Canadian Solar Inc.
Form 20-F
June 03, 2008

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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, 2007.

or

- o **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
  For the transition period from to

or

- o **Shell company report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
  Date of event requiring this shell company report

Commission file number: 001-33107
CANADIAN SOLAR INC.
(Exact name of Registrant as specified in its charter)

N/A
(Translation of Registrant s name into English)

Canada
(Jurisdiction of incorporation or organization)

199 Lushan Road
Suzhou New District
Suzhou, Jiangsu 215129
People s Republic of China
(Address of principal executive offices)

Bing Zhu, Chief Financial Officer
675 Cochrane Drive

East Tower, 6th Floor
Markham, Ontario L3R 0B8
Tel: (1-905) 530-2334
Fax: (1-905) 530-2001
(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
Common shares with no par value	The NASDAQ Stock Market LLC (The NASDAQ Global Market)

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

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

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.

27,320,389 common shares issued and outstanding, excluding 566,190 restricted shares, which were subject to restrictions on voting, divided rights and transferability, as of December 31, 2007

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

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. Yes o No þ

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. Yes þ No o

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

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

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

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

Indicate by check mark which financial statement item the registrant has elected to follow. Item 17 o Item 18 þ

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. Item 17 o Item 18 o

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 Exchange Act). Yes o No þ

(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. Yes o No o

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INTRODUCTION

Unless otherwise indicated, references in this annual report on Form 20-F to:

CSI, we, us, our company and our are to Canadian Solar Inc., its predecessor entities and its consolidated subsidiaries;

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

RMB and Renminbi are to the legal currency of China;

C$ and Canadian $ are to the legal currency of Canada;

and Euro are to the legal currency of the European Union; and

China and the PRC are to the People s Republic of China, excluding, for the purposes of this annual report on Form 20-F only, Taiwan and the special administrative regions of Hong Kong and Macau.

This annual report on Form 20-F includes our audited consolidated financial statements for the years ended December 31, 2005, 2006 and 2007 and as of December 31, 2006 and 2007.

All translations from Renminbi to U.S. dollars were made at the noon buying rate in The City of New York for cable transfers in Renminbi per U.S. dollar as certified for customs purposes by the Federal Reserve Bank of New York. Unless otherwise stated, the translation of Renminbi into U.S. dollar has been made at the noon buying rate in effect on December 31, 2007, which was RMB7.2946 to $1.00. We make no representation that the Renminbi or dollar amounts referred to in this annual report on Form 20-F could have been or could be converted into dollars or Renminbi, as the case may be, at any particular rate or at all. See Item 3. Key Information D. Risk Factors Risks Related to Doing Business in China Fluctuation in the value of the Renminbi may have a material adverse effect on your investment. On June 2, 2008, the noon buying rate was RMB6.9325 to $1.00.

FORWARD-LOOKING INFORMATION

The information in this annual report on Form 20-F contains forward-looking statements that relate to future events, including our future operating results and conditions, our prospects and our future financial performance and condition, results of operations, business strategy and financial needs, all of which are largely based on our current expectations and projections. These statements are made under the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. You can identify these forward-looking statements by terminology such as may, will, expect, anticipate, future, intend, plan, believe, estimate, is/are likely to or other and si Forward-looking statements involve inherent risks and uncertainties. These forward-looking statements include, among other things, statements relating to:

our expectations regarding the worldwide demand for electricity and the market for solar power;

our beliefs regarding lack of infrastructure reliability and long-term fossil fuel supply constraints;

our beliefs regarding the inability of traditional fossil fuel-based generation technologies to meet the demand for electricity;

our beliefs regarding the importance of environmentally friendly power generation;

our expectations regarding governmental support for the deployment of solar power;

our beliefs regarding the future shortage or availability of the supply of high-purity silicon;

our beliefs regarding the acceleration of adoption of solar power technologies and the continued growth in the solar power industry;

our beliefs regarding the competitiveness of our solar module products;

our expectations with respect to increased revenue growth and improved profitability;

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our expectations regarding the benefits to be derived from our supply chain management and vertical integration manufacturing strategy;

our beliefs and expectations regarding the use of upgraded metallurgical grade silicon materials (UMgSi) and solar power products made of this material;

our ability to continue developing our in-house solar components production capabilities and our expectations regarding the timing and production capacity of our internal manufacturing programs;

our beliefs regarding our securing adequate silicon and solar cell requirements to support our solar module production;

our beliefs regarding the effects of environmental regulation;

our beliefs regarding the changing competitive arena in the solar power industry;

our future business development, results of operations and financial condition; and

competition from other manufacturers of solar power products and conventional energy suppliers.

Known and unknown risks, uncertainties and other factors, may cause our actual results, performance or achievements to be materially different from any future results, performances or achievements expressed or implied by the forward-looking statements. See Item 3. Key Information D. Risk Factors for a discussion of some risk factors that may affect our business and results of operations. These risks are not exhaustive. Other sections of this annual report may include additional factors that could adversely impact our business and financial performance. Moreover, because we operate in an emerging and evolving industry, new risk factors may emerge from time to time. It is not possible for our management to predict all risk factors, nor can we assess the impact of these factors on our business or the extent to which any factor, or combination of factors, may cause actual result to differ materially from those expressed or implied in any forward-looking statement. We do not undertake any obligation to update or revise the forward-looking statements except as required under applicable law.

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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

Selected Consolidated Financial and Operating Data

The following selected statement of operations data for the years ended December 31, 2005, 2006 and 2007 and the balance sheet data as of December 31, 2006 and 2007 have been derived from our audited consolidated financial statements, which have been audited by Deloitte Touche Tohmatsu CPA Ltd., an independent registered public accounting firm. The report of Deloitte Touche Tohmatsu CPA Ltd. on those financial statements is included elsewhere in this annual report on Form 20-F. You should read the selected consolidated financial data in conjunction with those financial statements and the related notes and Item 5. Operating and Financial Review and Prospects included elsewhere in this annual report on Form 20-F.

The audited financial statements are prepared and presented in accordance with U.S. GAAP. Our historical results do not necessarily indicate results expected for any future periods. Our selected consolidated statement of operations data for the years ended December 31, 2003 and 2004 and our consolidated balance sheet data as of December 31, 2003, 2004 and 2005 have been derived from our audited consolidated financial statements, which are not included in this annual report.

	Year Ended December 31,				
	2003	**2004**	**2005**	**2006**	**2007**
	(In thousands of US$, except share and per share data, and operating data and percentages)				
Statement of operations data:					
Net revenues	$ 4,113	$ 9,685	$ 18,324	$ 68,212	$ 302,798
Net income/(loss)	$ 761	$ 1,457	$ 3,804	$ (9,430)	$ (210)
Earnings/(loss) per share, basic and diluted	$ 0.05	$ 0.09	$ 0.25	$ (0.50)	$ (0.01)
Shares used in computation Basic and diluted	15,427,995	15,427,995	15,427,995	18,986,498	27,283,305
Other financial data:					

Gross margin	42.3%	33.2%	38.8%	18.1%	7.8%
Operating margin	15.6%	19.0%	28.5%	1.6%	(0.6)%
Net margin	18.5%	15.0%	20.8%	(13.8)%	(0.1)%
Selected operating data:					
Products sold (in MW)					
Standard solar modules	$	$ 1.8	$ 3.4	$ 14.7	$ 83.4
Specialty solar modules and products	$ 0.7	$ 0.4	$ 0.7	$ 0.2	$
Total	$ 0.7	$ 2.2	$ 4.1	$ 14.9	$ 83.4
Average selling price (in $ per watt)					
Standard solar modules	$	$ 3.62	$ 3.92	$ 3.97	$ 3.75

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	As of December 31,				
	2003	2004	2005	2006	2007
	(In thousands of US$, except share data)				
Balance Sheet Data:					
Total assets	3,053	6,145	27,430	129,634	284,503
Long-term debt					17,866
Convertible notes			3,387		75,000
Number of shares outstanding	15,427,995	15,427,995	15,427,995	27,270,000	27,320,389(1)

(1) Excluding 566,190 restricted shares, which were subject to restrictions on voting and dividend rights and transferability, as of December 31, 2007.

Exchange Rate Information

Our manufacturing activities are primarily conducted in China and a portion of our expenses are denominated in RMB. Periodic reports made to shareholders will be expressed in U.S. dollars using the then current exchange rates. The conversion of RMB into U.S. dollars in this annual report on Form 20-F is based on the noon buying rate in The City of New York for cable transfers of RMB as certified for customs purposes by the Federal Reserve Bank of New York. Unless otherwise noted, all translations from RMB to U.S. dollars and from U.S. dollars to RMB in this annual report on Form 20-F were made at a rate of RMB7.2946 to $1.00, the noon buying rate in effect as of December 31, 2007. We make no representation that any RMB or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or RMB, 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 RMB into foreign exchange and through restrictions on foreign trade. On June 2, 2008, the noon buying rate was RMB6.9325 to $1.00.

