive Directors, non-executive Director and independent non-executive Directors of the Company has entered into a service contract with the Company for a specific term, and is subject to retirement by rotation and reelection at an annual general meeting at least once every three years in accordance with the articles of association of the Company. The articles of association of the Company provide that any Director appointed by the Board to fill a casual vacancy in the Board shall hold office until the first general meeting of the Company after his/her appointment and be subject to re-election at such meeting, and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

Board Committees

The Board has established (i) audit committee, (ii) remuneration committee; and (iii) nomination committee, with defined terms of reference. The terms of reference of the board committees which explain their respective role and the authority delegated to them by the Board are available upon request. The board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice and other assistance in appropriate circumstances, at the Company's expenses.

Audit Committee

The Company established an audit committee pursuant to a resolution of the Directors passed on 2 October 2009 in compliance with Rule 3.21 of the Listing Rules. The primary duties of the audit committee are to make recommendation to the Board on the appointment and removal of external auditors, review the financial statements and material advice in respect of financial reporting, and oversee the internal control procedures of the Company. Their written terms of reference are in line with the Corporate Governance Code provisions. The audit committee consists of three members, namely, Mr. Leung Ming Shu, Mr. Daniel DeWitt Martin and Mr. Kang Sun, all of whom are independent non-executive Directors. Mr. Leung Ming Shu is the chairman of the audit committee.

The audit committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2009, including the accounting principles and practice adopted by the Group.

The primary duties of the Audit Committee are mainly to review the material investment, capital operation an material financial system of our Company; to review the accounting policy, financial position and financial reporting procedures of our Company; to communicate with external audit firms; to assess the performance of internal financial and audit personnel; and to assess the internal controls of the Company.

Since the audit committee was only established on 2 October 2009, the audit committee did not hold any meeting during the year under review.

Remuneration Committee

The Company established a remuneration committee on 2 October 2009 with written terms of reference. The primary duties of the remuneration committee are to make recommendation to the Board on the overall remuneration policy and structure relating to all Directors and senior management of the Company, review performance based remuneration, and ensure none of the Directors determine their own remuneration. Their written terms of reference are in line with the Corporate Governance Code provisions. The remuneration committee consists of three members, namely, Mr. John Zhang, Mr. Kang Sun and Mr. Leung Ming Shu. Mr. John Zhang is the chairman of the remuneration committee.

Since the remuneration committee was only established on 2 October 2009, the remuneration committee did not hold any meeting during the year under review.

Nomination Committee

The Company established a nomination committee on 2 October 2009 with written terms of reference. The primary duties of the nomination committee are to review the structure, size and composition of the Board on a regular basis and to recommend to the Board the suitable candidates for directors after consideration of the nominees' independence and quality in order to ensure the fairness and transparency of all nominations. In identifying suitable director candidates and making such recommendations to the Board, the nomination committee would also take into account various aspects of a candidate, including but not limited to his/her education background, professional experience, experience with the relevant industry and past directorships. Their written terms of reference are in line with the Corporate Governance Code provisions. The nomination committee consists of three members, namely, Mr. John Zhang, Mr. Daniel DeWitt Martin and Mr. Kang Sun. Mr. John Zhang is the chairman of the nomination committee.

Subsequent to the end of the year under review, Mr. He Xin resigned as a Director and Mr. Phen, Chun Shing Vincent was appointed as a Director on 26 March 2010. Such appointment has been considered by the nomination committee.

Since most of the present Directors were appointed prior to the Company's listing and the nomination committee was only established on 2 October 2009, the nomination committee did not hold any meeting during the year under review.

(B) FINANCIAL REPORTING

The Board, supported by the chief financial officer and the finance department, is responsible for the preparation of the financial statements of the Company and the Group for each financial year which shall give a true and fair view of the financial position, performance and cash flow of the Company and its subsidiaries for that period. The Board is not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern.

The responsibilities of Deloitte Touche Tohmatsu, the Company's external auditors, on the financial statements are set out in the section headed "Independent Auditors' Report" in this annual report.

External Auditor's Remuneration

The Company engages Deloitte Touche Tohmatsu as its external auditor. Details of the fees paid/payable to Deloitte Touche Tohmatsu during the year are as follows:

	RMB'000
Audit services	959
Non-audit services	634
	1,593

(C) INTERNAL CONTROLS

The Board acknowledges its responsibility to ensure that sound and effective internal control systems are maintained so as to safeguard the Group's assets and the interest of shareholders. The Board has developed its systems of internal control and risk management and is also responsible for reviewing and maintaining an adequate internal control system to safeguard the interests of the shareholders and the assets of the Company.

During the year, the Board has conducted reviews of the internal control system of the Company and considered the internal control system of the Company has implemented effectively. Such review covered financial, compliance and operational controls as well as risk management mechanisms.

(D) COMMUNICATIONS WITH SHAREHOLDERS

The Board recognizes the importance of maintaining clear, timely and effective communication with shareholders of the Company and investors. Therefore, the Group is committed to maintaining a high degree of transparency to ensure the investors and the shareholders of the Company receiving accurate, clear, comprehensive and timely information of the Group by the publication of annual reports, announcements and circular. The Company also publishes all corporate correspondence on the Company's website www.comtecsolar.com. The Board maintain regular dialogues with institutional investors and analysts from time to time to keep them informed of the Group's strategy, operations, management and plans. Members of the Board and of the various board committees would attend the annual general meeting of the Company and answer questions raised during the meeting. Separate resolutions would be proposed at the general meeting on each substantially separate issue.

The chairman of the general meetings of the Company would explain the procedures for conducting poll before putting a resolution to vote. The results of the voting by poll would be declared at the meeting and published on the websites of the Stock Exchange and the Company respectively.

Shareholders may put forward their proposals or inquiries to the Board by sending their written request to the Company's correspondence address in Hong Kong.

Independent Auditor's Report

Deloitte.
德勤

TO THE MEMBERS OF COMTEC SOLAR SYSTEMS GROUP LIMITED
(FORMERLY KNOWN AS COMTEC SILICON GROUP LIMITED)
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Comtec Solar Systems Group Limited (formerly known as Comtec Silicon Group Limited, the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 34 to 98, which comprise the consolidated statement of financial position as at 31 December 2009 and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

Management are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2009 and of the Group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

29 March 2010

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2009

	Notes	2009 *RMB'000*	2008 *RMB'000*
Revenue	7	506,876	762,103
Cost of sales		(451,760)	(530,802)
Gross profit		55,116	231,301
Other income	8	6,699	47,133
Distribution and selling expenses		(2,221)	(1,401)
Administrative and general expenses		(18,185)	(23,888)
Other expenses	9	(3,410)	(80,285)
Interest expense	10	(6,669)	(6,295)
Profit before taxation	11	31,330	166,565
Taxation	13	(6,389)	(35,086)
Profit and total comprehensive income for the year, attributable to the owners of the Company		24,941	131,479
		RMB cents	*RMB cents*
Earnings per share – Basic	15	3.22	23.54
– Diluted	15	3.22	23.54

Consolidated Statement of Financial Position

at 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
Non-current assets			
Property, plant and equipment	16	427,582	245,615
Prepaid lease payments – non-current	17	15,209	15,531
Deposits paid for acquisition of property, plant and equipment	16	39,672	22,931
Advance to suppliers	18	183,810	183,305
Deferred tax assets	20	1,451	6,551
		667,724	473,933
Current assets			
Inventories	21	108,354	33,083
Trade and other receivables	22	166,128	92,824
Bills receivable	22	32,006	—
Advance to suppliers	18	36,903	45,538
Prepaid lease payments – current	17	322	322
Taxation recoverable	26	—	6,470
Bank balances and cash	23	399,238	165,091
		742,951	343,328
Current liabilities			
Trade and other payables	24	198,537	108,788
Customers' deposits received	25	25	202
Taxation payable	26	714	5,103
Short-term bank loans	27	146,000	140,000
		345,276	254,093
Net current assets		397,675	89,235
Total assets less current liabilities		1,065,399	563,168

Consolidated Statement of Financial Position - Continued

at 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
Capital and reserves			
Share capital	28	910	239
Preferred share capital	29	—	11
Reserves		1,060,715	559,667
Total equity		1,061,625	559,917
Non-current liabilities			
Deferred tax liabilities	20	3,774	3,251
		1,065,399	563,168

The consolidated financial statements on pages 34 to 98 were approved and authorised for issue by the Board of Directors on 29 March 2010 and are signed on its behalf by:

DIRECTOR

JOHN ZHANG

DIRECTOR

CHAU KWOK KEUNG

Consolidated Statement of Changes in Equity

for the year ended 31 December 2009

	Share capital *RMB'000*	Preferred share capital *RMB'000*	Share premium *RMB'000*	Share options reserve *RMB'000*	Restricted shares reserve *RMB'000* *(note 30(b))*	Special reserve *RMB'000* *(note a)*	Statutory surplus reserve *RMB'000* *(note b)*	Retained profits *RMB'000*	Total *RMB'000*
At 1 January 2008	—	—	—	—	—	11,012	6,715	130,474	148,201
Profit and total comprehensive income for the year	—	—	—	—	—	—	—	131,479	131,479
Issue of new shares of the Company	238	11	295,523	—	—	—	—	—	295,772
Issue of unvested restricted shares *(as defined in note 30)*	1	—	9,574	—	(9,575)	—	—	—	—
Recoginition of equity-settled share-based payments	—	—	—	41,932	—	—	—	—	41,932
Transfer	—	—	—	(41,932)	—	—	16,307	25,625	—
Distribution to Mr. John Zhang upon the Cessation (as defined below) of the Relevant Business *(note c below)*	—	—	—	—	—	—	—	(6,411)	(6,411)
Dividends paid	—	—	—	—	—	—	—	(51,056)	(51,056)
At 31 December 2008	239	11	305,097	—	(9,575)	11,012	23,022	230,111	559,917
Profit and total comprehensive income for the year	—	—	—	—	—	—	—	24,941	24,941
Issue of new preferred shares *(note 29(c))*	—	11	(11)	—	—	—	—	—	—
Issue of unvested restricted shares *(as defined in note 30)*	8	—	28,375	—	(28,383)	—	—	—	—
Conversion of preferred shares to ordinary shares of the Company *(note 29(d))*	22	(22)	—	—	—	—	—	—	—
Capitalisation issue of new shares *(note 28(h))*	393	—	(393)	—	—	—	—	—	—
Issue of new shares	248	—	514,231	—	—	—	—	—	514,479
Transaction costs attributable to issue of new shares	—	—	(37,780)	—	—	—	—	—	(37,780)
Transfer	—	—	—	—	—	—	25,703	(25,703)	—
Recognition of equity-settled share-based payments	—	—	—	68	—	—	—	—	68
At 31 December 2009	910	—	809,519	68	(37,958)	11,012	48,725	229,349	1,061,625

Consolidated Statement of Changes in Equity - Continued

for the year ended 31 December 2009

Notes:

a. This reserve arises on a group reorganisation which took place in the year ended 31 December 2007. The difference between the nominal value of the shares acquired and the acquisition consideration is treated as special reserve arising on group reorganisation and recorded in special reserve.

b. Statutory surplus reserve

In accordance with relevant laws and regulations for foreign investment enterprises in The People's Republic of China (the "PRC"), the PRC subsidiaries are required to transfer 10% of their profit after taxation reported in their statutory financial statements prepared under the PRC GAAP to the statutory surplus reserve. Allocation shall be approved by the shareholders. The appropriation to statutory surplus reserve may cease if the balance of the statutory surplus reserve has reached 50% of the PRC subsidiaries' registered capital.

The PRC subsidiaries may, upon the approval by a resolution, convert their surplus reserves into capital in proportion to their then existing shareholdings. However, when converting the PRC subsidiaries' statutory surplus reserve fund into capital, the balance of such reserve remaining unconverted must not be less than 25% of the registered capital.

c. Distribution upon the cessation of the Relevant Business (as defined in note 2)

The amount represents the bank balance of Comtec Ltd after settlement of current account with the shareholder that has been distributed to Mr. John Zhang ("Mr. Zhang") on 30 June 2008. Details of the transaction refers to note 14.

