YINGLI GREEN ENERGY HOLDING CO LTD
Form 20-F
June 25, 2010

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 20-F

(Mark One)

- o **REGISTRATION STATEMENT PURSUANT TO SECTION 12(B) OR 12(G) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

- þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**
  For the fiscal year ended December 31, 2009

OR

- o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

- o **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number 001-33469
Yingli Green Energy Holding Company Limited
(Exact Name of Registrant as Specified in Its Charter)

Cayman Islands
(Jurisdiction of Incorporation or Organization)
No. 3055 Middle Fuxing Road
Baoding 071051, People s Republic of China
(Address of Principal Executive Offices)

Zongwei Li
Telephone: (86 312) 8929-700
Facsimile: (86 312) 8929-800

No. 3055 Middle Fuxing Road
Baoding 071051, People s Republic of China
(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Ordinary Shares, par value US$0.01 per share American Depositary Shares, each representing one Ordinary Share	New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the Issuer s classes of capital or common stock as of the close of the period covered by the annual report: 148,527,450 Ordinary Shares

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. þ Yes o No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. o Yes þ No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. þ Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). o Yes o No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

þ Large accelerated filer	o Accelerated filer	o Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

þ U.S. GAAP	o International Financial Reporting Standards as issued by the International Accounting Standards Board	o Other

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. o Item 17 o Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). o Yes þ No

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. o Yes o No

YINGLI GREEN ENERGY HOLDING COMPANY LIMITED

ANNUAL REPORT ON FORM 20-F

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CONVENTIONS THAT APPLY TO THIS ANNUAL REPORT ON FORM 20-F

Unless otherwise indicated, references in this annual report to:

and Euro are to the legal currency of the member states of the European Union that adopted such currency as their single currency in accordance with the Treaty Establishing the European Community (signed in Rome on March 25, 1957), as amended by the Treaty on European Union (signed in Maastricht on February 7, 1992);

US$ and U.S. dollars are to the legal currency of the United States;

ADRs are to the American depositary receipts, which, if issued, evidence our ADSs;

ADSs are to the American depositary shares, each representing one ordinary share, par value US$0.01 per share, of our company;

China and the PRC are to the People s Republic of China, excluding, for the purpose of this annual report only, Taiwan and the special administrative regions of Hong Kong and Macau;

convertible senior notes are to our zero coupon convertible senior notes due 2012;

RMB and Renminbi are to the legal currency of the PRC;

shares and ordinary shares are to our ordinary shares, par value US$0.01 per share; and

we, us our and our company refer to Yingli Green Energy Holding Company Limited, a company incorpora in the Cayman Islands, all direct and indirect consolidated subsidiaries of Yingli Green Energy Holding Company Limited, and our predecessor, Baoding Tianwei Yingli New Energy Resources Co., Ltd., or Tianwei Yingli, and its consolidated subsidiary, unless the context otherwise requires or as otherwise indicates.

PART I

Item 1. *Identity of Directors, Senior Management and Advisers*

Not Applicable.

Item 2. *Offer Statistics and Expected Timetable*

Not Applicable.

Item 3. *Key Information*

A. Selected Financial Data

The following tables present the selected consolidated financial information of us and our predecessor, Tianwei Yingli. You should read this information together with the consolidated financial statements and related notes and information under Item 5. Operating and Financial Review and Prospects included elsewhere in this annual report. The historical results are not necessarily indicative of results to be expected in any future periods.

The selected consolidated statement of operations data (other than ADS data) and other consolidated financial data for the years ended December 31, 2007, 2008 and 2009 and the selected consolidated balance sheet data as of December 31, 2008 and 2009 have been derived from our audited consolidated financial statements included elsewhere in this annual report.

The selected consolidated statement of operations data (other than ADS data) and other consolidated financial data for the period from August 7, 2006 (date of inception) through December 31, 2006 and the selected consolidated balance sheet data as of December 31, 2006 have been derived from our audited consolidated financial statements, prior to the reclassification, not included in this annual report. The selected consolidated statement of operations data and other consolidated financial data for the year ended December 31, 2005 and for the

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period from January 1, 2006 through September 4, 2006 and the selected consolidated balance sheet data as of December 31, 2005 have been derived from the audited consolidated financial statements of our predecessor, Tianwei Yingli, prior to the reclassification, not included in this annual report.

The selected consolidated balance sheet data as of December 31, 2007 has been derived from our unaudited consolidated financial statements, which is not included in this annual report. On January 1, 2009, We adopted FSP APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement*), included in ASC Topic 470-20, *Debt with conversion and Other Option,* which requires recognition of both the liability and equity components of convertible debt instruments with cash settlement features. The debt component is required to be recognized at the fair value of a similar instrument that does not have an associated equity component. The equity component is recognized as the difference between the proceeds from the issuance of the convertible debt and the fair value of the liability, after adjusting for the deferred tax impact. ASC Topic 470-20 also requires accretion of the resulting debt discount over the expected life of the convertible debt. ASC Topic 470-20 is required to be applied retrospectively to prior periods, and accordingly, our historical selected financial data has been retrospectively adjusted to reflect the adoption of ASC Topic 470-20. A more in-depth discussion of how the adoption of ASC Topic 470-20 impacted our consolidated financial statements can be found in the accompanying notes to our consolidated financial statements. Accordingly, our consolidated balance sheet as of December 31, 2007 has been adjusted and was not audited by our independent registered public accountants.

The consolidated financial statements of each of Yingli Green Energy and Tianwei Yingli have been prepared in accordance with accounting principles generally accepted in the United States, or U.S. GAAP.