The following table sets forth information concerning exchange rates between the RMB and the U.S. dollar for the periods indicated based on the noon buying rate in The City of New York for cable transfers of Renminbi as certified for customs purposes by the Federal Reserve Bank of New York.

		Noon Buying Rate		
Period	**Period End**	**Average(1)**	**Low**	**High**
2002	8.2800	8.2770	8.2800	8.2669
2003	8.2767	8.2772	8.2800	8.2765
2004	8.2765	8.2768	8.2774	8.2764
2005	8.0702	8.1940	8.2765	8.0702
2006	7.8041	7.9723	8.0702	7.8041
2007	7.2946	7.5806	7.8127	7.2946
November	7.3850	7.4212	7.4582	7.3800
December	7.2946	7.3682	7.4120	7.2946
2008				
January	7.1818	7.2405	7.2946	7.1818
February	7.1115	7.1644	7.1973	7.1100

March	7.0120	7.0722	7.1110	7.0151
April	6.9870	6.9997	7.0185	6.9840
May	6.9400	6.9725	7.0000	6.9377
June (through June 2)	6.9325	6.9325	6.9325	6.9325

(1) Annual averages are calculated from month-end rates. Monthly averages are calculated using the average of the daily rates during the relevant period.

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B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Risks Related to Our Company and Our Industry

The current industry-wide shortage of high-purity silicon may constrain our revenue growth and decrease our margins and profitability.

We produce solar modules, which are an array of interconnected solar cells encased in a weatherproof package, and products that use solar modules. High-purity silicon is an essential raw material in the production of solar cells and is also used in the semiconductor industry generally. While we do have in-house solar cell manufacturing capabilities, we continue to depend on solar wafer and cell supplies from a few producers. There is currently an industry-wide shortage of high-purity silicon because of increased demand as a result of recent expansions of, and increased demand in, the solar power and semiconductor industries. The shortage of high-purity silicon has driven the overall increase in silicon feedstock prices. For example, according to the March 2007 and 2008 reports by Solarbuzz, a leading professional magazine for the solar industry, the average long-term silicon feedstock contracted price increased from approximately $28-32 per kilogram in 2004 to $65-75 per kilogram in 2008. Prices of silicon feedstock obtained through spot purchases or short-term contracts went as high as $400 per kilogram in 2007, peaking in the second half of 2007 but were at $250 per kilogram for three-month supply contracts. The shortage of high-purity silicon has also resulted in a shortage of, and significant price increases for, solar cells. Solarbuzz cites that mainstream multicrystalline silicon cell prices in Euros increased from the first quarter of 2006 to the first quarter of 2007 by an average of 8%, while monocrystalline silicon photovoltaic (PV) cell prices in Euros increased by a similar proportion. Multicrystalline silicon cell prices in Euros decreased from the first quarter of 2007 to the first quarter of 2008 by an average of 9%, while monocrystalline silicon PV cell prices in Euros decreased by a similar proportion. The blended average (mono and multi) cell prices in Euros decreased from the first quarter of 2007 to the first quarter of 2008 by 8.5%.

The average price of silicon feedstock and solar cells remained high in 2007. Any further increase in the demand from the semiconductor industry will compound the shortage and price increases. The shortage of high-purity silicon has constrained our revenue growth in the past and may continue to do so. Increases in the prices of silicon feedstock and solar cells have in the past increased our production costs and may impact our cost of revenues and net income in the future. The production of high-purity silicon is capital intensive and adding additional capacity requires significant lead time. While we are aware that several new facilities for the manufacture of high-purity silicon are under construction, we do not believe that the supply shortage will be alleviated in the very near term. We expect that demand for high-purity silicon will continue to outstrip supply for the foreseeable future. Furthermore, if we cannot fulfill our solar cell needs through internal production and obtain solar wafers and solar cells externally at commercially viable prices, this could adversely affect our margins and operating results. This would have a material negative impact on our business and operating results.

If we are unable to secure an adequate and cost effective supply of solar wafers, solar cells or reclaimable silicon, our revenue, margins and profits could be adversely affected.

Solar cells are the most important component of solar module products. We engage in vertical integration of our supply chain to secure a sufficient and cost-effective supply of solar cells through a combination of internal solar cell component manufacturing and also our sourcing of silicon feedstock, toll manufacturing arrangements with suppliers of ingots, wafers and cells and direct purchases from solar cell suppliers. However, the industry-wide shortage of polysilicon and silicon wafers has resulted in sharp increases and significant volatility in polysilicon and silicon wafer prices since 2003. Although we seek to control our costs of raw materials by planning and managing the timing of our spot market purchases, there is no assurance that we will accurately predict future pricing trends or

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that we can achieve our objective of securing adequate quantities of polysilicon and silicon wafers at competitive prices. We believe the average price of polysilicon and silicon wafers will remain high and could increase further in the near term. The increasing price of polysilicon and silicon wafers has largely contributed to the increase in our production costs for PV cells and modules in the past three years and may continue to have the same effect in the future, notwithstanding our continuing efforts to use polysilicon and silicon wafers more efficiently. In addition, we may not be able to pass to our customers our increased production costs resulting from, among other things, the increased costs of polysilicon and silicon wafers. Despite the rise in the price of polysilicon and silicon wafers, PV module manufacturers worldwide are expanding their production capacities in response to the growing popularity worldwide of PV products. We believe that such capacity expansion, particularly in markets where government subsidies for solar energy consumption are declining, will cause a gradual decline in the price of PV modules, which may more than offset any cost savings from technological improvements that lead to a more efficient use of polysilicon and silicon wafers.

While we have been able to secure silicon to meet our production needs in the past, due to ongoing industry shortages of silicon feedstock, solar wafers and solar cells, we cannot assure you that we will be able to continue to successfully manage our supply chain and secure an adequate and cost-effective supply of solar cells. For example, we have entered into several long-term contracts with silicon raw material suppliers, but we cannot assure you that we will be able to obtain adequate supplies from them under these contracts or from other suppliers in sufficient quantities and at commercially viable prices in the future. Moreover, toll manufacturing arrangements may not be available to us in the future or at higher volumes, in particular as high-purity silicon becomes more readily available in the future, which could have an adverse effect on our margins and profitability. While we produce solar cells internally to meet a portion of our solar cell needs, we cannot guarantee you that we will be able to successfully produce enough solar cells to supplement our solar cell needs. If we are unable to procure an adequate supply of solar cells, either via contractual arrangements providing solar cells to us at commercially viable prices or through in-house production, we may be unable to meet the demand for our products and could lose our customers and market share, and our margins and revenues could decline.

In addition, while we have been able to generate cost savings in the past through our recycling of reclaimable silicon, we cannot assure you that we will be able to secure sufficient reclaimable silicon at higher volumes and reasonable prices in the future as we believe there is a limited supply of reclaimable silicon available in the market and intensified competition for these materials as a result of new competitors entering the market. Recently, there has been increased scrutiny by the Chinese Customs authorities on the import of scrap silicon over a concern that the recycling process for certain types of scrap silicon may cause environmental damage if not performed in a fully licensed factory. This has created certain disruptions to our silicon reclamation business. Since December 2006, 1.2 tons of our scrap silicon has been under detention by the Chinese Customs authorities. In August 2007, following testing by Chinese Customs authorities, one-fourth of this amount was identified by them as prohibited solid waste. In April 2008, the Chinese Customs authorities ordered us to return the detained 1.2 tons of scrap silicon to its point of origin. They did not impose any fines or subject us to further administrative actions. We are actively working with local industry groups, the Chinese Customs authorities and the Chinese Environment Protection Administration to define new procedures and regulations governing scrap silicon. These new regulations may increase the cost of reclamation and limit our ability to sustain or expand our silicon reclamation program. If we are unable to secure a sufficient supply of reclaimable silicon at reasonable prices and reclaim this silicon on a cost-efficient basis, we cannot assure you that we will be able to save cost through our reclamation program and maintain our profit margin as a result of further negative changes in the government policy.

Advance payments to our polysilicon and silicon wafer suppliers and credit term sales offered to some of our customers expose us to the credit risks of such suppliers and customers and may increase our costs and expenses, which could in turn have a material adverse effect on our liquidity.