Consolidated Statement of Cash Flows

for the year ended 31 December 2009

	2009	2008
	RMB'000	*RMB'000*
Operating activities		
Profit before taxation	31,330	166,565
Adjustments for:		
Interest income	(1,147)	(2,988)
Interest expenses	6,669	6,295
Gain on disposal of property, plant and equipment	(3)	—
Depreciation of property, plant and equipment	22,941	20,835
Share-based payment expenses	68	41,932
Release of prepaid lease payments	322	138
Net foreign exchange gain	—	(4,456)
Impairment loss on goodwill	—	136
Written-off of property, plant and equipment	—	7
Write-down of inventories	—	43,412
Impairment of advance to suppliers	—	8,984
Operating cash flows before movements in working capital	60,180	280,860
Increase in inventories	(49,170)	(42,848)
Increase in trade and other receivables	(73,304)	(48,921)
Increase in bills receivable	(32,006)	—
Advance to suppliers	(17,971)	(140,911)
Increase in trade and other payables	41,905	17,905
Decrease in customers' deposits received	(177)	(148,769)
Cash used in operations	(70,543)	(82,684)
Tax paid	(5,155)	(71,429)
Tax refunded	6,470	—
Net cash used in operating activities	(69,228)	(154,113)

Consolidated Statement of Cash Flows - Continued

for the year ended 31 December 2009

	Note	2009 RMB'000	2008 RMB'000
Investing activities			
Interest received		1,147	2,988
Proceeds from disposals of property, plant and equipment		294	448
Deposits paid and purchase of property, plant and equipment		(172,613)	(72,648)
Acquisition of a subsidiary	32	—	(136)
Prepaid lease payments		—	(11,062)
Net cash used in investing activities		(171,172)	(80,410)
Financing activities			
Proceeds from issue of new shares		514,479	—
Bank loans raised		36,000	140,000
Interest paid		(8,152)	(6,295)
Repayment of bank loans		(30,000)	(20,000)
Payment of transaction costs attributable to issue of new shares		(37,780)	(4,802)
Advance from a related company		—	650
Repayment to a shareholder		—	(411)
Capital contributions		—	140,384
Net cash from financing activities		474,547	249,526
Increase in cash and cash equivalents		234,147	15,003
Cash and cash equivalents at beginning of the year		165,091	150,088
Cash and cash equivalents at end of the year, represented by bank balances and cash		399,238	165,091

Notes to the Consolidated Financial Statements

for the year ended 31 December 2009

1. GENERAL

The Company is a public limited company incorporated in the Cayman Island, and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 30 October 2009. Its parent company and ultimate holding company is Fonty Holdings Limited ("Fonty") incorporated in the British Virgin Islands with limited liability. Its ultimate controlling party is Mr. Zhang. The addresses of the registered office and principal place of business of the Company are disclosed in the annual report.

The Company is an investment holding company. The principal activities of the Company's subsidiaries and the Relevant Business (as defined in note 2) are the manufacturing and sales of solar wafers, semiconductors and related products. The details of the Company's subsidiaries are set out in note 38.

2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

Upon a group reorganisation (the "Group Reorganisation") in preparation for the listing of the Company's shares on the Stock Exchange, the Company has become the holding company of its subsidiaries (together with the Company and the Relevant Business (as defined below) collectively referred to as the "Group") on 31 December 2007. Details of the Group Reorganisation are set out in the paragraph headed "Corporate Reorganisation" in Appendix VI to the prospectus dated 19 October 2009 issued by the Company.

Mr. Zhang carried on business as a sole proprietorship in the United States under the trade name of Comtec Ltd. The principal operations of Comtec Ltd were (1) the purchase of wafers manufactured with imported polysilicon feedstock from either one of Shanghai Comtec Semiconductor Co., Ltd. ("Comtec Semi") and Shanghai Comtec Solar Technology Co., Ltd. ("Comtec Solar") (the "Shanghai Subsidiaries") and then re-selling the wafers back to another Shanghai Subsidiary; (2) acting as the arm of the Shanghai Subsidiaries of sourcing and sales of goods to outsider customers ((1) and (2) are collectively referred to as the "Relevant Business"); and (3) holding of entire equity interest in Comtec Solar on behalf of Mr. Zhang prior to the group reorganisation. On 30 June 2008, Comtec Solar (Hong Kong) Limited ("Comtec Solar (HK)") has assumed the Relevant Business while Comtec Ltd ceased all operations on 30 June 2008. All assets and liabilities, except for bank balance and taxation payable, have been settled before Comtec Ltd ceased its business on 30 June 2008. The remaining bank balance of Comtec Ltd, after settlement of current account with the shareholder, has been distributed to Mr. Zhang on 30 June 2008. Comtec Ltd, not being a separate legal entity, did not form part of Group.

The Company, its subsidiaries and Comtec Ltd have been under the common control by Mr. Zhang throughout the two years ended 31 December 2009 or since their respective date of incorporation, establishment or up to 30 June 2008 (date of cessation of Comtec Ltd's operations) where this is a shorter period. The Group comprising of the Company and its subsidiaries resulting from the group reorganisation and the Relevant Business conducted by Comtec Ltd is regarded as a continuing entity. Accordingly, the consolidated financial statements of the Group have been prepared on the basis as if the Company has always been the holding company of the companies and business comprising of the Group throughout the two years ended 31 December 2009, using the principle of merger accounting as set out in note 4 below.

2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

The consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows include the results and cash flows of the companies and business now comprising of the Group have been prepared by using the principles of merger accounting as if the current group structure had been in existence throughout the the two years ended 31 December 2009 or since their respective date of incorporation or establishment or up to 30 June 2008 (date of cessation of Comtec Ltd's operations) where this is a shorter period. The consolidated statements of financial position of the Group as at 31 December 2008 and 31 December 2009 have been prepared in accordance with the principles of merger accounting to present the assets and liabilities of the companies and business now comprising of the Group as if the current group structure had been in existence as at those dates.

Although the Relevant Business was not formerly transferred to the Company and its subsidiaries, it has been included in the consolidated financial statements for the period from 1 January 2008 to 30 June 2008 (date of cessation of Comtec Ltd's operations) as the directors consider that the historical financial information of the Group should include all relevant activities that have been a part of the Group's history of the manufacturing and sales of solar wafers, semiconductors and related products. Accordingly, the consolidated financial statements reflected all of the Group's activities in the manufacturing and sales of solar wafers, semiconductors and related products, including those functions carried out by Comtec Ltd.

The consolidated financial statements are presented in Renminbi ("RMB"), the functional currency of the Company.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")/CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has applied a number of new and revised standards, amendments to standards and interpretations ("new and revised IFRSs") issued by the International Financial Reporting Interpretations Committee ("IFRIC") of the International Accounting Standards Board ("IASB").

Except as described below, the adoption of the new and revised IFRSs had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

IAS 1 (Revised 2007) Presentation of Financial Statements

IAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.

IFRS 8 Operating Segments

The Group adopted IFRS 8 with effect from 1 January 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker, in order to allocate resources to segments and to assess their performance.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")/CHANGES IN ACCOUNTING POLICIES *(continued)*

IAS 23 (Revised 2007) Borrowing costs

In previous years, the Group expensed all borrowing costs that were directly attributable to the acquisition, construction or production of a qualifying asset when they were incurred. IAS 23 (Revised 2007) removes the option previously available to expense all borrowing costs when incurred. The adoption of IAS 23 (Revised 2007) has resulted in the Group changing its accounting policy to capitalise all such borrowing costs as part of the cost of the qualifying asset. The Group has applied the revised accounting policy to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009 in accordance with the transitional provisions in IAS 23 (Revised 2007). As the revised accounting policy has been applied prospectively from 1 January 2009, this change in accounting policy has not resulted in restatement of amounts reported in respect of prior accounting periods.

In current year, borrowing costs of approximately RMB 1,483,000 were capitalised as part of the cost of a manufacturing plant. Profit for the year ended 31 December 2009 has therefore been increased by RMB 1,483,000.

At the date of this report, the IASB has issued the following new and revised International Accounting Standards ("IASs"), IFRSs, Amendments, and IFRICs which are not yet effective. The Group has not early adopted the following new and revised standards, amendments, or interpretations that have been issued but are not yet effective:

IFRSs (Amendments)	Amendments to IFRS 5 as part of Improvements to IFRSs issued in 2008[1]
IFRSs (Amendments)	Improvements to IFRSs issued in 2009[2]
IAS 24 (Revised)	Related Party Disclosures[5]
IAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
IAS 32 (Amendment)	Classification of Right Issues[3]
IAS 39 (Amendment)	Eligible hedged Items[1]
IFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[4]
IFRS 1 (Amendment)	Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters[6]
IFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[4]
IFRS 3 (Revised)	Business Combinations[1]
IFRS 9	Financial Instruments[7]
IFRIC 14 (Amendment)	Prepayments of a Minimum Funding Requirement[5]
IFRIC 17	Distributions of Non-cash Assets to Owners[1]
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments[6]

1 Effective for annual periods beginning on or after 1 July 2009
2 Amendments that are effective for annual periods beginning on or after 1 July 2009 or 1 January 2010, as appropriate
3 Effective for annual periods beginning on or after 1 February 2010
4 Effective for annual periods beginning on or after 1 January 2010
5 Effective for annual periods beginning on or after 1 January 2011
6 Effective for annual periods beginning on or after 1 July 2010
7 Effective for annual periods beginning on or after 1 January 2013

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")/CHANGES IN ACCOUNTING POLICIES *(continued)*

IAS 23 (Revised 2007) Borrowing costs *(continued)*

The adoption of IFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after 1 January 2010. IAS 27 (Revised) will affect the Group's accounting treatment for changes in the Group's ownership interest in a subsidiary.

IFRS 9 *Financial Instruments* introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value.

The directors of the Company anticipate that the application of the above and other new or revised standards, amendments, and interpretations will have no material impact on the consolidated financial statements.

4. PRINCIPAL ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost convention and in accordance with the accounting policies set out below which are in conformity with IFRS.

In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial information of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired (other than those acquired under business combinations involving entities under common control) or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

The business combinations under common control are accounted for in accordance with merger accounting. In applying merger accounting, the consolidated financial statements incorporates the financial statement items of the combining entities or businesses as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

4. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Merger accounting for business combinations under common control

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination.

The consolidated statement of comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

Purchase accounting for business combinations other than common control combinations

The acquisitions of businesses under business combination other than common control combinations are accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under *IFRS 3 "Business Combinations"* are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses and is presented separately in the consolidated statements of financial position.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated statements of comprehensive income. An impairment loss for goodwill is not reversed in subsequent periods.

4. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Goodwill *(continued)*

On disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of related sales taxes.

Revenue from sales of goods is recognised when goods are delivered and title has passed.

Revenue from processing services is recognised when the services are provided.

Deposits received from customers prior to meeting the above criteria on revenue recognition are included in the consolidated statement of financial position under current liabilities.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods and services, or administrative purposes (other than construction in progress) are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account of their estimated residual values, using the straight-line method.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated statement of comprehensive income in the year in which the item is derecognised.

4. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Leasing

Leases are classified as finance leases wherever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Prepaid lease payments

Upfront prepayments made for the land use rights and leasehold land are initially recognised on the consolidated statement of financial position as lease prepayments and are expensed in the consolidated statement of comprehensive income on a straight-line basis over the periods of the respective lease.

Government subsidies

Government subsidies are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government subsidies that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Foreign currencies

In preparing the financial statements of each individual group entities, transactions in currencies other than the entity's functional currency (foreign currency) are recorded in the respective functional currency(ies) (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are re-translated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are re-translated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Exchange differences arising on the settlement of monetary items, and on the re-translation of monetary items, are included in profit or loss in the period in which they arise.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale for which the commencement date for capitalisation is on or after 1 January 2009, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the year in which they are incurred.

4. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Retirement benefit costs

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund are charged as expenses when employees have rendered service entitling them to the contributions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in to profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

4. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Impairment losses

At the end of the reporting period, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the year in which it is incurred.

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified as loans and receivables.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments.

4. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Effective interest method (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, bills receivable and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one of more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

– significant financial difficulty of the issuer or counterparty; or
– default or delinquency in interest or principal payments; or
– it becoming probable that the borrower will enter bankruptcy or financial reorganisation.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

4. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified as other financial liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities including trade and other payables and short-term bank loans are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded as the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss. If the Group retains substantially all the risks and rewards of ownership of transferred assets, the Group continues to recognise the financial assets and recognised collateralised borrowings of proceeds received.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

4. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Provision for onerous contracts

When the unavoidable costs of meeting the obligations under a contract exceed the economic benefits expected to be received under this contract, the present obligation under the contract shall be recognised and measured as a provision. Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provision are measured at the directors' best estimate of the expenditure required to settle the obligation at the end of each reporting period, and are discounted to present value where the effect is material.