	Predecessor			Yingli Green Energy			
	For the Year Ended December 31,	For the Period from January 1, 2006 through September 4, 2006	For the Period from August 7, 2006 through December 31, 2006	For the Year Ended December 31, 2007 (As adjusted)(7)	For the Year Ended December 31, 2008 (As adjusted)(7)	For the Year Ended December 31, 2009	
	2005	2006	2006				
	(In thousands of RMB)		RMB	RMB	RMB	RMB	US$
				(In thousands, except share, ADS, per share and per ADS data)			
Consolidated Statement of Operations Data							
Net revenues	361,794	883,988	754,793	4,059,323	7,553,015	7,254,869	1,062,844
Gross profit(6)	113,346	282,413	189,862	1,040,604	1,767,216	1,714,373	251,157
Income from operations(8)	83,675	234,631	132,288	679,543	1,153,300	318,550	46,668
Interest expense	(5,278)	(22,441)	(25,789)	(65,945)	(162,131)	(376,336)	(55,133)
Foreign currency exchange gains (losses)	(1,812)	(3,406)	(4,693)	(32,662)	(66,286)	38,389	5,624
Gain (loss) on debt extinguishment	2,165		(3,908)			(244,744)	(35,855)
						(231,345)	(33,892)

Loss from revaluation of embedded derivative							
Income tax benefit (expense)(8)	(12,736)	(22,546)	(22,968)	(12,928)	5,588	31,831	4,663
(Earnings) loss attributable to the noncontrolling interests(8)	36	76	(45,285)	(192,612)	(293,300)	(78,865)	(11,554)
Net income (loss) attributable to Yingli Green Energy(1)(8)	65,954	186,223	30,017	387,909	653,826	(531,595)	(77,880)
Net income (loss) applicable to Yingli Green Energy s ordinary shareholders(8)			23,048	334,758	653,826	(531,595)	(77,880)
Basic earnings (loss) per share applicable to ordinary shareholders(1)(2)(8)			0.36	2.99	5.13	(3.83)	(0.56)

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	Predecessor		Yingli Green Energy				
	For the Year Ended December 31, 2005	For the Period from January 1, 2006 through September 4, 2006	For the Period from August 7, 2006 through December 31, 2006	For the Year Ended December 31, 2007 (As adjusted)(7)	2008 (As adjusted)(7)	2009	
		(In thousands of RMB)	(In thousands, except share, ADS, per share and per ADS data) RMB	RMB	RMB	RMB	US$
Diluted earnings (loss) per share applicable to ordinary shareholders(1)(2)(8)			0.36	2.88	5.05	(3.83)	(0.56)
Basic earnings (loss) per ADS(1)(2)(8)			0.36	2.99	5.13	(3.83)	(0.56)
Diluted earnings (loss) per ADS(1)(2)(8)			0.36	2.88	5.05	(3.83)	(0.56)
Weighted average ordinary shares and ADSs outstanding							
Basic			56,510,959	97,444,766	127,419,040	138,759,177	138,759,177
Diluted			56,905,878	101,023,067	129,494,385	138,759,177	138,759,177

Predecessor		Yingli Green Energy			
For the Year Ended December 31, 2005	For the Period from January 1, 2006 through September 4, 2006	For the Period from August 7, 2006 through December 31, 2006	For the Year Ended December 31, 2007 (As adjusted)(7)	2008 (As adjusted)(7)	2009
		(In percentages)			

Other Consolidated Financial Data						
Gross profit margin(3)(6)	31.3%	31.9%	25.2%	25.6%	23.4%	23.6%
Operating profit margin(3)(8)	23.1%	26.5%	17.5%	16.7%	15.3%	4.4%
Net profit/(loss) margin(3)(8)	18.2%	21.1%	4.0%	9.6%	8.7%	(7.3%)

	Predecessor	**Yingli Green Energy**				
	As of December 31,	**As of December 31,**				
	2005	**2006**	**2007 (As adjusted)(7)**	**2008 (As adjusted)(7)**	**2009**	
	(In thousands of RMB)	**(In thousands of RMB)**	**(In thousands of RMB)**	**(In thousands of RMB)**	**(In thousands of RMB)**	**(In thousands of US$)**
Consolidated Balance Sheets Data						
Cash	14,865	78,455	961,077	1,108,914	3,248,086	475,847
Accounts receivable, net(8)	40,505	281,921	1,240,844	1,441,949	1,750,898	256,508
Inventories	106,566	811,746	1,261,207	2,040,731	1,665,021	243,927
Prepayments to suppliers(8)	123,452	134,823	1,056,776	774,014	329,457	48,266
Total current assets(8)	334,673	1,722,295	5,072,908 3	6,061,133	7,956,475	1,165,631

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	Predecessor	Yingli Green Energy				
	As of December 31,	As of December 31,				
	2005	2006	2007 (As adjusted)(7)	2008 (As adjusted)(7)	2009	
	(In thousands of RMB)	(In thousands of RMB)	(In thousands of RMB)	(In thousands of RMB)	(In thousands of RMB)	(In thousands of US$)
Long-term prepayments to suppliers		226,274	637,270	674,164	678,311	99,373
Property, plant and equipment, net	341,814	583,498	1,479,829	3,385,682	6,573,851	963,075
Total assets	704,775	2,813,461	7,657,579	11,067,796	16,257,105	2,381,680
Short-term bank borrowings, including current portion of long-term bank debt(4)	346,757	267,286	1,261,275	2,044,200	3,501,027	512,903
Convertible senior notes					1,291,843	189,256
Total current liabilities	561,808	649,002	1,519,577	2,829,419	6,939,388	1,016,626
Convertible senior notes			1,219,808	1,214,813		
Long-term bank debt, excluding current portion				662,956	752,809	110,287
Total liabilities	567,617	1,339,878	2,859,346	4,895,526	8,071,246	1,182,444
Ordinary shares(2)		4,745	9,884	9,922	11,363	1,665
Noncontrolling interests(8)	569	387,716	754,799	1,395,151	1,550,785	227,191
Total owners / shareholders equity	137,158	1,473,583	4,798,233	6,172,270	8,185,859	1,199,236

	For the Year Ended December 31,				
	2005	2006	2007	2008	2009
Consolidated Operating Data					
PV modules sold (in megawatts)(5)	11.9	51.3	142.5	281.5	525.3

(1) Commencing January 1, 2007, our primary operating subsidiary, Tianwei Yingli, began enjoying certain exemptions from income tax. Prior to January 1, 2007, there was no tax exemption in place.