Under existing supply contracts with many of our multi-year silicon wafer suppliers, and consistent with industry practice, we make advance payments to our suppliers prior to the scheduled delivery dates for silicon wafer supplies. In many such cases, the advance payments are made in the absence of receiving collateral for such payments. Moreover, we offer some of our customers short term and/or medium term credit sales based on our relationship with them and market conditions, also in the absence of receiving collateral. As a result, our claim for

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such payments or sales credit would rank as unsecured claims, which would expose us to the credit risks of our suppliers and/or customers in the event of their insolvency or bankruptcy. Accordingly, any of the above scenarios may have a material adverse effect on our financial condition, results of operations and liquidity.

Our ability to adjust our materials costs may be limited as a result of entering into prepaid, fixed-priced arrangements with our suppliers, and it therefore may be difficult for us to respond appropriately in a timely manner to market conditions, which could materially and adversely affect our cost of revenues and profitability.

We have in the past secured, and plan to continue to secure, our supply of polysilicon and silicon wafers through prepaid supply arrangements with overseas and domestic suppliers. In the past three years, we entered into supply contracts with some of our suppliers under which these suppliers agreed to provide us with specified quantities of silicon wafers, and we have made prepayments to these suppliers in accordance with the supply contracts. The prices of the supply contracts we entered into with some of our suppliers are fixed. If the prices of polysilicon or silicon wafers were to decrease in the future and we are locked into prepaid, fixed-price arrangements, we may not be able to adjust our materials costs, and our cost of revenues would be materially and adversely affected. In addition, if demand for our PV products decreases, we may incur costs associated with carrying excess materials, which may have a material adverse effect on our operating expenses. To the extent we are not able to pass these increased costs and expenses to our customers, our profitability may be materially reduced.

Because the markets in which we compete are highly competitive and many of our competitors have greater resources than us, we may not be able to compete successfully and we may lose or be unable to gain market share.

We compete with a large number of competitors in the solar module market. These include international competitors such as BP Solar International Inc., or BP Solar, Sharp Solar Corporation, or Sharp Solar, SolarWorld AG, or SolarWorld, and competitors located in China such as Suntech Power Holdings Co., Ltd., Yingli Green Energy Holding Company Limited, Solarfun Power Holdings Co., Ltd. and Trina Solar Limited. We expect to face increasing competition in the future. Further, many of our competitors are developing and are currently producing products based on new solar power technologies that may ultimately have costs similar to, or lower than, our projected costs. For example, some of our competitors are developing or currently producing products based on alternative solar technologies, such as thin film photovoltaic materials, which they believe will ultimately cost the same as or less than crystalline silicon technologies, which we use. Solar modules produced using thin film materials, such as amorphous silicon, cadmium telluride and copper indium gallium diselenide (CIGS) technology, require significantly less silicon to produce than crystalline silicon solar modules, such as our products, and are less susceptible to increases in silicon costs. We may also face competition from semiconductor manufacturers, several of which have either announced plans to start or have already commenced production of solar modules. In addition, from a technological and capital investment point of view, the entry barriers are relatively low in the solar module manufacturing business given the low capital requirements and relatively little technological complexity involved. Due to the scarcity of high-purity silicon, supply chain management, access to financing and establishment of name brand recognition and a strong customer base are key entry barriers at present. However, if high-purity silicon supplies increase, some of these barriers may disappear or lessen and many new competitors may enter into the industry resulting in rapid industry fragmentation and loss of our market share.

Many of our current and potential competitors have longer operating histories, greater name recognition, access to larger customer bases and resources and significantly greater economies of scale. In addition, our competitors may have stronger relationships or may enter into exclusive relationships with some of the key distributors or system integrators to whom we sell our products. As a result, they may be able to respond more quickly to changing customer demand or to devote greater resources to the development, promotion and sales of their products than we can. The sale of our solar module products generated 97.7% and 87.6% of our net revenues in 2005 and 2006, respectively, and 96.0% for 2007. Many of our competitors have more diversified product offerings and may be better positioned to

withstand a decline in the demand for solar power products. Some of our competitors have also become vertically integrated, from upstream silicon wafer manufacturing to solar power system integration. It is possible that new competitors or alliances among existing competitors could emerge and

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rapidly acquire significant market share, which would harm our business. If we fail to compete successfully, our business would suffer and we may lose or be unable to gain market share.

In the immediate future, we believe that in order to remain competitive, we will need to continue focusing on securing silicon feedstock and solar wafers for our in-house solar cell manufacturing needs and expanding our internal production capacity, developing our in-house solar wafer manufacturing capacity, maintaining strategic relationships with a few select suppliers to fulfill our remaining solar cell and solar wafer needs and increasing our sales and marketing efforts to secure customer orders. Many of our competitors have greater access to silicon raw materials and cell supply, including stronger strategic relationships with leading global and domestic silicon feedstock suppliers, or have more significant silicon wafer and cell manufacturing capabilities. We believe that as the supply of high-purity silicon stabilizes and customers become more knowledgeable and selective, the key to competing successfully in the industry will shift to more traditional sales and marketing activities. We have conducted very limited advertising to date, focusing primarily on medium to larger sized solar power distributors and integrators in the European market in the past, and cannot assure you that we will be able to make that transition successfully. The greater name recognition of some of our competitors may make it difficult for us to compete as a result of this industry transition. In addition, the solar power market in general competes with other sources of renewable energy and conventional solar power generation. If prices for conventional and other renewable energy resources decline, or if these resources enjoy greater policy support than solar power, the solar power market could suffer.

Evaluating our business and prospects may be difficult because of our limited operating history.

There is limited historical information available about our company upon which you can base your evaluation of our business and prospects. We began business operations in October 2001 and shipped our first solar module products in March 2002. With the rapid growth of the solar power industry, we have experienced a high growth rate since our inception and, in particular, since 2004 after we began to sell standard solar modules. As a result, our historical operating results may not provide a meaningful basis for evaluating our business, financial performance and prospects. We may not be able to achieve growth rates in future periods similar to those we have experienced in recent periods, and our business model at higher volumes is unproven. Accordingly, you should not rely on our results of operations for any prior periods as an indication of our future performance. You should consider our business and prospects in light of the risks, expenses and challenges that we will face as an early-stage company seeking to develop and manufacture new products in a rapidly growing market.

Our quarterly operating results may fluctuate from period to period in the future.

Our quarterly operating results may fluctuate from period to period based on a number of factors, including:

- the average selling prices of our solar modules and products;
- the availability and pricing of raw materials, particularly high-purity silicon and reclaimable silicon;
- the availability, pricing and timeliness of delivery of solar cells and wafers from our suppliers and toll manufacturers;
- the rate and cost at which we are able to expand our internal manufacturing capacity to meet customer demand and the timeliness and success of these expansion efforts;
- the impact of seasonal variations in demand linked to construction cycles and weather conditions, with purchases of solar products tending to decrease during the winter months in our key markets, such as Germany, due to adverse weather conditions that can complicate the installation of solar power systems;

timing, availability and changes in government incentive programs and regulations, particularly in our key and target markets;

unpredictable volume and timing of customer orders, some of which are not fixed by contract but vary on a purchase order basis;

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the loss of one or more key customers or the significant reduction or postponement of orders from these customers;

availability of financing for on-grid and off-grid solar power applications;

unplanned additional expenses such as manufacturing failures, defects or downtime;

acquisition and investment related costs;

geopolitical turmoil within any of the countries in which we operate or sell products;

foreign currency fluctuations, particularly in the Euro, U.S. dollar and RMB;

our ability to establish and expand customer relationships;

changes in our manufacturing costs;

changes in the relative sales mix of our products;

our ability to successfully develop, introduce and sell new or enhanced solar modules and products in a timely manner, and the amount and timing of related research and development costs;

the timing of new product or technology announcements or introductions by our competitors and other developments in the competitive environment; and

increases or decreases in electric rates due to changes in fossil fuel prices or other factors.

We base our planned operating expenses in part on our expectations of future revenue, and a significant portion of our expenses will be fixed in the short-term. If revenue for a particular quarter is lower than we expect, we likely will be unable to proportionately reduce our operating expenses for that quarter, which would harm our operating results for that quarter. This may cause us to miss analysts guidance or any guidance announced by us. If we fail to meet or exceed analyst or investor expectations or our own future guidance, even by a small amount, our share price could decline, perhaps substantially.

The reduction or elimination of government subsidies and economic incentives for solar power could cause demand for our products, our revenues, profits and margins to decline.

We believe that the near-term growth of the solar power market, particularly for on-grid applications, depends in large part on the availability and size of government subsidies and economic incentives. Because a substantial portion of our sales is made in the on-grid market, the reduction or elimination of government subsidies and economic incentives may adversely hinder the growth of this market or result in increased price competition, which could cause our revenues to decline.