Share-based payment transactions

Equity-settled share-based payment transactions

Share options and restricted shares granted

The fair values of services received in exchange for awards of share options determined by reference to the grant-date fair value of those share options is recognised as expense over the vesting period on a straight-line basis with a corresponding increase in share options reserve. Restricted shares issued are recognised at fair value of those restricted shares granted at the grant date and is recognised as share capital and share premium with a corresponding increase in restricted shares reserve. The fair value of services received in exchange for awards of restricted shares is recognised as expense over the vesting period on a straight-line basis with a corresponding reduction in the previously recognised restricted shares reserve.

At the end of the reporting period, the Group revises its estimates of the number of share options and restricted shares that are expected to ultimately vest. The impact of the revision of the estimates of the number of share options and restricted shares during the vesting period, if any, is recognised in profit or loss, with a corresponding adjustment to share options reserve (for share options) and restricted shares reserve (for restricted shares). When restricted shares are forfeited, lapsed and cancelled before the vesting date, share capital, share premium, remaining restricted shares reserve (if any) and previously charged expenses (if any) are reversed.

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount of share options previously recognised in share options reserve will be transferred to retained profits.

At the time when the terms of share options and restricted shares are modified during the vesting period, the incremental fair value granted, which represents the excess of fair value of the share options and restricted shares immediately after modification over those of immediately before modification, is expensed over the remaining vesting period of the share options and restricted shares, in addition to the amount based on the grant date fair value of the original share options and restricted shares. At the time when the terms of share options and restricted share are modified after the vesting period, the incremental fair value granted is recognised immediately in profit or loss.

At the time when the share options or restricted shares are cancelled during the vesting period, the Group accounts for the cancellation as an acceleration of vesting, and recognises immediately the amount that otherwise would have been recognised for services received over the remainder of the vesting period. The amount previously recognised in share options reserve or restricted shares reserve will be transferred to retained profits.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In the application of the Group's accounting policies, which are described in note 4, the directors of the Company are required to make judgements and estimates about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and judgements are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

(a) Useful lives and residual value of property, plant and equipment

The Group's management determines the residual values, useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual residual value and useful lives of plant and equipment of similar nature and functions and may vary significantly as a result of technical innovations and keen competitions from competitors, resulting in higher depreciation charge and/or write-off or write-down of technically obsolete assets when residual value or useful lives are less than previously estimated.

(b) Impairment of advance to suppliers and provision for onerous contracts

As detailed in note 18, the Group makes non-cancellable advance payments to raw material suppliers under long-term and short-term purchase agreements which are to be offset against future purchases. In the event when the economic benefits expected to be received under these purchase agreements are less than the unavoidable costs of meeting the contractual obligations; or the financial conditions of these suppliers deteriorate, the Group would impair advance payments to these suppliers and make necessary provision for the present obligation under the contract. The Group does not require collateral or other security against its advance to suppliers. The Group performs onging evaluation of impairment of advance to suppliers and provision for commitment that may become onerous due to a change of market conditions and the financial conditions of its suppliers. The evaluation takes into account the projected revenue, related expenses, capital spending and other costs. When the advance would not be settled as expected, the Group would impair the advance to suppliers and make necessary provision for the present obligation under the agreements.

During the year ended 31 December 2008, the Group recognised an impairment of advance to supplier of approximately RMB8,984,000 (2009: nil).

6. FINANCIAL INSTRUMENTS

The Group's major financial instruments include trade and other receivables, bills receivable, bank balances and cash, trade and other payables and short-term bank loans. Details of these financial instruments are disclosed in respective notes. The Group's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Categories and carrying amounts of financial instruments

The carrying amounts of financial assets and financial liabilities are as follows:

	2009	2008
	RMB'000	*RMB'000*
Financial assets		
Trade and other receivables	122,257	89,710
Bills receivables	32,006	—
Bank balances and cash	399,238	165,091
Total loans and receivables	553,501	254,801
Financial liabilities		
Trade and other payables	180,940	80,314
Short-term bank loans	146,000	140,000
Total liabilities measured at amortised costs	326,940	220,314

Currency risk

The primary economic environment which most of the principal subsidiaries of the Company operate is the PRC and their functional currency is RMB. However, these principal subsidiaries sometimes collect their trade receivables and settle their purchases of materials, machinery and equipment supplies and certain expenses in foreign currencies.

Details of the Group's bank balances and cash, trade and other receivables and trade and other payables that are denominated in foreign currencies, mainly in Hong Kong dollars ("HK$"), USD and European dollars ("Euro") as at 31 December 2009 and 31 December 2008 are set out in respective notes.

The Group currently does not have a foreign currency hedging policy but the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

6. FINANCIAL INSTRUMENTS *(continued)*

Sensitivity analysis

This sensitivity analysis details the Group's sensitivity to a 5% appreciation and depreciation in each relevant foreign currency against functional currency, RMB. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currencies denominated monetary items and adjusts their translation at the end of the year end for a 5% change in foreign currency rates. A positive number below indicates an increase in post-tax profit for the year where the relevant foreign currencies strengthen 5% against RMB. For a 5% weakening of the relevant foreign currency against RMB, there would be an equal and opposite impact on the post-tax profit for the year.

	2009	2008
	RMB'000	*RMB'000*
Euro impact	44	330
HK$ impact	506	8
USD impact	11,048	(368)

Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances and short-term bank loans (see notes 23 and 27 for details of these bank balances and short-term bank loans). The management monitors interest rate exposures and will consider hedging significant interest rate risk should the need arise.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for interest-bearing bank balances and short-term bank loans at the end of each reporting periods and the stipulated changes taking place at the beginning of the financial year and held constant throughout the reporting period in the case of bank balances and short-term bank loans.

A 10 basis points increase or decrease on variable-rate bank balances and 100 basis points increase or decrease on variable-rate bank loans are used when reporting interest rate risk internally to key management personnel and represents managements' assessment of the reasonably possible change in interest rates.

If interest rates on bank balances had been 10 basis points higher and all other variables were held constant, a positive number below indicates an increase in post-tax profit for the year.

	2009	2008
	RMB'000	*RMB'000*
Increase in post-tax profit for the year	299	124

6. FINANCIAL INSTRUMENTS *(continued)*

Sensitivity analysis *(continued)*

The post-tax profit for the year would be decreased by an equal and opposite amount if interest rate on bank balances had been 10 basis points lower and all other variables were held constant.

If the interest rate on bank loans had been 100 basis points higher and all other variables were held constant, a negative number below indicates a decrease in post-tax profit for the year.

	2009	2008
	RMB'000	*RMB'000*
Decrease in post-tax profit for the year	(1,095)	(1,050)

The post-tax profit for the year would be increased by an equal and opposite amount if interest rate on variable-rate bank loans had been 100 basis points lower and all other variables were held constant.

Credit risk

The Group's principal financial assets are trade and other receivables, bills receivable and bank balances and cash. The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties arising from the carrying amount of the respective recognised financial assets as stated in the Group's consolidated statements of financial position.

The Group's credit risk is primarily attributable to the trade and other receivables and bills receivable. In order to minimise the credit risk, the Group's management continuously monitors the credit quality and financial conditions of the customers and the level of exposure to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual advance balance at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on bank balances and cash is limited because majority of the counterparties are state-owned banks with good reputation or banks with good credit rating.

The credit risk of the Group is concentrated on receivables from the Group's top five major customers, including four based in the PRC and one based in the Taiwan (2008: four based in the PRC and one based in the United States) engaged in the sales and manufacturing of solar cells and modules, at 31 December 2009 and 31 December 2008 which amounted to approximately RMB76,317,000 and RMB27,285,000 and accounted for 62.8% and 94.8% of the Group's total trade receivables, respectively. All of the Group's bills receivable are derived from the Group's five major customers at 31 December 2009 (2008: nil). Also, at 31 December 2008, the Group had an amount due from a supplier which was included in other receivables, based in the PRC engaged in the sales and manufacturing of solar cells and modules of approximately RMB55,774,000. In order to minimise the credit risk, the directors of the Company continuously monitor the level of exposure by frequent review of the credit evaluation of the financial condition and credit quality of its customers and supplier to ensure that prompt actions will be taken to lower exposure.

6. FINANCIAL INSTRUMENTS *(continued)*

Liquidity risk management

The directors of the Company have adopted an appropriate liquidity risk management framework for the management of the Group's short-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining banking facilities and by continuously monitoring forecasted and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows on financial liabilities based on the earliest date in which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the discounted amount is derived from interest rate curve at the end of the reporting period:

	Weighted average effective interest rate	Less than 6 months	6 months to 1 year	1 year to 2 years	Total undiscounted cash flows	Carrying amounts
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2009						
Financial liabilities						
Non-interest bearing instruments		180,940	—	—	180,940	180,940
Variable interest bearing instruments	5.28	13,853	135,575	—	149,428	146,000
		194,793	135,575	—	330,368	326,940
At 31 December 2008						
Financial liabilities						
Non-interest bearing instruments		80,314	—	—	80,314	80,314
Variable interest bearing instruments	4.21	145,386	—	—	145,386	140,000
		225,700	—	—	225,700	220,314

Note: At 31 December 2009 and 31 December 2008, the weighted average effective interest rates were based on the variable interest rates of the bank loans outstanding at the end of each reporting period.

The amount for variable interest rate instruments for non-derivative financial liabilities is subject to changes if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

6. FINANCIAL INSTRUMENTS *(continued)*

Liquidity risk management *(continued)*

Fair value

The fair value of the Group's financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices or rates from observable current market transactions as input.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

Capital risk management

The Group manages its capital to ensure that the group entities will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt, which includes the bank loans, and equity attributable to owners of the Company, which includes the share capital, share premium, special reserve and retained profits, as disclosed in the consolidated financial statements.

The management of the Group reviews the capital structure regularly. The Group considers the cost of capital and the risks associated with each class of capital, and will balance its overall capital structure through the payment of dividends, issuance of new shares as well as raising of bank loans.

7. REVENUE AND SEGMENT INFORMATION

Mr. Zhang, the chief operating decision maker of the Group, regularly reviews revenue analysis by major products and the profit of the Group as a whole for the purposes of performance assessment and making decisions about resources allocation. As no other discrete financial information is available for the assessment of performance of different business activities, no segment information is presented other than entity-wide disclosures.

Entity-wide disclosures

Revenue analysed by major products

The Group is currently operating in two major units, namely manufacturing and sales of solar wafers and related products and manufacturing and sales of semiconductors.

The following table sets forth a breakdown of the Group's revenue from manufacturing and sales of solar wafers and related products and manufacturing and sales of semiconductors for the year:

	2009 *RMB'000*	2008 *RMB'000*
Manufacturing and sales of solar products:		
Monocrystalline solar wafers	466,511	552,249
Monocrystalline solar ingots	19,214	173,217
Sub-total	485,725	725,466
Manufacturing and sales of semiconductors:		
Semiconductor products	9,586	32,272
Others *(note)*	11,565	4,365
Total revenue	506,876	762,103

Note: Included revenue from sale of materials, such as monocrystalline silicon and recyclable silicon.

Revenue reported above represents revenue generated from external customers. There were no sales between the solar products and the semiconductors operating units during the years.

Assets analysed by major products

	2009 *RMB'000*	2008 *RMB'000*
Manufacturing and sales of solar products	174,828	43,692
Manufacturing and sales of semiconductors	3,546	1,173
Total	178,374	44,865

7. REVENUE AND SEGMENT INFORMATION *(continued)*

Entity-wide disclosures *(continued)*

Assets analysed by major products (continued)

The above assets include mainly trade receivables, bills receivable and inventories which can be allocated to different products.

The above products were produced from the same production facilities, which are located in the People's Republic of China (the "PRC").

Revenue and assets analysed by place of domicile of group entities

The analysis of the Group's revenue from external customers attributed to the country of domicile of the relevant group entities, which is the PRC, and to other foreign countries during the year:

	2009	2008
	RMB'000	*RMB'000*
Place of domicile of group entities:		
Mainland China	404,968	659,938
Other countries/places:		
Taiwan	65,950	25,086
Germany	29,030	92
Japan	—	23,028
Thailand	5,859	49,383
Other countries (note)	1,069	4,576
Total revenue	506,876	762,103

All of the Group's non-current assets, including property, plant and equipment, prepaid lease payments, deposits paid for acquisition of property, plant and equipment and advance to suppliers, are located in the group entities's country of domicile, the PRC, at the end of each reporting period.