The net income (loss) attributable to Yingli Green Energy effects and basic and diluted earnings (loss) per share effects of the tax holiday for the years ended December 31, 2007, 2008 and 2009 are as follows:

	For the Year Ended December 31,			
	2007	2008	2009	
	RMB	RMB	RMB	US$

			(In thousands, except per share data)	
Net income (loss) attributable to Yingli Green Energy	78,357	196,873	(51,226)	(7,505)
Basic earnings (loss) per share	0.80	1.55	(0.37)	(0.05)
Diluted earnings (loss) per share	0.78	1.52	(0.37)	(0.05)

(2) Tianwei Yingli, our predecessor, is not a share-based company and had no outstanding shares for the periods presented, and therefore, we have not presented ordinary shares or earnings per share for Tianwei Yingli.

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(3) Gross profit margin, operating profit margin and net profit/(loss) margin represent gross profit, operating profit and net profit or loss attributable to Yingli Green Energy, respectively, divided by net revenues.

(4) Includes loans guaranteed or entrusted by related parties, which amounted to RMB 234.0 million, RMB 233.0 million, RMB 470.2 million, nil and RMB 370.0 million (US$54.2 million), as of December 31, 2005, 2006, 2007, 2008 and 2009, respectively.

(5) PV modules sold, for a given period, represents the total PV modules, as measured in megawatts, delivered to customers under the then effective supply contracts during such period.

(6) Our previously reported audited consolidated statements of operations for the year ended December 31, 2005, the period from January 1, 2006 to September 4, 2006, the period from August 7, 2006 to December 31, 2006, the years ended December 31, 2007 and 2008 have been revised to reflect a reclassification of the warranty cost of RMB 3.5 million, RMB 8.7 million, RMB 7.0 million, RMB 40.1 million and RMB 74.0 million and shipping and delivery costs relating to solar module sales of RMB 1.6 million, RMB 1.4 million, RMB 2.9 million, RMB 43.7 million and RMB 63.6 million from cost of revenues to selling expenses in order to better reflect the selling related nature of these expenses and to increase the comparability of information with our major competitors.

(7) Due to the adoption and retroactive application of FSP APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)*, included in ASC Topic 470-20, *Debt with Conversion and Other Option*, our previously reported 2007 and 2008 financial results have been revised to reflect an increase in interest expense from RMB 64.8 million to RMB 65.9 million and from RMB 149.2 million to RMB 162.1 million in the year ended December 31, 2007 and 2008, a decrease in current assets from RMB 28.6 million to RMB 27.3 million and from RMB 40.5 million to RMB 39.6 million as of December 31, 2007 and 2008 and a decrease in convertible senior notes from RMB 1,262.7 million to RMB 1,219.8 million and from RMB 1,241.9 million to RMB 1,214.8 million as of December 31, 2007 and 2008, respectively.

(8) Our previously reported unaudited 2009 financial results have been revised to reflect an additional bad debt expense of RMB 131.1 million and an additional write-off of prepayments to suppliers of RMB 31.4 million, which resulted in an increase in operating expense from RMB 1,233.3 million to RMB 1,395.8 million, a change from income tax expense of RMB 32.9 million to income tax benefit of RMB 31.8 million and a decrease in earnings attributed to noncontrolling interests from RMB 104.3 million to RMB 78.9 million.

Exchange Rate Information

The conversion of Renminbi into U.S. dollars in this annual report is based on the noon buying rate in The City of New York for cable transfers of Renminbi per U.S. dollar as set forth in the H.10 weekly statistical release of the Federal Reserve Board. Unless otherwise noted, all translations from Renminbi to U.S. dollars in this annual report were made at a rate of RMB 6.8259 to US$1.00, the noon buying rate in effect as of December 31, 2009. We make no representation that any Renminbi or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or Renminbi, as the case may be, at any particular rate, the rates stated below, or at all. The PRC government imposes control over its foreign currency reserves in part through direct regulation of the conversion of Renminbi into foreign exchange and through restrictions on foreign trade. On June 18, 2010, the noon buying rate as set forth in the H.10 weekly statistical release of the Federal Reserve Board was RMB 6.8267 to US$1.00.

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The following table sets forth information concerning exchange rates between the RMB and the U.S. dollar for the periods indicated.

Period	Period End	Noon Buying Rate(1) Average(2)	High	Low
		(RMB per US$1.00)		
2005	8.0702	8.1826	8.2765	8.0702
2006	7.8041	7.9579	8.0702	7.8041
2007	7.2946	7.5806	7.8127	7.2946
2008	6.8225	6.9192	7.2946	6.7800
2009	6.8259	6.8295	6.8470	6.8176
2009				
December	6.8259	6.8275	6.8299	6.8244
2010				
January	6.8268	6.8269	6.8295	6.8258
February	6.8258	6.8285	6.8330	6.8258
March	6.8258	6.8262	6.8270	6.8254
April	6.8247	6.8256	6.8275	6.8229
May	6.8305	6.8275	6.8310	6.8245
June (through June 18)	6.8267	6.8298	6.8323	6.8267

(1) Source: Federal Reserve Bank of New York for 2008 and prior periods and H.10 weekly statistical release of the Federal Reserve Board for January 2009 and later periods.

(2) Annual averages are calculated by averaging exchange rate on the last business day of each month or the elapsed portion thereof during the relevant period. Monthly averages are calculated using the average of the daily rates during the relevant period.

B. Capitalization and Indebtedness

Not Applicable.

C. Reasons for the Offer and Use of Proceeds

Not Applicable.