Presently, the cost of solar power substantially exceeds the cost of power provided by the electric utility grid in many locations. Governments around the world have used different policy initiatives to accelerate the development and adoption of solar power and other renewable energy sources. Renewable energy policies are in place in the European Union, most notably Germany and Spain, certain countries in Asia, and many of the states in Australia and the United States. Examples of customer-focused financial incentives include capital cost rebates, feed-in tariffs, tax credits and

net metering and other incentives to end users, distributors, system integrators and manufacturers of solar power products to promote the use of solar power in both on-grid and off-grid applications and to reduce dependency on other forms of energy. These government economic incentives could be reduced or eliminated altogether, or governmental entities could reprioritize solar initiatives that they have launched. For example, according to Solarbuzz, plans by the Shanghai municipal government to install solar energy heating systems on 100,000 rooftops have stalled. Reductions in, or eliminations of, government subsidies and economic incentives before the solar power industry reaches a scale of economy sufficient to be cost-effective in a non-subsidized market place could result in decreased demand for our products and decrease our revenues, profits and margins.

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Existing regulations and policies and changes to these regulations and policies may present technical, regulatory and economic barriers to the purchase and use of solar power products, which may significantly reduce demand for our products.

The market for electricity generation products is heavily influenced by government regulations and policies concerning the electric utility industry, as well as policies promulgated by electric utilities. These regulations and policies often relate to electricity pricing and technical interconnection of customer-owned electricity generation. In a number of countries, these regulations and policies have been modified and may continue to be modified. Customer purchases of, or further investment in the research and development of, alternative energy sources, including solar power technology, could be deterred by these regulations and policies, which could result in a significant reduction in the potential demand for our products. For example, without a regulatory mandated exception for solar power systems, utility customers are often charged interconnection or standby fees for putting distributed power generation on the electric utility grid. These fees could increase the cost to our customers of using our solar module products and make them less desirable, thereby harming our business, prospects, results of operations and financial condition. In addition, pricing regulations and policies may place limits on our ability to increase the price of our solar module products in response to increases in our solar raw material costs, including solar cells.

We anticipate that our products and their installation will be subject to oversight and regulation in accordance with national and local regulations relating to building codes, safety, environmental protection, utility interconnection and metering and related matters. It is difficult to track the requirements of individual jurisdictions and design products to comply with the varying standards. For example, the European Union s Restriction of Hazardous Substances Directive, which took effect in July 2006, is a general directive. Each European Union member state will adopt its own enforcement and implementation policies using the directive as a guide. Therefore, there could be many different versions of this law that we will have to comply with to maintain or expand our sales in Europe. Any new government regulations or utility policies pertaining to our solar module products may result in significant additional expenses to us and, as a result, could cause a significant reduction in demand for our solar module products. In particular, any changes to existing regulations and policies or new regulations and policies in Germany could have a material adverse effect on our business and operating results. Sales to customers located in Germany accounted for 75.3% and 56.9% of our net revenues in 2005 and 2006, respectively, and 68.3% for 2007, in part because of the availability and amounts of government subsidies and economic incentives in Germany.

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

The solar power market is at a relatively early stage of development, and the extent of acceptance of solar power products is uncertain. Market data on the solar power industry is not as readily available as for other more established industries where trends can be assessed more reliably from data gathered over a longer period of time. In addition, demand for solar power products in our targeted markets, including Germany, Spain, Korea, Italy and Greece, may not develop or may develop to a lesser extent than we anticipate. Many factors may affect the viability of widespread adoption of solar power technology and demand for solar power products, including:

- cost-effectiveness, performance and reliability of solar power products compared to conventional and other renewable energy sources and products;
- availability of government subsidies and incentives to support the development of the solar power industry;
- success of other alternative energy generation technologies, such as wind power, hydroelectric power, geothermal and biomass;

fluctuations in economic and market conditions that affect the viability of conventional and other renewable energy sources, such as increases or decreases in the prices of oil and other fossil fuels;

capital expenditures by end users of solar power products, which tend to decrease when the economy slows down;

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deregulation of the electric power industry and broader energy industry; and

changes in seasonal demands for our products.

If solar power technology is not suitable for widespread adoption or sufficient demand for solar power products does not develop or takes longer to develop than we anticipate, our revenues may suffer and we may be unable to sustain our profitability.

The lack or unavailability of financing for on-grid and off-grid solar power applications could cause our sales to decline.

Our solar module products are used in both on-grid applications and off-grid applications. Off-grid applications are used where access to utility networks is not economical or physically feasible. In some developing countries, government agencies and the private sector have, from time to time, provided financing on preferential terms for rural electrification programs. We believe that the availability of financing programs could have a significant effect on the level of sales of solar modules for both on-grid and off-grid applications. If existing financing programs for on-grid and off-grid applications are eliminated or if financing programs are inaccessible or inadequate, the growth of the market for on-grid and off-grid applications may be materially and adversely affected, which could cause our sales to decline. In addition, a rise in interest rates could render existing financings more expensive and present an obstacle for potential financings that would otherwise spur the growth of the solar power industry, which could materially and adversely affect our business.

We may be unable to procure adequate sources of needed capital due to market conditions beyond our control, which may adversely impact our ability to grow our business.

Our operations are capital intensive. Despite our ability as a publicly traded company to raise capital via public equity and debt issuances in addition to traditional commercial banking credit, a combination of the current weakness in global capital markets due to an economic downturn and tightened credit control policies by the PRC government aimed at dampening inflation may adversely affect our results of operations if we are unable to access necessary capital to achieve our performance targets and expansion goals. We rely on working capital financing from PRC commercial banks for our daily operations. Although we are currently able to obtain new commercial loans from these PRC commercial banks, we cannot guarantee that we can continue to do so, which may have a material and adverse impact to us and our ability to grow our business. Our ability to obtain external financing in the future is subject to a variety of uncertainties, including:

our future financial condition, results of operations and cash flows;

general market conditions for financing activities by manufacturers of PV and related products; and

economic, political and other conditions in the PRC and elsewhere.

If we are unable to obtain funding in a timely manner, on commercially acceptable terms, or at all, our growth prospects and future profitability may be adversely affected.

Our dependence on a limited number of solar wafer, solar cell and silicon raw material suppliers could prevent us from timely delivering our products to our customers in the required quantities, which could result in order cancellations and decreased revenues.

We purchase silicon raw materials, which include polysilicon, solar wafers and solar cells, from a limited number of third-party suppliers. Our major suppliers of silicon raw materials include Luoyang Zhong Gui High Tech Co. Ltd., or Luoyang Poly, which provides us with specified minimum quantities of polysilicon, LDK Solar Co., Ltd., or LDK, and Deutsche Solar AG, or Deutsche Solar, which provide us specified minimum quantities of solar wafers; and China Sunergy Co., Ltd., or China Sunergy, Gintech Energy Corporation, or Gintech, and Neo Solar Power, or NSP, which provides us specified minimum quantities of solar cells. We have also entered into annual supply agreements with a few other overseas and domestic Chinese solar wafer and solar cell suppliers. In connection with our new UMgSi product initiative, we have entered into a supply contract with Becancour Silicon, Inc., or BSI, to supply us with UMgSi for solar module production. These suppliers may not be able to meet the

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specified minimum quantities set forth in the contracts. If we fail to develop or maintain our relationships with these or our other suppliers, we may not be able to internally produce or secure a supply of solar cells at cost-effective prices, or at all. If that were to occur, we may be unable to manufacture our products in a timely manner or our products may be manufactured only at a higher cost, and we could be prevented from delivering our products to our customers in the required quantities and at prices that are profitable. Problems of this kind could cause us to experience order cancellations and loss of market share and harm our reputation. The failure of a supplier to supply solar wafers, solar cells or silicon raw materials that meet our quality, quantity and cost requirements in a timely manner could impair our ability to manufacture our products or increase our costs, particularly if we are unable to obtain these solar wafers, solar cells or silicon raw materials from alternative sources on a timely basis or on commercially reasonable terms. For example, in late 2006, one of our major suppliers of solar wafers incurred serious fire damage with its silicon cast ingot furnaces. This resulted in a chain reaction and caused a shortage and price increase of multi-crystalline solar wafers, which is a key material for our products.

Our dependence on a limited number of customers and our lack of long-term customer contracts may cause significant fluctuations or declines in our revenues.