Note: The customers located in other countries/places are mainly from other Asian countries and the United States.

Information about major customers

Details of the customers accounting for 10% or more of total revenue of the Group are as follows:

	2009	2008
	RMB'000	*RMB'000*
Customer A	87,333	*
Customer B	70,214	164,776
Customer C	*	157,545
Customer D	*	84,073

* Less than 10%

All of the customers purchased solar wafers and related products from the Group.

8. OTHER INCOME

	2009 *RMB'000*	2008 *RMB'000*
Net foreign exchange gain	1,843	2,154
Interest income	1,147	2,988
Processing service fees *(note)*	3,292	41,485
Gain on disposal of property, plant and equipment.	3	—
Other	414	506
	6,699	47,133

Note: Revenue from processing service represents amounts received and receivable for wafer processing services provided to outside customers.

9. OTHER EXPENSES

	2009 *RMB'000*	2008 *RMB'000*
Share-based payments expense	68	41,932
Legal and professional fees *(note)*	3,342	29,369
Impairment of advance to suppliers	—	8,984
	3,410	80,285

Note: The amount mainly represented the legal and professional expenses incurred for the listing of the shares of the Company on the Main Board of the Stock Exchange (the "IPO").

10. INTEREST EXPENSE

	2009 *RMB'000*	2008 *RMB'000*
Interest on bank loans wholly repayable within five years	8,152	6,295
Less: amounts capitalised	(1,483)	—
	6,669	6,295

Borrowing costs capitalised during the year arose on the general borrowing pool are calculated by applying a capitalisation rate of 5.071% (2008: nil) per annum to expenditure on qualifying assets.

11. PROFIT BEFORE TAXATION

	2009	2008
	RMB'000	*RMB'000*
Profit before taxation has been arrived at after charging:		
Directors' remuneration *(note 12)*	2,410	21,788
Other staff costs	13,913	7,153
Other staff's retirement benefits scheme contributions	2,303	835
Share-based payments expense for other staff	—	21,546
Total staff costs	18,626	51,322
Auditor's remuneration	959	106
Non-audit service *(note 1)*	634	10,534
	1,593	10,640
Cost of inventories recognised as expense *(note 2)*	451,760	530,802
Depreciation of property, plant and equipment	22,941	20,835
Release of prepaid lease payments	322	138
Research and development expenses	3,544	1,079
Operating lease rentals in respect of rented premises	966	945
Impairment of advance to supplier	—	8,984
Impairment loss on goodwill (included in administrative expenses)	—	136
Write-off of property, plant and equipment	—	7

Notes:

1. The amount mainly represented the legal and professional expenses incurred for the IPO included in other expenses in the consolidated statement of comprehensive income.

2. During the year ended 31 December 2008, included in costs of inventories recognised as expense was write-down of inventories to net realisable values of approximately RMB43,412,000 (2009: nil).

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

	2009	2008
	RMB'000	*RMB'000*
Non-executive directors	—	—
Independent non-executive directors		
– fees	323	—
– basic salaries and allowance	—	—
– share-based payments expense in relation to share options vested	68	—
Executive directors		
– fees	—	—
– basic salaries and allowance	2,019	1,402
– share-based payments expense in relation to		
(i) share options vested	—	10,898
(ii) effect of cancellation of share options *(note 30)*	—	9,488
	2,410	21,788

The emoluments paid or payable to each of the directors of the Company during the year were as follows:

	Fees	Basic salaries and allowance	Share-based payments expense	Retirement benefit scheme contribution	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
For the year ended 31 December 2009					
Executive directors:					
Mr. Zhang	—	250	—	—	250
Mr. Chau Kwok Keung ("Mr. Chau")	—	1,470	—	—	1,470
Mr. Shi Cheng Qi	—	299	—	—	299
Non-executive directors:					
Mr. He Xin *(Notes 1,5)*	—	—	—	—	—
Mr. Vincent Phen Chun Shing *(Note 6)*	—	—	—	—	—
Independent non-executive directors:					
Mr. Leung Ming Shu	83	—	15	—	98
Mr. Daniel Dewitt Martin *(Note 2)*	120	—	23	—	143
Mr. Kang Sun *(Note 2)*	120	—	30	—	150
Mr. Lawrence Lee *(Notes 3 and 4)*	—	—	—	—	—
Dr. Wu Po Chi (Notes 3 and 4)	—	—	—	—	—
	323	2,019	68	—	2,410

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(continued)*

	Fees *RMB'000*	Basic salaries and allowance *RMB'000*	Share-based payments expense *RMB'000*	Retirement benefit scheme contribution *RMB'000*	Total *RMB'000*
For the year ended 31 December 2008					
Executive directors:					
Mr. Zhang	—	—	—	—	—
Mr. Chau	—	1,320	17,342	—	18,662
Mr. Shi Cheng Qi	—	82	3,044	—	3,126
Non-executive directors:					
Mr. He Xin *(Note 1)*	—	—	—	—	—
Independent non-executive directors:					
Mr. Leung Ming Shu	—	—	—	—	—
Mr. Lawrence Lee *(Notes 3 and 4)*	—	—	—	—	—
Dr. Wu Po Chi *(Notes 3 and 4)*	—	—	—	—	—
	—	1,402	20,386	—	21,788

The five highest paid individuals included one director of the Company for the year ended 31 December 2009 (2008: two directors), details of whose emoluments are set out above. The emoluments of the remaining individuals during the year are as follows:

	2009 *RMB'000*	2008 *RMB'000*
Employees		
– basic salaries and allowance	2,091	483
– retirement benefits scheme contributions	50	73
– share-based payments expense	—	8,275
	2,141	8,831

Their emoluments were within the following bands:

	2009	2008
Nil to HK$1,000,000	3	—
HK$1,000,001 to HK$1,500,000	1	—
HK$2,500,001 to HK$3,000,000	—	1
HK$3,500,001 to HK$4,000,000	—	2

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(continued)*

During the year ended 31 December 2009 and 31 December 2008, no bonus was paid or payable to the directors nor the other five highest paid individuals.

During the year ended 31 December 2009 and 31 December 2008, no emoluments were paid by the Group to the directors and five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the year ended 31 December 2009 and 31 December 2008.

Notes:

1. The director was appointed on 1 April 2008.
2. The director was appointed on 31 July 2009.
3. The director was appointed on 13 June 2008.
4. The director was resigned on 5 May 2009.
5. The director was resigned on 26 March 2010.
6. The director was appointed on 26 March 2010.

13. TAXATION

	2009 *RMB'000*	2008 *RMB'000*
Current tax:		
Hong Kong Profits Tax	—	—
PRC Enterprise Income Tax		
– Current year	—	33,563
– Underprovision in prior years	766	—
The United States:		
– Federal income tax	—	4,801
	766	38,364
Deferred taxation *(note 20)*:		
– Current year	5,623	(3,278)
	6,389	35,086

No Hong Kong Profits Tax has been provided as the group entities either have no relevant assessable profits or incurred tax losses for the years.

13. TAXATION *(continued)*

PRC income tax is calculated at the applicable tax rates in accordance with the relevant laws and regulations in the PRC. From 1 January 2008 onwards under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%.

Taxation on assessable profits of Comtec Ltd, which carried on the Relevant Business during the period from 1 January 2008 to 30 June 2008 (date of cessation of Comtec Ltd's operations), has been calculated at mainly federal tax rate of approximately 35% prevailing in the United States, in which it operates, based on existing legislation, interpretations and practices, mainly the Internal Revenue Code, as amended in 1986.

Comtec Semi and Comtec Solar were registered as foreign invested enterprises of a production nature established in Shanghai Nanhui District which is the Coastal Economic Open Zone in the PRC and where the Group's operations are substantially based during the years ended 31 December 2009 and 31 December 2008. In addition, as Comtec Semi and Comtec Solar are foreign invested enterprises of production nature scheduled to operate for a period of no less than ten years, from the first profit making year, they are exempted from enterprise tax for two years, followed by a 50% enterprise income tax reduction in the following three years which is approved by Shanghai Nanhui National Tax Bureau in accordance with The Foreign Invested Enterprises and Foreign Enterprises Income Tax Law of the PRC and The Implementation Rules for Foreign Invested Enterprises and Foreign Enterprises Income Tax Law of the PRC promulgated on 30 June 1991 and as effective on 1 July, 1991. As a result, Comtec Semi and Comtec Solar were exempted from enterprise income tax for two years, starting from their first profitable year, which was 2003 and 2006, respectively, and are then entitled to a 50% reduction in enterprise income tax for three years thereafter until 2007 and 2010, respectively. Thus, Comtec Solar continued to enjoy a 50% reduction of domestic income tax rate, which is 25%, during the years ended 31 December 2009 and 31 December 2008.

Jiangxi Comtec Solar Technology Co., Ltd. (formerly known as HK Technological Industry Limited (Nanchang), "Comtec Solar (Jiangxi)"), which was acquired by the Group on 29 May 2008, was registered as production oriented enterprise in Nanchang which is coastal open area of the PRC. During the year ended 31 December 2009 and 31 December 2008, no assessable profits were derived from Comtec Solar (Jiangxi).

Upon the the EIT Law, dividends paid out of the net profits derived by the Company's PRC operating subsidiaries to non-PRC residents in financial years since 1 January 2008 are subject to applicable PRC withholding tax in a rate of 10% or lower rates as provided in tax treaties in accordance with relevant tax laws in the PRC. Under the relevant tax treaty, withholding tax rate on distribution to Hong Kong resident companies is 5% provided that requirements under such tax treaty between the PRC and Hong Kong, Administrative Measures for Non-resident Enterprises to Enjoy Treatment under Tax Treaties and the Notice of the State Administration of Taxation on issues relating to the administration of the dividend provision in tax treaties, are satisfied. Withholding tax has been provided for based on the anticipated dividends to be distributed by the PRC entities to non-PRC residents which is around 30% of the earnings of these entities.

The deferred tax balance has already reflected the tax rates that are expected to apply to the respective periods when the asset is realised or the liability is settled.

13. TAXATION *(continued)*

The taxation for the year is reconciled to profit before taxation as follows:

	2009	2008
	RMB'000	*RMB'000*
Profit before taxation	31,330	166,565
Tax at domestic income tax rate (25%)	7,833	41,642
Tax effect of expenses not deductible for tax purpose	384	22,462
Tax effect of income not taxable for tax purpose	(380)	(337)
Tax effect of deemed taxable income for the Relevant Business operation in the United States *(note)*	—	3,494
Effect of different tax rates of the Relevant Business operating in the United States	—	1,828
Effect of a 50% tax reduction granted to PRC subsidiaries	(2,737)	(37,254)
Withholding income tax provision on dividends from the PRC	523	3,251
Underprovision in prior years	766	—
Taxation for the year	6,389	35,086

Note: Under Section 956 of the Internal Revenue Code, as amended in 1986, the amount due to Comtec Solar by Comtec Ltd arose in the course of the operation of the Relevant Business from 1 January 2008 to 30 June 2008 (date of cessation of Comtec Ltd's operations) was deemed to be dividend income and was subject to income tax in the United States.

14. DIVIDENDS

Distribution to Mr. Zhang of approximately RMB6,411,000 during the year ended 31 December 2008 represents the remaining bank balance of Comtec Ltd, after the settlement of current account of a shareholder, that is distributed on 30 June 2008 (date of cessation of Comtec Ltd's operations).

Pursuant to a shareholders' resolution on 30 June 2008, the Company declared a dividend of approximately RMB51,056,000, which represented RMB19 cents per ordinary share, to a shareholder.

A final dividend of RMB0.73 cents per ordinary share for the year ended 31 December 2009 (2008: nil) has been proposed by the directors of the Company and is subject to approval by the shareholders in the annual general meeting to be held on 24 May 2010.

15. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year is based on the following data.

	2009	2008
	RMB'000	*RMB'000*
Profits		
Profit for the year attributable to owners of the Company for the purposes of basic and diluted earnings per share	24,941	131,479
Number of shares		
Weighted average number of ordinary and preferred shares for the purpose of basic and diluted earnings per share *(Note)*	773,650,415	558,573,401

The calculation of diluted earnings per share does not take into account share options as the Company's share options had no dilutive effect on the earnings per share of the Group for the year ended 31 December 2009 and 31 December 2008.