D. Risk Factors

Risks Related to Us and the PV Industry

Adverse economic conditions in our target markets as well as an increased supply of PV modules has had and may continue to have a material adverse affect on our profitability and results of operations.

Demand for our products substantially depends on the general economic conditions in our target markets. The economies of many countries around the world, including those in our target markets, have recently experienced a period of slow economic growth and adverse credit market conditions as a result of the global financial crisis. As PV system projects generally require significant upfront capital expenditures, our customers have historically relied on

financing for the purchase of our products. As a result of weakened macroeconomic conditions and in particular the adverse credit market conditions, our customers have experienced difficulty in obtaining financing on attractive terms or at all. As a result, the growth in demand for PV modules has declined significantly since the fourth quarter of 2008. Although the credit market conditions have improved since the second quarter of 2009, which has contributed to an overall increase in the demand for our products in the second half of 2009, we cannot assure you

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that demand for our PV modules will continue to increase or remain at its current level, or such demand will not decline again in the future.

In addition, the supply of PV modules has increased due to production capacity expansion by PV module manufacturers worldwide in recent years which, together with weakened demand for PV modules, has resulted in a decline of prices of PV modules beginning in the fourth quarter of 2008. Decreases in the prices of other energy resources such as oil may also have contributed to the decline of prices of PV modules. The average selling price of our PV modules decreased significantly since the fourth quarter of 2008. While we have achieved cost savings through vertical integration, economies of scale and technological improvements, the decrease in the average selling price of our PV modules primarily caused our gross profit margin to decrease significantly from 24.1% in the third quarter of 2008 to 14.8% in the fourth quarter of 2008. As the demand for our products increased along with the improved macroeconomic environment since the second half of 2009 and due to our continuing efforts to achieve additional cost savings, we were able to improve our gross profit margin throughout 2009, from 16.7% in the first quarter to 19.8%, 22.5% and 29.6% in the second, third and fourth quarter of 2009, respectively, after giving effect to the reclassification in certain accounting treatment in 2009. However, there can be no assurance that the demand for our products will continue to increase or remain at the current level in the near future or our cost saving efforts will continue to improve our profitability or prevent our profit margin from further declining under the current macroeconomic conditions. If we experience declines in demand for our products or decreases in the average selling price of our PV modules again in the future, our financial condition and results of operation could be materially and adversely affected.

The high cost or inaccessibility of financing for solar energy projects has adversely affected and may continue to adversely affect demand for our products and materially reduce our revenue and profits.

If financing for solar energy projects continues to be more costly than the recent years or becomes inaccessible, the growth of the market for solar energy applications may be materially and adversely affected, which could adversely affect demand for our products and materially reduce our revenue and profits. For example, the average selling price of our PV modules decreased significantly from the fourth quarter of 2008 to the second quarter of 2009, partly due to the tightened credit for PV system project financing as the result of the recent global financial crisis. In addition, rising interest rates could render existing financings more expensive, as well as present an obstacle for potential financings that would otherwise spur the growth of the PV industry. Furthermore, some countries, government agencies and the private sector have, from time to time, provided subsidies or financing on preferred terms for rural electrification programs. Some of our products are used in off-grid solar energy applications, where solar energy is provided to end users independent of an electricity transmission grid. We believe that the availability of financing could have a significant effect on the level of sales of off-grid solar energy applications, particularly in developing countries where users may not have sufficient resources or credit to otherwise acquire PV systems. If these existing financing programs are reduced or eliminated or if financings for solar energy projects continue to be tight or become more expensive, demand for our products would be adversely affected and our revenue and profits could decline.

A significant reduction in or discontinuation of government subsidies and economic incentives may have a material adverse effect on our results of operations.

Demand for our products substantially depends on government incentives aimed to promote greater use of solar power. In many countries in which we are currently or intend to become active, the PV markets, particularly the market for on-grid PV systems, would not be commercially viable without government incentives. This is because the cost of generating electricity from solar power currently exceeds, and we believe will continue to exceed for the foreseeable future, the cost of generating electricity from conventional or non-solar renewable energy sources. In addition, we also receive limited amounts of government subsidies and economic incentives in China, such as research and development subsidies granted by the PRC government.

The scope of the government incentives for solar power depends, to a large extent, on political and policy developments in a given country related to environmental, economic or other concerns, which could lead to a significant reduction in or a discontinuation of the support for renewable energy sources in such country. For example, in September 2008, Spain set a cap of 500 megawatts for feed-in tariffs for solar power in 2009, which is

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expected to have significantly reduced incentives for new solar energy project installations. In 2009, the German government reduced its solar feed-in-tariffs by 9%. In March 2010, the German government announced, subject to the approval of the German parliament, the reduction of feed-in-tariffs for rooftop installations and ground-mounted installations on commercial land and ground-mounted installations on converted land by 16%, 15% and 11%, respectively, which may result in a significant fall in the prices of and demand for PV products in Germany. In addition, in certain countries, including countries to which we export PV products, government financial support of PV products has been, and may continue to be, challenged as being unconstitutional or otherwise unlawful. A significant reduction in the scope or discontinuation of government incentive programs, especially in our target markets, would have a material adverse effect on the demand for our PV modules as well as our results of operations.

Our polysilicon cost may increase as a result of entering into fixed, prepaid arrangements with our suppliers, and the excess costs and expenses to operate and manage our in-house polysilicon production may materially and adversely affect our results of operation.