We currently sell a substantial portion of our solar module products to a limited number of customers, including distributors and system integrators, and various manufacturers who either integrate our products into their own products or sell them as part of their product portfolio. Our top five customers collectively accounted for approximately 53.4% and 78.8% of our net revenues in 2006 and 2007, respectively. Iliotec Solar GmbH, and Otto Bihler Maschinenfabrik GmbH & Co. KG each contributed over 10% of our net revenues in 2006. Schüco International KG, City Solar AG and pro solar Solarstrom each contributed over 10% of our net revenues for 2007. Sales to our customers are typically made through one-year frame work sales agreements with quarterly firm orders stipulating prices and product amounts as adjusted or negotiated with customers. We anticipate that our dependence on a limited number of customers will continue for the foreseeable future. Consequently, any one of the following events may cause material fluctuations or declines in our revenues:

- reduction, delay or cancellation of orders from one or more of our significant customers;
- loss of one or more of our significant customers and our failure to identify additional or replacement customers; and
- failure of any of our significant customers to make timely payment for our products.

Even though our top five customers have contributed to a significant portion of our revenues, we have experienced changes in our top customers. As we continue to grow our business and operations, we expect our top customers may continue to change. We cannot assure you that we will be able to develop a consistent customer base.

Cancellation of customer product orders may make us unable to recoup prepayments made to suppliers.

Suppliers of solar wafers, cells and silicon raw materials typically require us to make prepayments well in advance of shipment. While we also sometimes require our customers to make partial prepayments, there is typically a lag between the time of our prepayment for solar wafers, cells and silicon raw materials and the time that our customers make prepayments to us. As a result, the purchase of solar wafers, cells and silicon feedstock, and other silicon raw materials through toll manufacturing arrangements, has required, and will continue to require, us to make significant working capital commitments beyond that generated from our cash flows from operations to support our estimated production output. In the event our customers cancel their orders, we may not be able to recoup prepayments made to suppliers in connection with our customers orders, which could have an adverse impact on our financial condition and results of operations.

We may not be able to manage our expansion of operations effectively.

We commenced business operations in October 2001 and have since grown rapidly. We expect to continue to significantly expand our business to meet the growth in demand for our products, as well as to capture new market opportunities. To manage the potential growth of our operations, we will be required to improve our operational and financial systems and procedures and controls. Our rapid growth has strained our resources and made it difficult to

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maintain and update our internal procedures and controls as necessary to meet the expansion of our overall business. We must also increase production output, expand, train and manage our growing employee base, and successfully establish new subsidiaries to operate new or expanded facilities. Additionally, access to additional funds to support the expansion of our business may not always be available to us. Furthermore, our management will be required to maintain and expand our relationships with our customers, suppliers and other third parties.

We cannot assure you that our current and planned operations, personnel, systems and internal procedures and controls will be adequate to support our future growth. If we are unable to manage our growth effectively, we may not be able to take advantage of market opportunities, execute our business strategies or respond to competitive pressures.

Technological changes in the solar power industry could render our products uncompetitive or obsolete, which could reduce our market share and cause our revenues and profit to decline.

The solar power market is characterized by evolving technology standards that require improved features, such as more efficient and higher power output, improved aesthetics and smaller size. This requires us to develop new solar module products and enhancements for existing solar module products to keep pace with evolving industry standards and changing customer requirements. Technologies developed by others may prove more advantageous than ours for the commercialization of solar module products and may render our technology obsolete. Our failure to further refine our technology and develop and introduce new solar module products could cause our products to become uncompetitive or obsolete, which could reduce our market share and cause our revenues to decline. We will need to invest significant financial resources in research and development to maintain our market position, keep pace with technological advances in the solar power industry and effectively compete in the future.

If our future innovations fail to enable us to maintain or improve our competitive position, we may lose market share. If we are unable to successfully design, develop and introduce or bring to market competitive new solar module products, or enhance our existing solar module products, we may not be able to compete successfully. Competing solar power technologies may result in lower manufacturing costs or higher product performance than those expected from our solar module products. In addition, if we are unable to manage product transitions, our business and results of operations would be negatively affected.

We have recently begun to focus our efforts on development of and expansion into the use of UMgSi as a component of our solar products. We cannot assure you that these efforts will yield any successful results, if at all.

In response to the shortage of high-purity silicon, we believe that UMgSi provides a viable alternative source of silicon materials, and have been focusing efforts on developing technologies related to UMgSi solar products. We believe that we have currently made significant progress in this arena, have shipped initial UMgSi solar products and are prepared to launch full scale commercial production of and sales of such UMgSi solar products during 2008. However, we have limited prior manufacturing experience with this material, and we may be unable to achieve desired solar cell efficiencies using UMgSi. Additionally, in the event that the market response to our UMgSi solar products is unfavorable, use of this material may not be economically viable. We cannot assure you that our research and product development efforts using UMgSi will prove to be successful, or that we will be able to create an economically sustainable solar product using this material.

We have limited experience in the high value-added building integrated photovoltaic (BIPV) market and we may be unable to manage the growth of our BIPV business or successfully operate in the BIPV market.

Our first BIPV project was completed in Luoyang, China in 2007. BIPV products generally enjoy higher profit margins when compared to standard PV modules, due to solar energy generation capabilities being integrated into the design of a building or structure. We intend to further expand our capabilities in the BIPV market and invest in

research and development activities in such products. Due to our limited experience in the BIPV market, and the relatively small portion of our revenue that these projects currently comprise, there can be no assurance that we successfully expand into this new area of business. We may not have the necessary research and development capabilities or marketing and sales personnel required to meet customer needs or manage our growth. In addition,

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we may face competitors in the BIPV market with substantially greater financial, technical, manufacturing and other resources. If we are unable to manage the growth of our BIPV business or if our BIPV products fail to meet the needs of our customers, there may be a material adverse effect on our reputation, our existing business, financial condition or results of operations.

We face risks associated with the marketing, distribution and sale of our PV products internationally, and if we are unable to effectively manage these risks, they could impair our ability to expand our business abroad.

In 2007, 97.8% of our products were sold to customers outside of China. The international marketing, distribution and sale of our PV products exposes us to a number of risks, including:

- difficulties staffing and managing overseas operations;
- fluctuations in foreign currency exchange rates;
- increased costs associated with maintaining the ability to understand local markets and trends, as well as developing and maintaining an effective marketing and distributing presence in various countries;
- providing customer service and support in these markets;
- our ability to manage our sales channels effectively as we expand beyond distributors to include direct sales to systems integrators, end users and installers;
- difficulties and costs relating to compliance with the different commercial, legal and regulatory requirements of the overseas markets in which we offer our products;
- failure to develop appropriate risk management and internal control structures tailored to overseas operations;
- inability to obtain, maintain or enforce intellectual property rights;
- unanticipated changes in prevailing economic conditions and regulatory requirements; and
- trade barriers such as export requirements, tariffs, taxes and other restrictions and expenses, which could increase the prices of our products and make us less competitive in some countries.

If we are unable to effectively manage these risks, they could impair our ability to expand our business abroad.

Our future success substantially depends on our ability to significantly expand our internal solar components manufacturing capacity, which exposes us to a number of risks and uncertainties.

Our future success depends on our ability to significantly increase our internal solar components manufacturing capacity. If we are unable to do so, we may be unable to expand our business, decrease our costs per watt, maintain our competitive position and improve our profitability. Our ability to establish additional manufacturing capacity is subject to significant risks and uncertainties, including:

- the need to raise significant additional funds to purchase raw materials and to build additional manufacturing facilities, which we may be unable to obtain on commercially viable terms or at all;

delays and cost overruns as a result of a number of factors, many of which are beyond our control, including delays in equipment delivery by vendors;

delays or denial of required approvals by relevant government authorities;

diversion of significant management attention and other resources; and

failure to execute our expansion plan effectively.

If we are unable to establish or successfully operate our internal solar components manufacturing capabilities, or if we encounter any of the risks described above, we may be unable to expand our business as planned. Moreover,

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even if we do expand our manufacturing capacity we might not be able to generate sufficient customer demand for our solar power products to support our increased production levels.

Our business depends substantially on the continuing efforts of our executive officers, and our business may be severely disrupted if we lose their services.

Our future success depends substantially on the continued services of our executive officers, especially Dr. Shawn Qu, our founder, chairman, president and chief executive officer, Charlotte Klein, our corporate controller and compliance officer, Bencheng Li, our vice president, business development (China), Gregory Spanoudakis, our vice president, Europe, Tai Seng Png, our vice president, business integration and Robert Patterson, our vice president, business development (North America). Bing Zhu, our chief financial officer, will resign from this position effective as of June 7, 2008. Arthur Chien, our vice president, finance, has been appointed as chief financial officer, also effective as of June 7, 2008. If one or more of our executive officers are unable or unwilling to continue in their present positions, we may not be able to replace them readily, if at all. Therefore, our business may be severely disrupted, and we may incur additional expenses to recruit and retain new officers, in particular those with a significant mix of both international and China-based solar power industry experience as many of our current officers have. In addition, if any of our executives joins a competitor or forms a competing company, whether in violation of their agreements with us or otherwise, we may lose some of our customers.