In calculating the weighted average number of ordinary shares for the purpose of calculating basic earnings per share, the shares that were issued pursuant to capitalisation issue of shares are treated as if they had been in issue throughout both years.

Note: Except for the liquidation preference and the mandatorily convertible feature of the preferred shares automatically upon the IPO as mentioned in (ii) of note 29, the preferred shares shared similar characteristics of ordinary shares of the Company. Such preference shares, which were all converted to ordinary shares during the year ended 31 December 2009, were considered as ordinary shares for the purpose of calculation of basic earnings per share.

16. PROPERTY, PLANT AND EQUIPMENT AND DEPOSITS PAID FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment

	Buildings	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
COST						
At 1 January 2008	31,289	202,079	759	2,633	505	237,265
Additions	2,247	2,699	329	1,593	40,364	47,232
Transfers	—	5,573	—	—	(5,573)	—
Disposals	—	(11)	—	(1,174)	—	(1,185)
At 31 December 2008	33,536	210,340	1,088	3,052	35,296	283,312
Additions	829	17,544	173	593	186,060	205,199
Transfers	51,865	125,923	—	—	(177,788)	—
Disposals/write-off	—	—	—	(711)	—	(711)
At 31 December 2009	86,230	353,807	1,261	2,934	43,568	487,800
DEPRECIATION						
At 1 January 2008	260	16,189	290	853	—	17,592
Provided for the year	1,612	18,607	97	519	—	20,835
Eliminated on disposals	—	(8)	—	(722)	—	(730)
At 31 December 2008	1,872	34,788	387	650	—	37,697
Provided for the year	1,853	20,433	100	555	—	22,941
Eliminated on disposals/write-off	—	—	—	(420)	—	(420)
At 31 December 2009	3,725	55,221	487	785	—	60,218
CARRYING VALUES						
At 31 December 2009	82,505	298,586	774	2,149	43,568	427,582
At 31 December 2008	31,664	175,552	701	2,402	35,296	245,615

16. PROPERTY, PLANT AND EQUIPMENT AND DEPOSITS PAID FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT *(continued)*

Property, plant and equipment *(continued)*

The above items of property, plant and equipment, other than construction in progress, are depreciated on a straight-line basis over the following estimated useful lives:

Buildings	Over the shorter of the period of the the respective lease or 20 years
Plant and machinery	10 years
Furniture, fixtures and equipment	5 years
Motor vehicles	5 years

The Group's buildings are located on land in the PRC which is under a lease term of 50 years.

As at 31 December 2009, the Group pledged its buildings and construction in progress having net book values of approximately RMB79,691,000 (2008: RMB31,664,000) and RMB10,804,000 (2008: nil), respectively, to a bank to secure banking facilities granted to the Group.

Deposits paid for acquisition of property, plant and equipment

Balance represents amounts paid before the property, plant and equipment were delivered to the Group. The amounts are transferred to the property, plant and equipment upon delivery of the assets to the Group.

17. PREPAID LEASE PAYMENTS

	2009	2008
	RMB'000	*RMB'000*
Carrying values		
At beginning of the year	15,853	4,929
Additions during the year	—	11,062
Charged to profit or loss	(322)	(138)
At end of the year	15,531	15,853
Less: Amount to be amortised within one year	(322)	(322)
Non-current portion	15,209	15,531

The land use rights in the PRC are under medium-term lease.

18. ADVANCE TO SUPPLIERS

From time to time, the Group makes advance payments to raw material suppliers prior to delivery of raw materials by these suppliers. Except for the two purchase agreements with major suppliers detailed below, the advance payments are for purchases in the next twelve months from the end of each reporting period and are therefore classified as current assets.

In November 2006 and April 2008, the Group entered into purchase agreements with two major suppliers, independent parties not connected or related to the Group, whereby the Group is committed to purchase a minimum quantity of raw materials (to be used in the manufacture of its products) each year during the period from 1 January 2008 to 31 December 2015 and from 1 January 2008 to 31 December 2015 (the "Supply Period"), respectively, at pre-determined prices. According to the terms of the agreements, the Group made advances of an aggregate amount of approximately USD500,000 (2008: USD 18,936,000) (which was equivalent to approximately RMB3,414,000 (2008: equivalent to approximately RMB 128,724,000)) to these suppliers during the year ended 31 December 2009. At 31 December 2009 and 31 December 2008, the Group had outstanding advance payments of approximately the aggregate amount of Euro7,535,000 and USD18,380,000 (which was equivalent to an aggregate amount of approximately RMB202,743,000) and the aggregate amount of Euro8,044,000 and USD18,936,000 (which was equivalent to an aggregate amount of approximately RMB218,344,000) with these suppliers, respectively. The advances are unsecured, interest-free and will be offset with part of the invoiced amounts in the manner as discussed below, on an annual basis before expiry of the agreements in 2015.

Pursuant to the terms of the agreements, during each year of the Supply period, the amount of advances made in respect of the agreed contract quantity in that particular year, which is around 20% to 26% of the annual purchases to be made by the Group from these suppliers, would be utilised to reduce the invoice amount of purchases up to those annual agreed quantities. The total minimum amount of raw materials to be purchased by the Group from the two major suppliers during the Supply Period is approximately RMB1,475,491,000.

For the arrangement with one of the major suppliers, if the minimum purchase requirement is not met in a particular year, advances amounting to 20% to 26% of that minimum purchase commitment would be forfeited. Pursuant to terms of this purchase agreement, the Group granted to this supplier a continuing security interest in the raw materials supplied by such supplier and the proceeds of sale or insurance of such raw materials with the entire purchase of such raw materials and if applicable, all late payments, interest and expenses necessary to enforce such security interest. The supplier has the right to take all necessary measures to create, perfect, preserve and enforce the security interest. At 31 December 2009 and 31 December 2008, the Group did not have any outstanding trade payable with this supplier.

For the arrangement with the other major supplier, the Group is obliged to purchase at least the minimum amount as set out in the agreement. If the Group fails to accept deliveries for a certain number of times in any calendar year, the Group's payment obligations for the minimum purchase commitment may be accelerated in that particular year and the Group will be liable to pay to the supplier the difference between the actual purchase and the minimum purchase commitment in that year.

18. ADVANCE TO SUPPLIERS *(continued)*

These purchase agreements do not expressly stipulate that the Group will be subject to any other liabilities should the Group fails to meet the minimum purchase commitment.

During the year ended 31 December 2009, the Group entered into supplementary agreements with one of the major suppliers to revise the purchase prices and quantities of raw material to be delivered during each year of the Supply Period, while the total minimum purchase commitment throughout the contractual period remains unchanged. The directors of the Company estimated that the amount of advances expected to be settled by the offset of the purchases of the agreed contract quantity in the next twelve months from 31 December 2009 will be decreased by approximately RMB63,000,000 as these purchase quantity will be deferred to other years during the Supply Period in accordance with the terms of the supplement agreements.

The Group's minimum annual purchase commitment during the remaining Supply Period, taking into account the amended terms of the supplementary agreement, is as follows:

Year ending 31 December	Amount equivalent to RMB'000
2010	RMB95,742
2011	RMB254,710
2012	RMB275,140
2013	RMB266,457
2014	RMB259,945
2015	RMB276,183
	RMB1,428,177

Total future minimum purchases remaining under the agreements, net of advance made to these suppliers at the reporting date, amounted to approximately RMB1,236,169,000 and RMB1,234,507,000 at 31 December 2009 and 31 December 2008, respectively.

At the end of each reporting period, the directors of the Company estimate the amount of advances that is expected to be settled by the offset of the purchases of the agreed contract quantity in the next twelve months and classify it as current asset at the end of each reporting period. The remaining balance is classified as non-current asset in the consolidated statement of financial position.

19. GOODWILL

	RMB'000
COST	
At 1 January 2008	—
Arising on acquisition of a subsidiary	136
At 31 December 2008, 1 January 2009 and 31 December 2009	136
IMPAIRMENT	
At 1 January 2008	—
Impairment loss recognised in the year	136
At 31 December 2008, 1 January 2009 and 31 December 2009	136
CARRYING VALUES	
At 31 December 2009	—
At 31 December 2008	—

During the year ended 31 December 2008, the goodwill of RMB136,000 was arisen and allocated to cash generating unit ("CGU") of a subsidiary, operating in Jiangxi Province in the PRC, which principal activities were manufacture and sales of computer related products and provision of repair and maintenance service. During the year ended 31 December 2008, the directors of the Company determined that an impairment loss of RMB136,000 was recognised in the consolidated statement of comprehensive income.

20. DEFERRED TAX

The following is the deferred tax assets (liabilities) recognised by the Group and movements thereon during the year.

	Write-down of inventories	Allowance for advance to suppliers	Tax losses	Withholding tax on undistributed dividends	Unrealised profit on inventories	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2008	—	—	—	—	22	22
Credit (charge) to profit or loss	5,428	1,123	—	(3,251)	(22)	3,278
At 31 December 2008	5,428	1,123	—	(3,251)	—	3,300
(Charge) credit to profit or loss	(5,301)	(1,123)	1,324	(523)	—	(5,623)
At 31 December 2009	127	—	1,324	(3,774)	—	(2,323)

For the purposes of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balance for financial report presentation purposes.

	2009	2008
	RMB'000	*RMB'000*
Deferred tax assets	1,451	6,551
Deferred tax liabilities	(3,774)	(3,251)
	(2,323)	3,300

At 31 December 2009 and 31 December 2008, except for the deferred tax liabilities provided for the undistributed profits of certain PRC operating subsidiaries of approximately RMB75,480,000 and RMB65,020,000, respectively, deferred tax liabilities of approximately RMB8.8 million and RMB7.4 million, respectively, have not been recognised in respect of the aggregate amount of temporary differences associated with undistributed earnings of the PRC operating subsidiaries for approximately RMB176.1 million and RMB148.9 million, respectively, as the Group is in a position to control the timing of the reversal of the temporary differences and the Group has determined that this portion of the profits derived from those PRC operating subsidiaries will be retained by those subsidiaries and not distributed in the foreseeable future. Therefore, it is probable that such differences will not reverse nor be subject to withholding tax in the foreseeable future.

21. INVENTORIES

	2009	2008
	RMB'000	*RMB'000*
Raw materials	83,587	16,990
Work-in-progress	11,783	9,664
Finished goods	12,984	6,429
	108,354	33,083

22. TRADE AND OTHER RECEIVABLES AND BILLS RECEIVABLE

	2009	2008
	RMB'000	*RMB'000*
Trade receivables	121,601	28,772
Utility deposits	656	550
Value-added-tax recoverable		
(2008: Value-added-tax receivables)	39,162	4,814
Other receivables and prepayments	4,709	58,688
	166,128	92,824
Bills receivable	32,006	—

The Group requested prepayment from customers before delivery of goods and allows a credit period of 7 to 180 days on case-by-case basis. The following is an aged analysis of trade receivables presented based on the invoice date at the end of the reporting period:

	2009	2008
	RMB'000	*RMB'000*
Age		
0 to 30 days	79,525	27,675
31 to 60 days	21,595	—
61 to 90 days	9,783	422
91 to 180 days	8,043	674
Over 180 days	2,655	1
	121,601	28,772

22. TRADE AND OTHER RECEIVABLES AND BILLS RECEIVABLE *(continued)*

The following is an aged analysis of bills receivable presented based on the invoice date at the end of the reporting period:

	2009	2008
	RMB'000	*RMB'000*
Age		
31 to 60 days	6,893	—
91 to 180 days	25,113	—
	32,006	—

During the year ended 31 December 2008, the Group factored bills receivable of approximately RMB32,000,000 (2009: nil) to a bank with full recourse and the bills receivable were fully matured and received in the year ended 31 December 2009.

No interest is charged on the trade receivables and bills receivable. The Group has provided fully for all receivables over 365 days as historical experience indicates that such amount may not be recoverable. Trade receivables and bills receivable aged between 30 and 365 days are provided for based on estimated irrecoverable amounts from the sales of goods, determined by reference to subsequent settlement, past default experience and objective evidences of impairment.