Polysilicon is the most important raw material used in the production of our PV products. To maintain competitive manufacturing operations, we depend on timely delivery by our suppliers of polysilicon in sufficient quantities and of appropriate quality. There had been an industry-wide shortage of polysilicon supply in recent years until the fourth quarter of 2008, during which period we entered into short-term, medium-term and long-term supply contracts with fixed prices to secure our polysilicon supply. Since the fourth quarter of 2008, as the result of increased polysilicon manufacturing capacity and the decrease in the demand for polysilicon due to the recent global financial crisis, the price of polysilicon has decreased significantly. In response to the significant decrease in polysilicon price, we have renegotiated with our suppliers to reduce the purchase price for a substantial amount of polysilicon supplied under certain of our prior polysilicon supply contracts. If the polysilicon prices continue to decline, we cannot assure you that we can renegotiate with our suppliers to further decrease the contract price to the market rate. If the price under our current contracts is higher than the market price of polysilicon, we will have higher cost of polysilicon compared with other competitors who purchase their polysilicon from the spot market. In addition, if the demand for our PV modules decreases and our supply contracts require us to purchase more polysilicon than we need to meet the decreased customers demand, we may incur cost associated with carrying excess inventory.

In order to address the shortage of polysilicon and supplement our purchase from third-party polysilicon suppliers, we acquired Fine Silicon in January 2009 and have developed it into our in-house polysilicon production subsidiary. Fine Silicon is expected to reach its full production capacity of 3,000 tons of polysilicon per year by the end of 2010. However, we cannot assure you that the polysilicon production at Fine Silicon will be cost-effective. If the market price of polysilicon decreases below the cost of polysilicon produced by Fine Silicon, our use of polysilicon produced by Fine Silicon will increase our cost of revenues. Such increased cost of revenues, combined with the costs and expenses for operating Fine Silicon, will materially and adversely affect our results of operations.

To the extent we are not able to pass these increased costs and expenses on to our customers, we may be placed at a competitive disadvantage vis-à-vis our competitors, and our business, cash flows, financial condition and results of operations may be materially and adversely affected.

Our dependence on a limited number of suppliers for a substantial majority of polysilicon could prevent us from delivering our products in a timely manner to our customers in the required quantities, which could result in order cancellations, decreased revenue and loss of market share.

In 2007, 2008 and 2009, our five largest suppliers supplied in the aggregate approximately 73.9%, 55.0% and 84.5%, respectively, of our total polysilicon purchases. If we fail to develop or maintain our relationships with these or our other suppliers, we may be unable to manufacture our products, our products may only be available at a higher cost or after a long delay, or we could be prevented from delivering our products to our customers in the required quantities,

at competitive prices and on acceptable terms of delivery. Problems of this kind could cause us to experience order cancellations, decreased revenue and loss of market share. In general, the failure of a supplier to supply materials and components that meet our quality, quantity and cost requirements in a timely manner due to lack of supplies or other reasons could impair our ability to manufacture our products or could increase our costs,

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particularly if we are unable to obtain these materials and components from alternative sources in a timely manner or on commercially reasonable terms. Some of our suppliers have a limited operating history and limited financial resources, and the contracts we entered into with these suppliers do not clearly provide for remedies to us in the event any of these suppliers is not able to, or otherwise does not, deliver, in a timely manner or at all, any materials it is contractually obligated to deliver. While Fine Silicon, our wholly owned polysilicon production subsidiary, is expected to reach its full production capacity by the end of 2010, we do not expect its production to meet our entire polysilicon needs in the near future. As a result, we expect to continue to rely on third-party polysilicon suppliers for a significant portion of our polysilicon needs and any disruption in the supply of polysilicon to us may adversely affect our business, financial condition and results of operations.

Historically, due to a shortage of raw materials for the production of PV modules, increased market demand for polysilicon raw materials, the failure by some polysilicon suppliers to achieve expected production volumes and certain other factors, a few of our polysilicon suppliers failed to fully perform on their polysilicon supply contractual commitments to us, and we consequently did not receive part of the contractually agreed quantities of polysilicon raw materials from these suppliers. While we were able to replace such expected deliveries of polysilicon through purchases from the spot market and new supply contracts, we cannot assure you that any future failure of our suppliers to deliver agreed quantities of polysilicon could be substantially replaced in a timely manner or at all through spot market purchases or new supply contracts or that the price of such purchases or terms of such contracts will be favorable to us.

We depend, and expect to continue to depend, on a limited number of customers for a significant percentage of our revenues. As a result, the loss of, or a significant reduction in orders from, any of these customers would significantly reduce our revenues and harm our results of operations. In addition, a significant portion of our outstanding accounts receivable is derived from sales to a limited number of customers. Failure of any of these customers to meet their payment obligations would materially and adversely affect our financial position, liquidity and results of operations.

We currently expect that our results of operations will, for the foreseeable future, continue to depend on the sale of our PV modules to a relatively small number of customers until we become successful in significantly expanding our customer base or diversifying product offerings. In 2007, 2008 and 2009, sales to our customers that individually exceeded 10% of our net revenues accounted for approximately 45.2%, 11.6% and 16.9%, respectively, of our net revenues. Our relationships with such key customers have been developed over a short period of time and are generally in their early stages. We cannot assure you that we will continue to generate significant revenues from these customers or that we will be able to maintain these customer relationships. In addition, our business is affected by competition in the market for the products that many of our major customers sell, and any decline in the businesses of our customers could reduce the purchase of our products by these customers. The loss of sales to any of these customers could also have a material adverse effect on our business, prospects and results of operations.

In addition, a significant portion of our outstanding accounts receivable are derived from sales to a limited number of customers. As of December 31, 2007, 2008 and 2009, our five largest outstanding accounts receivable balance (net of provisions) accounted for approximately 83.2%, 81.2% and 38.9%, respectively, of our total outstanding accounts receivable. We are exposed to the credit risk of these customers, some of which are new customers with whom we have not had extensive business dealings historically. The failure of any of these customers to meet their payment obligations would materially and adversely affect our financial position, liquidity and results of operations.

We face intense competition in the PV modules and PV system markets and our PV products compete with different solar energy systems as well as other renewable energy sources in the alternative energy market. If we fail to adapt to changing market conditions and to compete successfully with existing or new competitors, our business prospects and results of operations would be materially and adversely affected.