Problems with product quality or product performance, including defects, in our products could damage our reputation, or result in a decrease in customers and revenue, unexpected expenses and loss of market share.

Our products may contain defects that are not detected until after they are shipped or are installed because we cannot test for all possible scenarios. These defects could cause us to incur significant costs, divert the attention of our personnel from product development efforts and significantly affect our customer relations and business reputation. If we deliver solar module products with errors or defects, or if there is a perception that our products contain errors or defects, our credibility and the market acceptance and sales of our solar module products could be harmed. In one instance in 2005 and another in 2006, customers raised concerns about the stated versus actual performance output of some of our solar modules. We determined that these concerns resulted from differences in calibration methodologies and we resolved the issue with these customers. However, the corrective actions and procedures that we took may turn out to be inadequate to prevent further incidents of the same problem or to protect against future errors or defects. As we continue to develop our internal solar cell manufacturing capabilities and expand into in-house solar ingot and solar wafer production, we may have problems standardizing product quality in these new areas of business.

In addition, some of our ingot, wafer and cell suppliers with whom we have toll manufacturing arrangements previously raised concerns about the quality and consistency of the silicon feedstock, in particular the reclaimable silicon that we recycle through our silicon reclamation program for re-use in the solar power industry, that we have provided to them for their ultimate conversion into solar cells. The use of reclaimed silicon in the solar power supply chain has an inherent risk as it is difficult to maintain the consistency and quality of reclaimed silicon at the same level as high-purity silicon. The successful use of reclaimed silicon requires extensive experience, know-how and additional quality control measures from both the provider of reclaimed silicon and the toll manufacturers. If we cannot successfully maintain the consistency and quality of the reclaimed silicon from our silicon reclamation program at an acceptable level, this may result in less efficient solar cells for our solar modules or in a lower conversion ratio of solar cells per ton of silicon feedstock that we provide, and may potentially delay and reduce our supply of solar cells. This may reduce or eliminate the cost advantages of recycling silicon through our silicon reclamation program. This could also cause problems with product quality or product performance, including defects in our products, and increase the cost of producing our products.

We obtain some of the solar wafers and solar cells that we use in our products from third parties, either directly or through toll manufacturing arrangements, and we have limited control over the quality of that portion of the solar wafers and solar cells we incorporate into our solar modules. Unlike solar modules, which are subject to certain uniform international standards, solar wafers and solar cells generally do not have uniform international standards, and it is often difficult to determine whether solar module product defects are a result of the solar cells or other components or reasons. We also rely on third party suppliers for other components that we use in our products, such

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as glass, frame and backing for our solar modules, and electronic components for our specialty solar modules and products. Furthermore, the solar cells and other components that we purchase from third party suppliers are typically sold to us without any, or with only limited, warranty. The possibility of future product failures could cause us to incur substantial expense to repair or replace defective products. Furthermore, widespread product failures may damage our market reputation, reduce our market share and cause our revenues to decline.

Since we cannot test our products for the duration of our standard warranty periods, we may be subject to unexpected warranty expense.

Our standard solar modules are typically sold with a two-year guarantee for defects in materials and workmanship and a 10-year and 25-year warranty against declines of more than 10.0% and 20.0%, respectively, of the initial minimum power generation capacity at the time of delivery. Our specialty solar modules and products are typically sold with a one-year guarantee against defects in materials and workmanship and may, depending on the characteristics of the product, contain a limited warranty of up to ten years, against declines of the minimum power generation capacity specified at the time of delivery. We believe our warranty periods are consistent with industry practice. Due to the long warranty period, we bear the risk of extensive warranty claims long after we have shipped our products and recognized revenue. We began selling specialty solar modules and products in 2002 and only began selling standard solar modules in 2004. Any increase in the defect rate of our products would cause us to increase the amount of warranty reserves and have a corresponding negative impact on our operating results. Although we conduct quality testing and inspection of our solar module products, our solar module products have not been and cannot be tested in an environment simulating the up to 25-year warranty periods. Similarly, our recently developed UMgSi solar products, while silicon based and theoretically durable and viable as a reliable component for solar power products, are relatively new to the market, and subject to the same testing limitations as our other solar products. However, despite our research and development efforts, UMgSi solar products are relatively new to the market and issues related to these products that are currently unknown may surface in the future after extended use. These issues could potentially affect our market reputation and adversely affect our revenues, giving rise to potential warranty claims by our customers. As a result, we may be subject to unexpected warranty expense and associated harm to our financial results as long as 25 years after the sale of our products. Should these future warranty claims exceed accrued provisions, this may require us to adjust our financial forecasts and adversely affect our future earnings and operating results.

Our future growth depends in part on our ability to make strategic acquisitions and investments and to establish and maintain strategic relationships, and our failure to do so could have a material adverse effect on our market penetration and revenue growth.

The solar power industry has only recently emerged as a high growth market and is currently experiencing shortages of its key component, high-purity silicon, due to rapid industry growth and demand. We believe it is critical that we continue to manage upstream silicon supply sources by, among other strategies, continuing to pursue strategic acquisitions and investments in solar cell and silicon raw materials suppliers to secure a guaranteed supply and better control the specifications and quality of the materials delivered and fostering strategic relationships, particularly with silicon feedstock suppliers, as we continue to develop our in-house solar component manufacturing abilities, and partnerships with solar wafer and solar cell suppliers. We cannot assure you, however, that we will be able to successfully make such strategic acquisitions and investments or establish strategic relationships with third parties that will prove to be effective for our business. Our inability in this regard could have a material adverse effect on our market penetration, our revenue growth and our profitability.

Strategic acquisitions, investments and relationships with third parties could subject us to a number of risks, including risks associated with sharing proprietary information and loss of control of operations that are material to our business. Moreover, strategic acquisitions, investments and relationships may be expensive to implement and subject

us to the risk of non-performance by a counterparty, which may in turn lead to monetary losses that materially and adversely affect our business.

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We may not succeed in developing and maintaining a cost-effective solar cell manufacturing capability.

We plan to continue expanding our in-house solar cell manufacturing capabilities to support our core solar module manufacturing business. We completed installation of our first four solar cell production lines in 2007, and annual solar cell production capacity from these production lines to reached 100MW by the end of 2007. However, we only have limited and recent operating experience in this area and we will face significant challenges in the solar cell business. Manufacturing solar cells is a highly complex process and we may not be able to produce solar cells of sufficient quality to meet our solar module manufacturing standards. Minor deviations in the manufacturing process can cause substantial decreases in yield and in some cases cause production to be suspended or yield no output. We will need to make capital expenditures to purchase manufacturing equipment for solar cell production and will also need to make significant investments in research and development to keep pace with technological advances in solar power technology. The technologies, designs and customer preferences for solar cells change more rapidly, and solar cell product life cycles are shorter than those for solar modules. We may not be able to successfully address these new challenges. We will also face increased costs to comply with environmental laws and regulations. Any failure to successfully develop and maintain cost-effective solar cell manufacturing capability may have a material adverse effect on our business and prospects.

In addition, although we intend to continue direct purchasing of solar cells and our toll manufacturing arrangements through a limited number of strategic partners, if we engage in the large scale production of solar cells it may disrupt our existing relationships with solar cell suppliers. One of our suppliers has raised concerns with us over our decision to implement internal solar cell product capabilities. If solar cell suppliers discontinue or reduce the supply of solar cells to us, either through direct sales or through toll manufacturing arrangements, and we are not able to compensate for the loss or reduction with our own manufacturing of solar cells, our business and results of operations may be materially and adversely affected.

We may experience difficulty in developing our internal production capabilities for ingots and wafers and, if developed, in achieving acceptable yields and product performance as a result of manufacturing problems.

We are in the process of developing our internal production capabilities for the manufacture of silicon ingots and wafers. We do not have prior operational experience in ingot and wafer production and will face significant challenges in developing this line of business, and may not be successful in doing so. The technology is complex, and will require costly equipment and the hiring of highly skilled personnel to implement. In addition, we may experience delays in developing these capabilities and in obtaining governmental permits required to carry on these operations.

If we are able to successfully develop these production capabilities, we will need to continuously enhance and modify these capabilities 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 wafers can cause a percentage of the wafers to be rejected, which in each case, negatively affects our yields. We may experience production difficulties that cause manufacturing delays and lower than expected yields.

Problems in our facilities may limit our ability to manufacture products, including but not limited to, production failures, construction delays, human errors, equipment malfunction or process contamination, which could seriously harm our operations. We may also experience floods, droughts, power losses and similar events beyond our control that would affect our facilities. A disruption to any step of the manufacturing process will require us to repeat each step and recycle the silicon debris, thus adversely affecting our yields.