Included in the Group's trade receivable balances are debtors with a carrying amount of approximately RMB2,655,000 (2008: nil) which are past due as at 31 December 2009 for which the Group has not provided for as the Group has recovered such amount subsequent to the end of the reporting period. As at 31 December 2009 and 31 December 2008, the Group did not have allowance for doubtful debts. The Group did not hold any collateral over these balances.

At the end of each reporting period, the Group's bills receivable are not past due nor impaired while the Group's trade receivables that age over 180 (2008: 30) days are past due at the reporting date for which the Group has not provided for as they were fully settled subsequent to the reporting dates. The Group's trade receivables and bills receivable that are neither past due nor impaired at 31 December 2009 and 31 December 2008 have no default history and of good credit quality.

In determining the recoverability of the trade and bills receivables, the Group reassesses any change in the credit quality of the trade receivables since the credit was granted and up to the reporting date. After reassessment, the directors believe that no further allowance is required.

22. TRADE AND OTHER RECEIVABLES AND BILLS RECEIVABLE *(continued)*

The Group's trade and other receivables and bills receivable that were denominated in USD and Euro, foreign currencies of the relevant group entities, were re-translated in RMB and stated for financial reporting purposes as:

	2009 *RMB'000*	2008 *RMB'000*
Trade and other receivables denominated in USD	12,193	—
Trade and other receivables denominated in Euro	6,196	—

Included in other receivables at 31 December 2008 is approximately RMB55,774,000 refundable advance payment to a supplier, which was unsecure, interest-free and had no fixed repayment terms. The amount was repaid by the supplier in January 2009. The amount was neither past due nor impaired and had good credit quality at 31 December 2008.

23. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less which carry interest at market rates ranging from 0.10% to 1.35% per annum and 0.10% to 1.71% per annum at 31 December 2009 and 31 December 2008, respectively.

The Group's bank balances and cash that were denominated in Euro, HK$ and USD, foreign currencies of the relevant group entities, were re-translated in RMB and stated for reporting purposes as:

	2009 *RMB'000*	2008 *RMB'000*
Bank balances and cash denominated in:		
Euro	1,479	8,817
HK$	13,507	432
USD	378,204	46,583

Certain bank balances and cash of approximately RMB6,048,000 and RMB109,259,000 at 31 December 2009 and 31 December 2008, respectively, were denominated in RMB which is not a freely convertible currency in the international market. The exchange rate of RMB is determined by the Government of the PRC and the remittance of these funds out of the PRC is subject to exchange restrictions imposed by the Government of the PRC.

24. TRADE AND OTHER PAYABLES

	2009	2008
	RMB'000	*RMB'000*
Trade payables	76,680	23,898
Value-added tax payables	792	688
Payables for acquisition of property, plant and equipment	104,260	56,416
Other payables and accrued charges	16,805	27,786
	198,537	108,788

The following is an aged analysis of trade payables presented based on the invoice date at the end of each reporting period:

	2009	2008
	RMB'000	*RMB'000*
Age		
0 to 30 days	50,598	11,516
31 to 60 days	18,318	5,608
61 to 90 days	2,067	3,856
91 to 180 days	3,547	2,320
Over 180 days	2,150	598
	76,680	23,898

The average credit period on purchases of goods is 30 days to 90 days and certain suppliers grant longer credit period on case-by-case basis.

The Group's trade and other payables that were denominated in HK$, USD and Euro, the foreign currencies of the relevant group entities, were re-translated in RMB and stated for reporting purposes as:

	2009	2008
	RMB'000	*RMB'000*
Trade and other payables denominated in:		
HK$	—	221
Euro	6,494	—
USD	78,781	56,416
	85,275	56,637

25. CUSTOMERS' DEPOSITS RECEIVED

Customers' deposits received are unsecured, interest-free and will be settled by the delivery of products by the Group.

26. TAXATION RECOVERABLE/TAXATION PAYABLE

	2009	2008
	RMB'000	*RMB'000*
TAXATION RECOVERABLE		
PRC Enterprise Income taxes	—	6,470
TAXATION PAYABLE		
PRC Enterprise Income taxes	—	302
United States:		
- Federal taxes	714	4,801
	714	5,103

27. SHORT-TERM BANK LOANS

	2009	2008
	RMB'000	*RMB'000*
Short-term bank loans		
– secured	86,000	20,000
– unsecured	60,000	120,000
	146,000	140,000

The short-term bank loans carry variable interest rates based on the benchmark interest rates issued by the People's Bank of China at 31 December 2009 and 31 December 2008.

28. SHARE CAPITAL

The share capital of the Group at 31 December 2009 and 31 December 2008 represented the issued and fully paid capital of ordinary shares of the Company.

Authorised:	Number of shares	Amount
		HK$'000
Ordinary shares		
Ordinary shares of HK$0.01 each at 1 January 2008	25,000,000	250
Increase by subdivision of 1 share of HK$0.01 each into 10 shares of HK$0.001 each *(note 28(b))*	225,000,000	—
Increase in authorised share capital of the Company *(note 28(b))*	750,000,000	750
Increase in authorised share capital of the Company *(note 28(d))*	12,000,000	12
Redesignation and reclassification into preferred shares of HK$0.001 each *(notes 28(d), 29)*	(12,000,000)	(12)
Ordinary shares of HK$0.001 each at 31 December 2008	1,000,000,000	1,000
Redesignation and reclassification from preferred shares of HK$0.001 each *(notes 28(g), 29)*	26,000,000	26
Increase in authorised share capital of the Company *(note 28(g))*	6,574,000,000	6,574
Ordinary shares of HK$0.001 each at 31 December 2009	7,600,000,000	7,600

28. SHARE CAPITAL *(continued)*

Issued and fully paid:	Number of shares	Amount
		HK$'000
Ordinary shares		
Ordinary shares of HK$0.01 each at 1 January 2008	1	—
Increase by subdivision of 1 share of HK$0.01 each into 10 shares of HK$0.001 each *(note 28(b))*	9	—
Issue of ordinary shares of HK$0.001 each on 12 March 2008 *(note 28(c))*	265,999,990	266
Issue of ordinary shares of HK$0.001 each on 2 June 2008 *(notes 28(e), 30(b))*	959,468	1
Ordinary shares of HK$0.001 each at 31 December 2008	266,959,468	267
Issue of ordinary shares of HK$0.001 each on 3 August 2009 *(note 28(e))*	8,752,770	9
Issue of new shares upon conversion of preferred share capital *(note 28(f), 29(d))*	24,799,513	25
Capitalisation issue of shares *(note 28(h))*	449,488,249	449
Issue of new shares upon listing of the Company's shares on the Stock Exchange *(note 28(i))*	250,000,000	250
Issue of new shares upon exercise of the over-allotment option *(note 28(j))*	31,738,000	32
Ordinary shares of HK$0.001 each at 31 December 2009	1,031,738,000	1,032

	2009	2008
	RMB'000	*RMB'000*
Presented as RMB:		
Ordinary shares	910	239

The movements in the Company's authorised and issued ordinary share capital during the year are as follows:

(a) At 1 January 2008, the authorised share capital of the Company was HK$250,000 divided into 25,000,000 ordinary shares of HK$0.01 each of which one ordinary share of HK$0.01 each was issued at par.

(b) On 12 March 2008, the authorised share capital was subdivided from 25,000,000 shares of HK$0.01 each to 250,000,000 shares of HK$0.001 each, and increased from HK$250,000 to HK$1,000,000 by creation of 750,000,000 additional authorised shares upon issue to rank pari passu in all respects with the existing shares of par value of HK$0.001 each.

28. SHARE CAPITAL *(continued)*

(c) On the same day, 265,999,990 shares of HK$0.001 each were allotted and issued to Fonty. Details of transaction refers to note 31.

(d) On 16 March 2008, the authorised share capital was increased from HK$1,000,000 to HK$1,012,000 by creation of 12,000,000 additional shares of HK$0.001 each and following the increase, the Company redesignated and reclassified the shares into 1,000,000,000 ordinary shares of HK$0.001 each and 12,000,000 preferred shares of HK$0.001 each. Details of the preferred shares are set out in note 29.

(e) On 2 June 2008 and 3 August 2009, the Company issued 959,468 and 8,752,770 new shares of ordinary shares upon the issuance of restricted shares which the owner has the same rights as holding of ordinary shares of the Company except that the restricted shares may not be sold, transferred by gift, pledged, transferred or disposed prior to the date when the restricted shares become vested pursuant to the vesting schedule set out in 30(b), to a director and certain key management personnel of the Company, credited as fully paid. Details of the restricted shares are set out in note 30(b).

(f) On 25 September 2009, 24,799,513 preferred share capital of HK$ 0.001 each of the Company were converted to 24,799,513 ordinary share capital of HK$ 0.001 each of the Company on the basis of one preferred share for one ordinary share.

(g) On 2 October 2009, the authorised share capital of the Company of HK$1,026,000 divided into 1,000,000,000 ordinary shares of HK$0.001 each and 26,000,000 preferred share capital of HK$0.001 each was reclassified and redesignated to 1,026,000,000 ordinary shares of HK$0.001 each. On the same date, the authorised share capital was further increased to HK$7,600,000 by creation of an additional 6,574,000,000 ordinary shares of HK$0.001 each which rank pari passu in all respects with the existing shares of HK$0.001 each.

(h) On 30 October 2009, the directors of the Company allocated and issued at par 449,488,249 ordinary shares to the shareholders of the Company on the register of members of the Company at the close of business on 8 October 2009 in proportion to their respective existing shareholders in the Company by capitalisation of total amount of approximately HK$449,000 (equivalent to RMB 393,000) standing to the credit of the share premium account of the Company ("Capitalisation Issue of Shares").

(i) On the same day, 250,000,000 ordinary shares of HK$ 0.001 each of the Company were then issued at HK$ 2.10 per share by way of placing and public offering and the Company's shares were listed on the Main Board of the Stock Exchange.

(j) On 26 November 2009, an over-allotment option was exercised and a further 31,738,000 shares of HK$ 0.001 each were issued at HK$ 2.10 per share.

All the shares issued by the Company during the year ended 31 December 2009 and 31 December 2008, except for the preferred shares and restricted shares, rank pari passu with the then existing shares in all respects. Preferred shares carry same rights as ordinary shares except for preference at liquidation and the restrictions as set out in the articles of association of the Company. Restricted shares carry the same right as ordinary shares except for the restrictions and cancellation option as detailed in note 30(b).

29. PREFERRED SHARE CAPITAL

Details of the preferred shares of the Company are set out below:

	Number of shares	Amount
Authorised:		*HK$'000*
Preferred shares		
At 1 January 2008	—	—
Redesignation and reclassification from ordinary shares of HK$0.001 each *(note 28(d), 29(a))*	12,000,000	12
Preferred shares of HK$0.001 each at 31 December 2008	12,000,000	12
Increase in authorised preferred shared capital of the Company *(note 29(c))*	14,000,000	14
Redesignation and reclassification to ordinary shares of HK$0.001 each *(note 28(g))*	(26,000,000)	(26)
Preferred shares of HK$0.001 each at 31 December 2009	—	—

Issued and fully paid:	Number of shares	Amount
		HK$'000
Preferred shares		
On 1 January 2008	—	—
Issue of preferred shares of HK$0.001 each on 18 March 2008 *(note 29(b))*	11,212,019	11
Preferred shares of HK$0.001 each at 31 December 2008	11,212,019	11
Issue of preferred shares of HK$0.001 each on 30 March 2009	13,587,494	14
Conversion to ordinary shares of HK$0.001 each on 25 September 2009 *(note 29(d))*	(24,799,513)	(25)
Preferred shares of HK$0.001 each at 31 December 2009	—	—

	2009	2008
	RMB'000	*RMB'000*
Presented as RMB:		
Preferred shares	—	11

29. PREFERRED SHARE CAPITAL *(continued)*

(i) Each preferred share was entitled to be converted into one ordinary share of HK$0.001 par value in the capital of the Company at any time.

(ii) Each preferred share would be converted automatically into one ordinary share upon the IPO, unless the preferred shares were converted into ordinary shares of the Company before the IPO.

(iii) The preferred shares were not redeemable.

(iv) Prior written consent of the Company should be obtained before any transfer, unless it was a transfer to the ultimate shareholder of CMTF (defined below), the shareholders of the preferred shares.

(v) The owner of the preferred shares had the same voting rights as holding ordinary shares of the Company.