The PV market is intensely competitive and rapidly evolving. The number of PV product manufacturers had rapidly increased due to the growth of actual and forecasted demand for PV products and the relatively low barriers

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to entry. If we fail to attract and retain customers in our target markets for our current and future core products, namely PV modules and PV systems, we will be unable to increase our revenues and market share.

We often compete with local and international producers of PV products that are substantially larger than us, including the solar energy divisions of large conglomerates such as BP Solar and Sharp Corporation, PV module manufacturers such as SunPower Corporation and Suntech Power Holdings Co., Ltd., and integrated PV product manufacturers such as SolarWorld AG, Renewable Energy Corporation and Trina Solar Limited.

We may also face competition from new entrants to the PV market, including those that offer more advanced technological solutions or that have greater financial resources, such as semiconductor manufacturers, several of which have announced their intention to start production of PV cells and PV modules. A significant number of our competitors are developing or currently producing products based on more advanced PV technologies, including thin film solar module, amorphous silicon, string ribbon and nano technologies, which may eventually offer cost advantages over the crystalline polysilicon technologies currently used by us. A widespread adoption of any of these technologies could result in a rapid decline in demand for our products and a resulting decrease in our revenues if we fail to adopt such technologies. In addition, like us, some of our competitors have become, or are becoming, vertically integrated in the PV industry value chain, from silicon ingot manufacturing to PV system sales and installation. This could further erode our competitive advantage as a vertically integrated PV product manufacturer. In addition, our competitors may also enter into the polysilicon manufacturing business, which may provide them with cost advantages. Furthermore, the entire PV industry also faces competition from conventional energy and non-solar renewable energy providers.

Many of our existing and potential competitors have substantially greater financial, technical, manufacturing and other resources than we do. The greater size of many of our competitors provides them with cost advantages as a result of their economies of scale and their ability to obtain volume discounts and purchase raw materials at lower prices. Many of our competitors also have better brand name recognition, more established distribution networks, larger customer bases or more in-depth knowledge of the target markets. As a result, they may be able to devote greater resources to the research and development, promotion and sale of their products and respond more quickly to evolving industry standards and changes in market conditions as compared to us. Our failure to adapt to changing market conditions and to compete successfully with existing or future competitors would have a material adverse effect on our business, prospects and results of operations.

If PV technology is not suitable for widespread adoption, or sufficient demand for PV products does not develop or takes longer to develop than we anticipated, our sales may not continue to increase or may even decline, and we may be unable to sustain profitability.

The PV market is at a relatively early stage of development and the extent to which PV products will be widely adopted is uncertain. The PV industry may also be particularly susceptible to economic downturns. Market data in the PV industry are not as readily available as those in other more established industries where trends can be assessed more reliably from data gathered over a longer period of time. If PV technology proves unsuitable for widespread adoption or if demand for PV products fails to develop sufficiently, we may not be able to grow our business or generate sufficient revenues to sustain our profitability. In addition, demand for PV products in our targeted markets, including China, may not develop or may develop to a lesser extent than we anticipated. Many factors may affect the viability of widespread adoption of PV technology and demand for PV products, including (i) cost-effectiveness of PV products compared to conventional and other non-solar energy sources and products; (ii) performance and reliability of PV products compared to conventional and other non-solar energy sources and products; (iii) availability of government subsidies and incentives to support the development of the PV industry; (iv) success of other alternative energy generation technologies, such as fuel cells, wind power and biomass; (v) fluctuations in economic and market conditions that affect the viability of conventional and non-solar alternative energy sources, such as increases or

decreases in the prices of oil and other fossil fuels; (vi) capital expenditures by end users of PV products, which tend to decrease when economy slows down; and (vii) deregulation of the electric utility industry and broader energy industry.

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Existing regulations and policies governing the electric utility industry, as well as changes to these regulations and policies, may adversely affect demand for our products and materially reduce our revenue and profits.

The electric utility industry is subject to extensive regulation, and the market for PV products is heavily influenced by these regulations as well as the policies promulgated by electric utilities. These regulations and policies often affect electricity pricing and technical interconnection of end-user power generation. As the market for solar and other alternative energy sources continue to evolve, these regulations and policies are being modified and may continue to be modified. Customer purchases of, or further investment in research and development of, solar and other alternative energy sources may be significantly affected by these regulations and policies, which could significantly reduce demand for our products and materially reduce our revenue and profits.

Moreover, we expect that our PV products and their installation will be subject to oversight and regulation in accordance with national and local ordinances relating to building codes, safety, environmental protection, utility interconnection and metering and related matters in various countries. We also have to comply with the requirements of individual localities and design equipment to comply with varying standards applicable in the jurisdictions where we conduct business. Any new government regulations or utility policies pertaining to our PV products may result in significant additional expenses to us, our distributors and end users and, as a result, could cause a significant reduction in demand for our PV products, as well as materially and adversely affect our financial condition and results of operations.

Advance payment arrangements between us and some of our polysilicon suppliers and many of our equipment suppliers expose us to the credit risks of such suppliers and may increase our costs and expenses, which could in turn have a material adverse effect on our liquidity.

Although we have not made any advance prepayments to our polysilicon suppliers since 2009, we had long-term prepayment balances for polysilicon in a total amount of RMB 678.3 million (US$99.4 million) as of December 31, 2009 under our long-term contracts entered into prior to 2009. In addition, under existing supply contracts with many of our equipment suppliers, consistent with the industry practice, we make advance payments to our suppliers prior to the scheduled delivery dates for equipment. In many such cases, we make the advance payments without receiving collateral for such payments. As a result, our claims for such payments would rank as unsecured claims, which would expose us to the credit risks of our suppliers in the event of their insolvency or bankruptcy. Under such circumstances, our claims against the defaulting suppliers would rank below those of secured creditors, which would undermine our chances of obtaining the return of our advance payments. Accordingly, any of the above scenarios may have a material adverse effect on our financial condition, results of operations and liquidity.