We may fail to successfully bring to market our new specialty solar modules and products, which may prevent us from achieving increased sales, margins and market share.

We expect to continue to derive part of our revenues from sales of our new specialty solar modules and products and will increase our research and development expenses in connection with developing these products. If we fail to successfully develop our new specialty solar modules and products, we will likely be unable to recover the expenses that we will incur to develop these products and may be unable to increase our sales and market share and to increase our margins. Many of our new specialty solar modules and products have yet to receive market

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acceptance, and it is difficult to predict whether we will be successful in completing their development or whether they will be commercially successful. We may also need to develop new manufacturing processes that have yet to be tested and which may result in lower production output.

Our failure to protect our intellectual property rights in connection with new specialty solar modules and products may undermine our competitive position.

As we develop and bring to market new specialty solar modules and products, we may need to increase our expenses to protect our intellectual property and our failure to protect our intellectual property rights may undermine our competitive position. We currently have three issued patents and seven patent applications pending in the PRC for products that make up a relatively small percentage of our net revenues. In addition, we maintain two trademark registrations in China, including CSI and its Chinese language version. We also have fourteen trademark applications pending in China. These afford only limited protection and the actions we take to protect our intellectual property rights as we develop new specialty solar modules and products may not be adequate. Policing unauthorized use of proprietary technology can be difficult and expensive. Also, litigation, which can be costly and divert management attention, may be necessary to enforce our intellectual property rights, protect our trade secrets or determine the validity and scope of the proprietary rights of others.

We may be exposed to infringement, misappropriation or other claims by third parties, which, if determined adversely to us, could cause us to pay significant damage awards.

Our success depends on our ability to use and develop our technology and know-how and sell our solar module products without infringing the intellectual property or other rights of third parties. We do not have, and have not applied for, any patents for our proprietary technologies outside China, although we have sold, and expect to continue to sell, a substantial portion of our products outside China. The validity and scope of claims relating to solar power technology patents involve complex scientific, legal and factual questions and analysis and, therefore, may be highly uncertain. We may be subject to litigation involving claims of patent infringement or violation of intellectual property rights of third parties. In addition, we have not yet registered our trade name, CSI, outside of China, and we have fourteen trademark applications that are still pending in China. As a result, we could be subject to trademark disputes and may not be able to police the unauthorized use of our trade name. The defense and prosecution of intellectual property suits, patent opposition proceedings and related legal and administrative proceedings can be both costly and time consuming and may significantly divert the efforts and resources of our technical and management personnel. Additionally, we use imported equipment in our production lines, without supplier guarantees that our use does not infringe on third party intellectual property rights in China. This creates a potential source of litigation or infringement claims arising from such use. An adverse determination in any such litigation or proceedings to which we may become a party could subject us to significant liability to third parties, require us to seek licenses from third parties, to pay ongoing royalties, or to redesign our products or subject us to injunctions prohibiting the manufacture and sale of our products or the use of our technologies. Protracted litigation could also result in our customers or potential customers deferring or limiting their purchase or use of our products until resolution of such litigation.

In addition, our competitors and other third parties may initiate legal proceedings against us or our employees that may strain our resources, divert our management attention and damage our reputation. For example, in March 2002, ICP Global Technologies Inc., or ICP Global, a manufacturer of solar power products, filed an action in the Superior Court of the Province of Quebec, Canada (Action No. 500-05 071241-028) against our vice president, Europe, Gregory Spanoudakis, and ATS Automation Tooling Systems Inc., or ATS. ICP Global subsequently amended the complaint to include us, our subsidiary, CSI Solartronics, and our founder, chairman, president and chief executive officer, Dr. Shawn Qu, as defendants. The amended complaint contends that all of the defendants jointly engaged in unlawful conduct and unfair competition in directing a business opportunity away from ICP Global to us. Although there have been no meaningful discovery, court filings or communications from the plaintiff on this matter since early

2004, we cannot assure you that ICP Global will not move forward with this case or that the litigation will not be determined adversely to us. We also cannot assure you that similar proceedings will not occur in the future.

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We rely on dividends paid by our subsidiaries for our cash needs.

We conduct significantly all of our operations through our subsidiaries, CSI Solartronics (Changshu) Co., Ltd., CSI Solar Manufacture Inc., CSI Solar Technologies Inc., CSI Central Solar Power Co., Ltd., CSI Cells Co., Ltd. and Changshu CSI Advanced Solar Inc. which are companies established in China. We rely on dividends paid by these subsidiaries for our cash needs, including the funds necessary to pay any dividends or other cash distributions that we may make to our shareholders, to service our debt and to pay our operating expenses. The payment of dividends by entities organized in China is subject to limitations. Regulations in the PRC currently permit payment of dividends only out of accumulated profits as determined in accordance with accounting standards and regulations in China. These subsidiaries are also required to set aside at least 10.0% of their after-tax profit based on PRC accounting standards each year to its general reserves until the accumulative amount of such reserves reach 50.0% of its registered capital. These reserves are not distributable as cash dividends. In addition, if any of these subsidiaries incurs debt on its own behalf in the future, the instruments governing the debt may restrict its ability to pay dividends or make other distributions to us.

If we are unable to attract, train and retain technical personnel, our business may be materially and adversely affected.

Our future success depends, to a significant extent, on our ability to attract, train and retain technical personnel. Recruiting and retaining capable personnel, particularly those with expertise in the solar power industry, are vital to our success. There is substantial competition for qualified technical personnel, and there can be no assurance that we will be able to attract or retain our technical personnel. If we are unable to attract and retain qualified employees, our business may be materially and adversely affected.

Fluctuations in exchange rates could adversely affect our business.

Prior to 2007, the majority of our sales had been denominated in U.S. dollars. Since the beginning of 2007, the majority of our sales have been denominated in Euros, although we may readjust our denomination currency for sales revenue depending on market conditions. In 2007, we incurred a net foreign currency exchange gain, which was caused by the depreciation of the U.S. dollar against the Euro in the amount of $2.7 million. We cannot predict the impact of future exchange rate fluctuations on our results of operations and may incur net foreign currency losses in the future.

In addition, over the past three years, we have entered into multi-year supply contracts with a number of suppliers, under which, consistent with industry practice, we have made advance payments in exchange for specified quantities of silicon wafers. These contract prices are fixed in either Euro or Renminbi currency denominations. Our Renminbi costs and expenses primarily related to domestic sourcing of solar cells, wafers, silicon and other raw materials, toll manufacturing fees, labor costs and local overhead expenses. From time to time, we also have loan arrangements with Chinese commercial banks that are denominated in U.S. dollars and Renminbi. Therefore, fluctuations in currency exchange rates could have a material adverse effect on our financial condition and results of operations. Fluctuations in exchange rates, particularly among the U.S. dollar, Renminbi and Euro, affect our gross and net profit margins and could result in fluctuations in foreign exchange and operating gains and losses. We cannot predict the impact of future exchange rate fluctuations on our results of operations and we may incur net foreign currency losses in the future. To the extent that we are unable to pass along increased costs as a result of these exchange rate fluctuations to our customers, our profitability may be materially reduced.

Product liability claims against us could result in adverse publicity and potentially significant monetary damages.

We, along with other solar module product manufacturers, are exposed to risks associated with product liability claims if the use of our solar module products results in injury. Since our products generate electricity, it is possible that users could be injured or killed by our products as a result of product malfunctions, defects, improper installation or other causes. We only shipped our first products in March 2002 and, because of our limited operating history, we cannot predict whether product liability claims will be brought against us in the future or the effect of any resulting negative publicity on our business. Although we carry limited product liability insurance, we may not

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have adequate resources to satisfy a judgment if a successful claim is brought against us. The successful assertion of product liability claims against us could result in potentially significant monetary damages and require us to make significant payments. Even if the product liability claims against us are determined in our favor, we may suffer significant damage to our reputation.

Our founder, Dr. Shawn Qu, has substantial influence over our company and his interests may not be aligned with the interests of our other shareholders.

As of April 30, 2008, Dr. Shawn Qu, our founder, chairman and chief executive officer, beneficially owned 13,672,263 common shares, or 50.0% of our outstanding share capital, excluding restricted shares granted but yet to be vested and subject to restrictions on voting, dividend rights and transferability. As a result, Dr. Qu has substantial influence over our business, including decisions regarding mergers, consolidations and the sale of all or substantially all of our assets, election of directors and other significant corporate actions. This concentration of ownership may discourage, delay or prevent a change in control of our company, which could deprive our shareholders of an opportunity to receive a premium for their shares as part of a sale of our company and might reduce the price of our common shares. These actions may be taken even if they are opposed by our other shareholders.