(vi) The owner of the preferred shares had a right of first offer over the ordinary shares proposed to be sold by the Company in the future. Such right of first offer however did not apply to the ordinary shares issued pursuant to the IPO.

The movements in the Company's authorised and issued preferred share capital during the year are as follows:

(a) As disclosed in note 28(d), the Company redesignated and reclassified 12,000,000 ordinary shares of HK$0.001 each to preferred shares of HK$0.001 each on 16 March 2008.

(b) On 18 March 2008, the Company allotted and issued 11,212,019 preferred shares of HK$0.001 each to CMTF Private Equity One ("CMTF"), which is an exempted limited partnership established under the laws of the Cayman Islands and independent party not connected nor related to the Group, for a consideration of USD1.738 per share which was mutually agreed by the Group and CMTF, resulting in an aggregate amount of approximately US$20,000,000 (equivalent to approximately RMB140,384,000).

(c) On 30 March 2009, the authorised preferred share capital of the Company was increased from HK$12,000 to HK$26,000 by creation of 14,000,000 additional preferred shares of HK$0.001 each. Following the increase, 13,587,494 additional preferred shares were issued to CMTF at nil consideration pursuant to a supplementary agreement entered into by the Company and CMTF on 30 March 2009 in relation to the subscription of shares mentioned in (b) above. The issue of such preferred shares was credited as fully paid by a transfer from the share premium.

(d) On 25 September 2009, 24,799,513 preferred share capital of HK$ 0.001 each of the Company were converted to 24,799,513 ordinary share capital of HK$ 0.001 each of the Company on the basis of one preferred share for one ordinary share.

30. SHARE-BASED COMPENSATION

(a) Share options to employees and others

Pre-IPO Share Option Scheme

The Company's share option scheme (the "Pre-IPO Share Option Scheme") was adopted pursuant to a resolution passed on 2 June 2008 for the primary purpose of giving the grantees an opportunity to have personal stake in the Company and motivating the grantees to optimise their performance and efficiency, and retaining the grantees whose contributions are important to the Group's long-term growth and profitability. Under the Pre-IPO Share Option Scheme, the board of directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

The total number of shares in respect of which options may be granted under the Pre-IPO Share Option Scheme is not permitted to exceed 3% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Option granted must be taken up within 30 days from the date of grant, upon payment of HK$1.00. Subject to the vesting as detailed below, options may be exercised at any time from the grant date of the share options to the 10th anniversary of the date of grant. The exercise price of the shares in the Company shall be a price determined by the board of directors of the Company with reference to future earnings potential of the Company and notified to the eligible participants. No further options were offered or granted under the Pre-IPO Share Option Scheme after the IPO.

On 2 June 2008, the Company granted 4,813,740, representing 1.73% of the shares of the Company in issue at that date, share options to directors and certain key management personnel. Set out below are details of the outstanding options granted under the Pre-IPO Share Option Scheme on 2 June 2008:

		Number of options granted
(1)	Directors:	
	Mr. Chau	1,990,240
	Mr. Shi Cheng Qi	350,000
(2)	Employees and others	2,473,500
		4,813,740

Notes:

(1) All options granted on 2 June 2008 were at an exercise price of HK$12.34 per share.

(2) All holders of options granted on 2 June 2008 might only exercise their options in the following manner:

(i) 1/12th of the share options would vest on 1 September 2008 and become exercisable; and

(ii) from 1 September 2008 onwards, for the remaining 11/12th share options, every 1/12th of the granted share options would vest at the end of each three-month period on a quarterly basis.

30. SHARE-BASED COMPENSATION *(continued)*

(a) Share options to employees and others *(continued)*

Pre-IPO Share Option Scheme *(continued)*

(3) The options would be lapsed automatically and not be exercisable (to the extent not already exercised) when the grantees ceased to be employees of the Group.

The estimated fair values of the share options granted on 2 June 2008 was RMB 41,932,000. These fair values were calculated using the Binomial model. The inputs into the model are as follows:

Fair value of ordinary share	HK$13.67
Exercise price	HK$12.34
Expected volatility	68.6%
Suboptimal exercise multiple	3
Staff turnover rate	5%
Risk-free rate	4.195%
Expected dividend yield	nil

The risk-free rate was based on market yield of China International Government Bond with maturity date at 20 March 2018 at the valuation date on 2 June 2008. Expected volatility was determined by using the historical volatility of entities with the business in which the Group is engaged. The suboptimal exercise multiple used in the model represented the estimated ratio of future share price over the exercise price when the grantees would exercise the options and had been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Pursuant to a board resolution dated 30 December 2008, the Company cancelled all share options.

The Group recognised the total expense of approximately RMB41,932,000 for year ended 31 December 2008 in relation to share options granted by the Company on 2 June 2008.

30. SHARE-BASED COMPENSATION *(continued)*

(a) Share options to employees and others *(continued)*

Pre-IPO Share Option Scheme *(continued)*

Pursuant to a board resolution dated 3 August 2009, the Company granted 230,000, representing 0.08% of the shares of the Company in issue at that date, share options to certain directors of the Company under the Pre-IPO Share Option Scheme. Set out below are details of the outstanding options granted under the Pre-IPO share Option Scheme on 3 August 2009:

	Number of options granted
Directors:	
Mr. Leung Ming Shu	50,000
Mr. Daniel Dewitt Martin	80,000
Mr. Kang Sun	100,000
	230,000

Notes:

(1) All options granted on 3 August 2009 are at an exercise price of HK$6.27 per share.

(2) All holders of options granted on 3 August 2009 may only exercise their options in the following manner:

(i) 1/12th of the share options vested on 1 November 2009 and become exercisable; and

(ii) from 1 November 2009 onwards, for the remaining 11/12th share options, every 1/12th of the granted share options will vest at the end of each three-month period on a quarterly basis.

(3) The options will be lapsed automatically and not be exercisable (to the extent not already exercised) when the grantees ceased to be employees of the Group

The estimated fair values of share options granted on 3 August 2009 was RMB619,000. These fair values were calculated using the Binomial model. The inputs into the model are as follows:

Fair value of ordinary share	HK$5.76
Exercise price	HK$6.27
Expected volatility	78.7%
Suboptimal exercise multiple	3.5
Staff turnover rate	30%
Risk-free rate	2.256%
Expected dividend yield	1.00%

30. SHARE-BASED COMPENSATION *(continued)*

(a) Share options to employees and others *(continued)*

Pre-IPO Share Option Scheme (continued)

The risk-free rate was based on market yield rate of Hong Kong Government Bond with maturity on 10 June 2019 as of the date of valuation on 3 August 2009. Expected volatility was determined by using the historical volatility of entities with the business in which the Group is engaged. The suboptimal exercise multiple used in the model represents the estimated ratio of future share price over the exercise price when the grantees will exercise the options and has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Pursuant to a board resolution dated 2 October 2009, the Company modified details of the outstanding share options previously granted on 3 August 2009. The exercise price of 230,000 outstanding options was reduced from HK$6.27 per share to HK$2.51 per share. In addition, the Company increased the number of outstanding share options by 344,020 in proportion to their respective existing grantees of the Company upon the completion of Capitalisation Issue of Shares on 30 October 2009. The directors of the Company confirmed that the increment on the number of outstanding share options and reduction on the exercise price would not have occurred without the completion of Capitalisation Issue of Shares.

The fair values of the share options of the Company immediately before and after modification at 30 October 2009 were calculated using the Binomial Model. The inputs into the model were as follows:

	Before modification	After modification
Fair value of ordinary share	HK$5.241	HK$2.10
Exercise price	HK$6.27	HK$2.51
Expected volatility	76.9%	76.9%
Suboptimal exercise multiple	3.5	3.5
Staff turnover rate	30%	30%
Risk-free rate	2.252%	2.252%
Expected dividend yield	0.4%	0.4%

The risk-free rate was based on market yield rate of Hong Kong Government Bond with maturity on 10 June 2019 as of the date of valuation on 30 October 2009. Expected volatility was determined by using the historical volatility of entities with the business in which the Group is engaged. The suboptimal exercise multiple used in the model represents the estimated ratio of future share price over the exercise price when the grantees will exercise the options and has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

30. SHARE-BASED COMPENSATION *(continued)*

(a) Share options to employees and others *(continued)*

Pre-IPO Share Option Scheme (continued)

The fair values of the share options of the Company immediately before modification at 30 October 2009 were the same as those after modification at 30 October 2009 without any material incremental changes.

At 31 December 2009, the number of shares in respect of which options under the Pre-IPO Share Option Scheme had been granted and remained outstanding was 574,020, representing 0.06% of the shares of the Company in issue at that date.

The Group recognised the total expense of approximately RMB68,000 for the year ended 31 December 2009 in relation to share options granted by the Company on 3 August 2009.

Share Option Scheme

The Company has adopted its share option scheme (the "Share Option Scheme") on 2 October 2009. The purpose of the Share Option Scheme is to motivate eligible persons to optimise their future contributions to our Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such eligible persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group, and additionally to enable the Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions.

The total number of shares issued and which may fall to be issued upon exercise of the options granted pursuant to the Share Option Scheme to an eligible participant in any 12-month period shall not exceed 0.1% of the number of shares in issue unless approved by shareholders in general meeting.

The subscription price of a share in respect of option granted under the Share Option Scheme will be determined by the board of directors provided that is shall not be less than the higher of : (i) the closing price of the shares as stated in the daily quotations sheet of the Stock Exchange on the date of grant, and (ii) the average closing price of the shares as stated in the daily quotations sheets of the Stock Exchange for the 5 business day immediately preceding the date of grant, and (iii) the nominal value of the shares.

For the year ended 31 December 2009, no option was granted by the Company under the Share Option Scheme.

30. SHARE-BASED COMPENSATION *(continued)*

(b) Restricted Shares to a director and certain key management personnel

	Number of shares	Fair values of unvested Restricted Shares (as defined below) *RMB'000*
At 1 January 2008	—	—
Granted on 2 June 2008	959,468	9,575
At 31 December 2008	959,468	9,575
Granted on 3 August 2009	8,752,770	28,383
Capitalisation Issue of Shares	14,527,009	—
At 31 December 2009	24,239,247	37,958

A total of 959,468 and 8,752,770, restricted shares ("Restricted Shares") representing 0.36% and 3.17% of the shares of the Company in issue on 2 June 2008 and 3 August 2009, respectively, were granted to Mr. Chau, on 2 June 2008 and Mr. Chau and certain key management personnel on 3 August 2009 at nil consideration. The terms of the grant are as follows:

(1) Under the terms of the grant, the Restricted Shares issued may not be sold, transferred by gift, pledged or transferred or disposed prior to the date when the Restricted Shares become vested as discussed in (2) below.

(2) Subject to the continued employment of the grantees with the Company, the Restricted Shares granted shall become vested (subject to cancellations by the Company before vesting) in the following manner:

Granted on 2 June 2008

(i) 2/12th of the Restricted Shares should vest immediately after the closing of the IPO ("First Vesting"); and

(ii) the remaining 10/12th of the Restricted Shares should vest thereafter in equal quarterly instalments of 1/12th of the Restricted Shares at the end of each three-month period quarterly after the First Vesting.

30. SHARE-BASED COMPENSATION *(continued)*

(b) Restricted Shares to a director and certain key management personnel *(continued)*

In the event of the IPO did not complete on or before one year from 2 June 2008, the Company would immediately cancel all the Restricted Shares held by the grantee which have not yet been vested ("Unvested Shares") unless the board of the directors in its discretion otherwise determined in which event the Restricted Shares should not be forfeited. Pursuant to a board resolution passed on 1 June 2009, the board of directors determined that the Restricted Shares would not be forfeited till 1 June 2010. In the opinion of the directors of the Company, there were no material incremental differences when comparing the fair values of the Restricted Shares immediately after modification to those immediately before modification.

If the Company terminate the employment of the grantee prior to the IPO, all Restricted Shares held by the grantee become vested immediately, subject to the right of the Company to cancel the Restricted Shares as mentioned above. However, after the IPO, in the event of the termination of the grantee's employment by the Company for any reason (including death or disability), with or without cause, all Unvested Shares shall upon the date of such termination immediately be vested and not subject to cancellation by the Company.

Granted on 3 August 2009

(i) 1/4th of the Restricted Shares shall vest immediately after the Group's audited net profit after taxation achieved RMB500 million or more for any financial year ("First Vesting"); and

(ii) the remaining 3/4th of the Restricted Share shall best thereinafter in equal quarterly instalments of 1/4th the of the Restricted Shares at the end of each quarter after the First Vesting.