Our growth strategy requires substantial capital expenditures, significant engineering efforts, timely delivery of manufacturing equipment and dedicated management attention, and our failure to complete our expansion plans or otherwise effectively manage our growth could have a material adverse effect on the growth of our sales and earnings.

Our future success depends on our ability to expand our manufacturing capacity. If we are unable to do so, we will not be able to attain the desired level of economies of scale in our operations or lower our marginal production costs to the level necessary to effectively maintain our pricing and other competitive advantages. We have made substantial capital expenditures for our growth in the past and future expansions. For example, we completed a 200 megawatt capacity expansion project in July 2009, bringing our total annual production capacity to 600 megawatt. Fine Silicon, our wholly-owned polysilicon production subsidiary, started trial production in late 2009 and is expected to reach its full capacity of 3,000 tons per year by the end of 2010. In addition, we are implementing a 300 megawatt production capacity expansion project in Baoding and a 100 megawatt production capacity expansion project in Hainan Province, each of which we expect will reach full production capacity by the end of 2010. Our growth strategy has required and

will continue to require substantial capital expenditures,

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significant engineering efforts, timely delivery of manufacturing equipment, dedicated management attention and the recruitment and training of new employees and is subject to significant risks and uncertainties, including:

- we may need to continue to contribute significant additional capital to our subsidiaries through the issuance of equity or debt securities or entering into new credit facilities or other arrangements in order to finance the costs of developing the new facilities, which may not be conducted on reasonable terms or at all, and which could be dilutive to our existing shareholders; such capital contributions also require PRC regulatory approvals in order for such funds to be transferred to our subsidiaries, which approvals may not be granted in a timely manner or at all;

- we will be required to obtain governmental approvals, permits or documents of similar nature with respect to any new expansion projects, but it is uncertain whether such approvals, permits or documents will be obtained in a timely manner or at all;

- we may experience cost overruns, construction delays, equipment problems, including delays in manufacturing equipment deliveries or deliveries of equipment that is damaged or does not meet our specifications, and other operating difficulties;

- we are using new equipment and technology to lower our unit capital and operating costs, but we cannot assure you that such efforts will be successful; and

- we may not have sufficient management resources to properly oversee capacity expansion as currently planned.

Any of these or similar difficulties could adversely affect our ability to manage the growth of our operations. Any significant delays or constraints to our manufacturing capacity expansion as currently planned could limit our ability to increase sales, reduce marginal manufacturing costs or otherwise improve our prospects and profitability. In addition, we may have over-capacity as a result of our manufacturing capacity expansion if we do not sufficiently increase sales.

We may undertake acquisitions, investments, joint ventures or other strategic alliances, which may have a material adverse effect on our ability to manage our business, and such undertakings may be unsuccessful.

Our strategy includes plans to grow both organically and through acquisitions, participation in joint ventures or other strategic alliances with suppliers or other companies in China and overseas along the PV industry value chain. For example, in January 2009, we completed the acquisition of Cyber Power and its principal operating subsidiary, Fine Silicon, to establish our own in-house polysilicon production capacity. Joint ventures and strategic alliances may expose us to new operational, regulatory, market and geographic risks as well as risks associated with additional capital requirements.

Acquisitions of companies or businesses and participation in joint ventures or other strategic alliances are subject to considerable risks, including:

- our inability to integrate new operations, personnel, products, services and technologies;

- unforeseen or hidden liabilities, including exposure to lawsuits associated with newly acquired companies;

- the diversion of resources from our existing businesses;

- disagreement with joint venture or strategic alliance partners;

contravention of regulations governing cross-border investment;

failure to comply with laws and regulations as well as industry or technical standards of the overseas markets into which we expand;

our inability to generate sufficient revenues to offset the costs and expenses of acquisitions, strategic investments, joint venture formations or other strategic alliances; and

potential loss of, or harm to, employees or customer relationships.

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Any of these events could disrupt our ability to manage our business, which in turn could have a material adverse effect on our financial condition and results of operations. Such risks could also result in our failure to derive the intended benefits of the acquisitions, strategic investments, joint ventures or strategic alliances and we may be unable to recover our investment in such initiatives.

We may not be able to ramp up our in-house polysilicon manufacturing capacity on schedule or at all.

Fine Silicon, our wholly owned polysilicon production subsidiary, started trial production in late 2009 and is expected to reach its full production volume of 3,000 tons per year by the end of 2010. To fully ramp up Fine Silicon s production capacity, we will need to continue to integrate the personnel we have hired and build an effective team and infrastructure to oversee the operation of the production facilities. We cannot assure you that we will be able to fully ramp up our polysilicon production capacity on schedule or at all. Our ability to successfully ramp up polysilicon manufacturing capacity is subject to various risks and uncertainties, including:

- the need to procure supplies of consumables and other materials at reasonable costs and on a timely basis;
- equipment testing delays and cost overruns;
- difficulties in recruitment and training of additional skilled employees, including technicians and managers at different levels;
- diversion of significant management attention and other resources; and
- delays or denials of required permits and approvals for our plant construction and operations, including but not limited to environmental approvals, by relevant government authorities.

We only have very limited experience in polysilicon production and may not be successful in producing polysilicon cost-effectively.

We started trial production of polysilicon through Fine Silicon in late 2009. Prior to that, we had no experience in polysilicon production. The technology used to manufacture polysilicon is complex, requires costly equipment and is continuously being modified in an effort to improve yields and product performance. Microscopic impurities such as dust and other contaminants, difficulties in the manufacturing process, disruptions in the supply of utilities or defects in the key materials and tools used to manufacture polysilicon could interrupt manufacturing, reduce yields or cause a portion of the polysilicon to be difficult or costly to use in wafer production, which would negatively affect our profitability. In the process of ramping up our polysilicon production capacity, if we are unable to overcome technological difficulties, we may be unable to achieve cost-effective production of polysilicon, which could prevent us from successfully implementing our business plans.