Pursuant to a board resolution of the Company dated 3 August 2009, the vesting conditions of the 959,468 Restricted Shares previously granted on 2 June 2008 set out above were changed and details of revised vesting conditions were the same as those granted on 3 August 2009. In the opinion of the directors of the Company, the fair values of the 959,468 Restricted Shares immediately after modification were the same as those immediately before modification.

(3) In the event of the grantee's voluntary resignation for any reason prior to the date when the Restricted Shares become vested as discussed in (2) above, the Company shall upon the effective date of such resignation (the "Resignation Date") immediately cancel all of the Unvested Shares. All such Unvested Shares shall be immediately forfeited and cancelled by the Company without any payment to the grantee. He shall be entitled to remain as the legal and beneficial owner of all the Restricted Shares vested in accordance with (1) above as of the Resignation Date.

30. SHARE-BASED COMPENSATION *(continued)*

(b) Restricted Shares to a director and certain key management personnel *(continued)*

The fair values of the Restricted Shares granted on 2 June 2008 and 3 August 2009 of approximately RMB9,575,000 and RMB28,383,000, respectively, were estimated with reference to the fair value of the ordinary shares after taking into account the weighted average fair values of put option. The put option represents the marketability discount of the Restricted Shares and will give the holder of the Restricted Shares the right to sell the underlying shares at any time during the term of the option up to the expiry as mentioned in (2) above. The fair value of the ordinary shares was determined with reference to the valuation of the Group's business carried out on the grant date by American Appraisal China Limited, an independent valuer not connected nor related to the Group. The valuation was determined by reference to the Income Approach using the discounted cash flow method. The weighted average fair value of the Restricted Shares of approximately HK$9.98 and HK$3.65, approximately 27% and 37%, respectively, of marketability discount of each ordinary share, was calculated using the Black-Scholes pricing model with the inputs below:

	Granted on 3 August 2009	Granted on 2 June2008
Fair value of ordinary share	HK$5.76	HK$13.67
Expected volatility	110.2%	60.3% to 76.0%
Expected life	0.74 years	0.47 to 2.97 year
Risk-free rate	0.095%	3.300% to 3.740%
Expected dividend yield	1.00%	nil

The risk-free rate was based on market yield of China International Government Bond with maturity at 10 December 2009, 17 April 2009, 6 June 2009, 23 August 2009, 6 December 2009, 19 February 2010, 26 April 2010, 20 August 2010, 19 November 2010, 14 April 2011 and 25 May 2011 at the valuation date on 2 June 2008 and market yield of Hong Kong Government Board with maturity on 17 May 2010 as of the valuation date on 3 August 2009. Expected volatility was determined by using the historical volatility of entities with the business in which the Group is engaged. The expected life used in the model had been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

During the year ended 31 December 2009 and 31 December 2008, the Group did not recognise any expenses in relation to the Restricted Shares granted by the Company since the directors of the Company do not anticipate that the Group would achieve the net profit after taxation of RMB500 million or more in the near future. During the year ended 31 December 2009 and 31 December 2008, no Restricted Shares granted to the director and certain key management personnel of the Company were cancelled.

31. PROMISSORY NOTES

Upon the Group Reorganisation, two promissory notes payable to Mr. Zhang were issued in November 2007:

(a) Comtec Semi (HK) acquired the entire equity interest in Comtec Semi from Mr. Zhang for a consideration of US$4.04 million (equivalent to approximately RMB29,511,000) and the said consideration was satisfied by the issuance of a promissory note in the amount of US$4.04 million pursuant to terms specified in an equity transfer agreement.

(b) Comtec Solar (HK) acquired the entire equity interest in Comtec Solar from Comtec Ltd., the sole proprietorship of Mr. Zhang, for a consideration of US$18.5 million (equivalent to approximately RMB135,135,000) and the said consideration was satisfied by the issuance of a promissory note in the amount of US$18.5 million pursuant to terms specified in an equity transfer agreement.

The promissory notes are unsecured, denominated in USD, interest-bearing at monthly federal short-term rate used in the Internal Revenue Code of 1986 of the United States of America and repayable on 31 March 2009.

Pursuant to an assignment agreement dated on 12 March 2008, Mr. Zhang assigned the promissory notes to Fonty as additional capital contribution to Fonty's capital. On the same day, Fonty and the Company entered into an assignment agreement which Fonty assigned the promissory notes to the Company and 265,999,990 new shares of the Company were issued to Fonty in return for the assignment. The promissory notes were cancelled upon the assignment on 12 March 2008. Details of the transaction are set out in note 33(a).

32. ACQUISITION OF A SUBSIDIARY

Pursuant to an equity transfer agreement dated 9 May 2008 entered into between Comtec Solar (HK) and HK Truecolor Technology Industry Limited ("HK Truecolor Technology"), an independent party not connected nor related to the Group, Comtec Solar (HK) agreed to acquire from HK Truecolor Technology the entire equity interests in Comtec Solar (Jiangxi) for a consideration of RMB136,000. In the opinion of the directors of the Company, the consideration was determined based on mutually agreed prices between the Group and HK Turecolor Technology taking into account the time and resources which would otherwise be required to set up a similar entity serving the same purposes. The transactions was completed on 29 May 2008. The said consideration was satisfied in cash on 30 May 2008.

The net assets acquired are as follows:

	Carrying amount before combination	Fair value adjustments	Fair value
	RMB'000	*RMB'000*	*RMB'000*
Net assets acquired:			
Property, plant and equipment	380	(380)	—
Other receivables	147	(147)	—
Other payables	(21)	21	—
	506	(506)	—
Goodwill			136
Total satisfied by cash			136
Net cash outflow arising on acquisition of Comtec Solar (Jiangxi):			
Cash consideration paid			(136)

The Group plans to carry out expansion of production capacity in the Nanchang Economy and Technology Development Zone. Given its accessible location in central China, the Group believes the acquisition would offer it with well-equipped infrastructure as Comtec Solar (Jiangxi) was established in Nanchang Economy and Technology Development Zone. The management of the Group considered that the excess of cost over net assets acquired mainly represents the business registration of Comtec Solar (Jiangxi). The management of the Group considered that the fair value of such business registration would not be measured reliably due to its nature and therefore not recognised separately from goodwill.

32. ACQUISITION OF A SUBSIDIARY *(continued)*

Comtec Solar (Jiangxi) did not contribute significantly to the Group's cash flow, turnover and profit for the year ended 31 December 2008 since the date of acquisition to 31 December 2008.

The contribution to the Group's turnover and profit for the year ended 31 December 2008 by Comtec Solar (Jiangxi) would be insignificant had the transaction been completed on 1 January 2008.

On 29 May 2008, the registered capital of Comtec Solar (Jiangxi) was increased from HK$500,000 (which is equivalent to approximately RMB440,000) to USD30,000,000 (which is equivalent to approximately RMB205,773,000). The due date of full payment of the increased registered capital of Comtec Solar (Jiangxi) will be 1 June 2010. On 4 July 2008, the paid-in capital was increased from approximately USD6,000,000 (which is equivalent to approximately RMB41,155,000) to approximately USD6,064,000 (which is equivalent to approximately RMB41,594,000).

33. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2008, the major non-cash transactions were as follows:

(a) On 12 March 2008, the Company issued 265,999,990 new shares in return for the assignment of the promissory notes with the carrying amounts of RMB160,190,000 previously issued during the year ended 31 December 2007. Details of the transaction is set out in note 31;

(b) On 30 June 2008, the Company declared a dividend of approximately RMB51,056,000 to a shareholder pursuant to a shareholders' resolution on that date, in which approximately RMB49,214,000 was settled through a current account with that shareholder, Mr. Zhang; and

(c) On 30 June 2008, the amount due from a shareholder was partly settled by the offset of amount due to with this shareholder with carrying amount of approximately RMB12,842,000.

34. OPERATING LEASE COMMITMENTS

At the end of each reporting period, the Group was committed to make the following future minimum leases payments in respect of rented premises under non-cancellable operating leases which fall due as follows:

	2009	2008
	RMB'000	*RMB'000*
Within one year	525	1,117
In the second to fifth year inclusive	1,720	2,448
After five years	3,476	4,290
	5,721	7,855

Operating lease payments represented rentals payable by the Group for certain of its office properties and factory premises. Except for the lease for the Group's factory with a term of twenty years, leases are negotiated for an average term from one to two years.

35. CAPITAL COMMITMENTS

	2009	2008
	RMB'000	*RMB'000*
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of the acquisition of property, plant and equipment	52,674	117,883
Capital expenditure authorised but not contracted for in respect of the acquisition of property, plant and equipment *(Note)*	1,361,502	480,444
	1,414,176	598,327

Note:

Included in the commitment represented amount of approximately RMB 950,000,000 related to development of a production plant in Nanchang Economy and Technology Development Zone which the Group suspended the plan pursuant to a board resolution in March 2010.

36. RETIREMENT BENEFITS SCHEMES

The Group participates in a Mandatory Provident Fund Scheme which was established under the Mandatory Provident Fund Ordnance in December 2000 (the "MPF Scheme"). The assets of the schemes are held separately from those of the Group and are invested in funds under the control of independent trustees. The Group contributes 5% of relevant payroll costs to the MPF Scheme, which contribution is matched by employees.

The employees of the PRC subsidiaries are members of the state-managed retirement benefits scheme operated by the PRC government. The PRC subsidiaries are required to contribute 22% of basic salaries of the employees to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

37. RELATED PARTY TRANSACTIONS

During the year, the Group has the following significant transactions with related parties:

Name of related party	Nature of transaction	2009 *RMB'000*	2008 *RMB'000*
Shanghai Comtec Electronics Co., Ltd.	Sales of goods	—	616

Comtec Electronics is a company which principal activities are sales of electronic products, semiconductors and related products, provision of processing service, installation and support activities. Mr. Zhang, the director and the controlling shareholder of the Company, has significant beneficial interest in Comtec Electronics.

In the opinion of the directors of the Company, the Group did not have any outstanding balances with related parties at 31 December 2009 and 31 December 2008.

Compensation of key management personnel

The remuneration of directors and other members of key management during the year were as follows:

	2009 *RMB'000*	2008 *RMB'000*
Basic salaries and allowances	5,350	2,247
Retirement benefits scheme contributions	152	76
Share-based payments expense	68	33,016
	5,570	35,339

Key management represents the directors and other senior management personnel disclosed in the prospectus of the Company dated 19 October 2009. The remuneration of key management is determined with reference to the performance to individuals and market trends.

38. SUBSIDIARIES

Details of the wholly-owned Company's subsidiaries at 31 December 2009 and 31 December 2008 are as follows:

Name of company	Place and date of incorporation/ establishment and operations	Issued and fully paid share capital/ registered capital at the date of this report	Principal activities
Comtec Semiconductor (Cayman) Limited*	Cayman Islands 23 April 2007	US$2 *(Note)*	Investment holding
Comtec Semiconductor (Hong Kong) Limited	Hong Kong 12 October 2007	HK$2 *(Note)*	Investment holding, provision of sourcing, invoicing and support services
Comtec Solar (Cayman) Limited*	Cayman Islands 23 April 2007	US$2 *(Note)*	Investment holding
Comtec Solar (HK)	Hong Kong 12 October 2007	HK$2 *(Note)*	Investment holding, provision of sourcing, invoicing and support services
Comtec Solar (Jiangxi) #	PRC 22 March 2006	USD 6,064,000 *(Note)*	Manufacturing and sales of semiconductors and solar products
Comtec Semi #	PRC 21 December 1999	US$4,040,000 *(Note)*	Manufacturing and sales of semiconductors, solar wafers and related products
Comtec Solar #	PRC 5 July 2005	US$ 18,500,000 *(Note)*	Manufacturing and sales of solar wafers and related products

* Directly held by the Company

Wholly foreign-owned enterprise

Note: The issued and fully paid share capital of the entity remained unchanged as at 31 December 2009 and 31 December 2008.

39. SUBSEQUENT EVENT

Pursuant to an investment agreement dated on 24 January 2010 entered into by Haian Economic Development Zone Committee in Jiangsu Province of the PRC and the Company, whereby the Group will invest a total amount of approximately RMB680,636,000 (equivalent to USD99,800,000) on a cumulative basis in Jiangsu province for a production plant.