Our effective capacity and ability to produce high volumes of polysilicon will depend on the cycle times for each batch of polysilicon. We may encounter problems in our manufacturing process or facilities as a result of, among other things, production failures, construction delays, human error, equipment malfunction or process contamination, all of which could seriously harm our operations. We may experience production delays if any modifications we make in the manufacturing process to shorten production cycles are unsuccessful. Moreover, the failure to achieve acceptable manufacturing levels would result in the need to source a larger portion of our polysilicon requirements from third parties and therefore may cause our polysilicon costs not to be competitive, which could adversely affect our business, financial condition and results of operations.

If we are unable to operate our polysilicon production facilities effectively or natural disasters or other operational disruptions occur, our business, financial condition and results of operations could be adversely affected.

Production of polysilicon requires the use of volatile materials and chemical reactions sensitive to temperature, pressure and requires the use of external controls to maintain safety and provide commercial production yields. The occurrence of a catastrophic event as a result of a natural disaster or human error or otherwise at our future polysilicon production facilities could threaten, disrupt or destroy a significant portion or all of our polysilicon production capacity at such facility for a significant period of time. Furthermore, our polysilicon production facilities will be highly reliant on our ability to maintain temperatures and pressure at appropriate levels, the supply

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of steam at a consistent pressure, the availability of adequate electricity and our ability to control the application of such electricity. Accordingly, mistakes in operating our equipment or an interruption in the supply of electricity at our production facilities could result in the production of substandard polysilicon or substantial shortfalls in production and could reduce our production capacity for a significant period of time. Damage or loss of revenue from any such events or disruptions may not be adequately covered by insurance, and could also damage our reputation, any of which could have a material adverse effect on our business, financial condition and results of operations.

Polysilicon and ingot production is energy-intensive and if our energy costs rise or if our energy supplies are disrupted, our results of operations may be materially and adversely affected.

The polysilicon and ingot production process is highly dependent on a constant supply of electricity to maintain the optimal conditions for production. If these levels are not maintained, we may experience significant delays in the production of polysilicon and ingots. With the rapid development of the PRC economy, demand for electricity has continued to increase. There have been shortages in electricity supply in various regions across China, especially during peak seasons such as summer. In the event that energy supplies to our manufacturing facilities are disrupted, our business, results of operations and financial condition could be materially and adversely affected. In addition to shortages, we are subject to potential risks of interruptions in energy supply due to equipment failure, weather events or other causes. There can be no assurance that we will not face power related problems in the future.

Even if we had access to sufficient sources of electricity, as we consume substantial amounts of electricity in our manufacturing process, any significant increase in the costs of electricity could adversely affect our profitability. The electricity price in China will also be largely dependent on the price for coal, which has been increasing. If energy costs were to increase, our business, financial condition, results of operations or liquidity position could be adversely affected.

Fluctuations in exchange rates have in the past and may continue to adversely affect our results of operations.

Most of our sales are currently denominated in Euros or U.S. dollars, while a substantial portion of our costs and expenses is denominated in Renminbi, Euros and U.S. dollars. In addition, we must convert Renminbi into foreign currencies to make payments to overseas suppliers. Therefore, fluctuations in currency exchange rates could have a significant effect on our results of operations due to mismatches among various foreign currency-denominated transactions, including sales of PV modules in overseas markets and purchases of silicon raw materials and equipment, and the time gap between the signing of the related contracts and cash receipts and disbursements related to such contracts.

We recognized a net foreign currency exchange loss of RMB 66.3 million in 2008, primarily due to the depreciation of the U.S. dollar and the Euro against the Renminbi resulting in a foreign currency exchange loss of RMB 173.2 million in 2008, which was partially offset by a gain of RMB 106.9 million from foreign currency forward contracts realized in the fourth quarter of 2008. In 2009, we recognized a net foreign currency exchange gain of RMB 38.4 million (US$5.6 million), primarily due to the appreciation of the Euro against the Renminbi during the second and third quarters of 2009. In addition, we have entered into hedging and foreign currency forward arrangements to limit our exposure to foreign currency exchange risk. However, we will continue to be exposed to foreign currency exchange risk to the extent that our hedging and foreign currency forward arrangements do not cover all of our expected revenues denominated in foreign currencies. We cannot predict the effect of exchange rate fluctuations on our foreign currency exchange gains or losses in the future. We may continue to reduce the effect of such exposure through hedging or other similar arrangements, but because of the limited availability of such instruments in China, we cannot assure you that we will always find a hedging arrangement suitable to us, or that such derivative activities will be effective in managing our foreign exchange risk.

In addition, our reporting currency is Renminbi and our sales denominated in foreign currencies need to be translated into Renminbi when they are recorded as our revenues. Therefore, depreciation of foreign currencies in which our sales are denominated, such as the Euro and the U.S. dollar, against the Renminbi will cause our reported revenues to decline. For example, the decrease in our total net revenues in the fourth quarter of 2008 was partially

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attributable to the depreciation of the Euro against the Renminbi in the fourth quarter of 2008 as a majority of our PV module shipments in the quarter were under contracts denominated in Euros, and the depreciation of the Euro against the Renminbi in 2009 has also adversely affect our total net revenues. Any further depreciation of foreign currencies in which our sales are denominated against the Renminbi will continue to adversely affect our revenues and results of operations.

Our product development initiatives and other research and development efforts may fail to improve manufacturing efficiency or yield commercially viable new products.

We are making efforts to improve our manufacturing processes and improve the quality of our PV products. We believe the efficient use of polysilicon is essential to reducing our manufacturing costs. We have been exploring several measures to improve the efficient use of polysilicon in our manufacturing process, including reducing the thickness of silicon wafers. However, the use of thinner silicon wafers may have unforeseen negative consequences, such as increased breakage and reduced reliability and conversion efficiency of our PV cells and modules. As a result, reducing the thickness of silicon wafers may not lead to the cost reductions we expect to achieve, while at the same time it may reduce customer satisfaction with our products, which in turn could have a material adv