Compliance with environmental regulations can be expensive, and noncompliance with these regulations may result in adverse publicity and potentially significant monetary damages, fines and suspensions of our business operations.

We are required to comply with all national and local regulations regarding protection of the environment. As we expand our silicon reclamation program and research and development activities and move into solar ingot, solar wafer and solar cell manufacturing, we have begun to generate material levels of noise, waste water, gaseous wastes and other industrial wastes in the course of our business operations. Additionally, as we expand our internal solar components production capacity, our risk of facility incidents with a potential environmental impact also increases.

Except for a failure to obtain certain approvals prior to starting production as disclosed in Risks Related to Doing Business in China We may face a potential risk for failing to comply with certain PRC legal requirements we believe that we are in compliance with present environmental protection requirements and have all necessary environmental permits to conduct our business as it is presently conducted. However, if more stringent regulations are adopted in the future, the costs of compliance with these new regulations could be substantial. For example, we increased our expenditures to comply with the European Union s Restriction of Hazardous Substances Directive, which took effect in July 2006, by reducing the amount of lead and other restricted substances used in our solar module products. Furthermore, we may need to comply with the European Union s Waste Electrical and Electronic Equipment Directive if we begin to sell specialty solar modules and products to customers located in Europe or if our customers located in other markets demand that our products be compliant.

If we fail to comply with present or future environmental regulations, we may be required to pay substantial fines, suspend production or cease operations. For instance, the Chinese Customs have recently increased their scrutiny on the import of scrap silicon over a concern that the recycling process for certain types of scrap silicon may cause environmental damage if not performed in a fully licensed factory and have subjected certain importations of recyclable silicon by some China-based companies, including us. See the section entitled If we are unable to secure an adequate and cost effective supply of solar wafers, solar cells or reclaimable silicon, our revenue, margins and profits could be adversely affected. Any failure by us to control the use of, or to restrict adequately the discharge of, hazardous substances could subject us to potentially significant monetary damages and fines or suspensions of our business operations.

We may not be successful in establishing our brand names among all consumers in important markets and the products we sell under our brand name may compete with the products we manufacture on an OEM basis for our

customers.

We sell our products primarily under our own brand name and also on an OEM basis for our customers. In certain markets our brand may not be as prominent as other more established solar power vendors, and there can be no assurance that the CSI brand name or any of our potential future brand names, will gain acceptance among

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customers. Moreover, because the range of products we sell under our own brands and those we manufacture for our customers may be substantially similar, there can be no assurance that, currently or in the future, there will not be direct or indirect competition between products sold under the CSI brand, or any of our other potential future brands, and products that we manufacture on an OEM basis. This could negatively affect our relationship with these customers.

If we grant employee share options, restricted shares or other share-based compensation in the future, our net income could be adversely affected.

We adopted a share incentive plan in 2006. As of December 31, 2007, we had granted 1,814,443 share options and 566,190 restricted shares under our share incentive plan. In December 2004, the Financial Accounting Standards Board, or FASB, issued Statement of Financial Accounting Standards, or SFAS, No. 123R, Share-Based Payment. This statement, which became effective in our first quarter of 2006, prescribes how we account for share-based compensation, and may have an adverse or negative impact on our results of operations or the price of our common shares. SFAS No. 123R requires us to recognize share-based compensation as compensation expense in the statement of operations based on the fair value of equity awards on the date of the grant, with the compensation expense recognized over the period in which the recipient is required to provide service in exchange for the equity award. This statement also requires us to adopt a fair value-based method for measuring the compensation expense related to share-based compensation. The additional expenses associated with share-based compensation may reduce the attractiveness of issuing share options or restricted shares under our share incentive plan. However, if we do not grant share options or restricted shares, or reduce the number of share options or restricted shares that we grant, we may not be able to attract and retain key personnel. If we grant more share options or restricted shares to attract and retain key personnel, the expenses associated with share-based compensation may adversely affect our net income.

There have been historical deficiencies with our internal controls and there remain areas of our internal and disclosure controls that require improvement. If we fail to maintain an effective system of internal controls, we may be unable to accurately report our financial results or prevent fraud, and investor confidence and the market price of our common shares may be adversely impacted.

We are subject to reporting obligations under the U.S. securities laws. The SEC, as required by Section 404 of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, adopted rules requiring every public company to include a management report on such company s internal controls over financial reporting in the company s annual report, which contains management s assessment of the effectiveness of the company s internal controls over financial reporting. In addition, an independent registered public accounting firm must attest to and report on management s assessment of the effectiveness of the company s internal controls over financial reporting. These rules apply to us for the first time in this annual report on Form 20-F. Although our management may conclude that our internal controls over financial reporting are effective, our independent registered public accounting firm may decline to attest to our management s assessment or may issue a report that is qualified if it is not satisfied with our internal controls or the level at which our controls are documented, designed, operated or reviewed, or if it interprets the relevant rules differently from us.

Prior to our initial public offering, we were a private company of limited operating history with limited accounting and other resources with which to adequately address our internal controls and procedures. As a result, in our past audits, our auditors had identified material weaknesses and deficiencies with our internal controls. In our audit for the fiscal year ended December 31, 2006, our auditors observed a number of weaknesses and deficiencies with respect to our internal controls under the standards established by the Public Company Accounting Oversight Board. The material weaknesses identified by our independent registered public accounting firm include (i) insufficient accounting resources to properly identify adjustments, analyze transactions and prepare financial statements in accordance with U.S. GAAP, and (ii) a lack of formal accounting policies and procedures for U.S. GAAP to ensure that our accounting policies and procedures are appropriately or consistently applied. Following the identification of

these material weaknesses and other deficiencies, we have undertaken remedial steps and plan to continue to take additional remedial steps to address these material weaknesses and deficiencies and to further improve our internal and disclosure controls, including hiring additional staff, training our new and existing staff

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and installing new enterprise resource planning, or ERP systems, in order to build up a unified and integrated database of our company. In addition, since the beginning of 2007, we have engaged an advisory firm to advise us about complying with requirements of the Sarbanes-Oxley Act, and have hired an individual experienced in handling compliance with the requirements of the Sarbanes-Oxley Act. However, if we are unable to remedy the existing material weaknesses and deficiencies in our internal and disclosure controls and procedures, or if we fail to maintain an effective system of internal and disclosure controls in the future, we may be unable to accurately report our financial results or prevent fraud and as a result, investor confidence and the market price of our common shares may be adversely impacted. Furthermore, we anticipate that we will incur considerable costs and devote significant management time and efforts and other resources to comply with Section 404 of the Sarbanes-Oxley Act.

The material weaknesses identified by our independent registered public accounting firm have been remediated in 2007 by implementing additional control procedures and reinforcing existing controls. As a result, our independent registered public accounting firm concluded that we maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007.

Risks Related to Doing Business in China

Uncertainties with respect to the Chinese legal system could have a material adverse effect on us.

We conduct substantially all of our manufacturing operations through our subsidiaries in China. These subsidiaries are generally subject to laws and regulations applicable to foreign investment in China and, in particular, laws applicable to wholly foreign-owned enterprises. The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since 1979, PRC legislation and regulations have significantly enhanced the protections afforded to various forms of foreign investments in China. However, since these laws and regulations are relatively new and the PRC legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involve uncertainties, which may limit legal protections available to us. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention.

Fluctuation in the value of the Renminbi may have a material adverse effect on your investment.

The change in value of the Renminbi against the U.S. dollar, Euro and other currencies is affected by, among other things, changes in China s political and economic conditions. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the Renminbi to the U.S. dollar. Under the new policy, the Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy has resulted in an approximately 11.9% appreciation of the RMB against the U.S. dollar between July 21, 2005 and December 31, 2007. While the international reaction to the Renminbi revaluation has generally been positive, there remains significant international pressure on the PRC government to adopt an even more flexible currency policy, which could result in a further and more significant appreciation of the Renminbi against the U.S. dollar. As a portion of our costs and expenses is denominated in Renminbi, the revaluation in July 2005 and potential future revaluation has and could further increase our costs in U.S. dollar terms. In addition, as we rely entirely on dividends paid to us by our operating subsidiaries in China, any significant revaluation of the Renminbi may have a material adverse effect on our revenues and financial condition, and the value of, and any dividends payable on, our common shares. For example, to the extent that we need to convert U.S. dollars into Renminbi for our operations, appreciation of the Renminbi against the U.S. dollar would have an adverse effect on the Renminbi amount we receive from the conversion. Conversely, if we decide to convert our Renminbi into U.S. dollars for the purpose of making payments for dividends on our common shares or for other business purposes, appreciation of the U.S. dollar against the Renminbi would have a negative effect on the U.S. dollar amount available to us.

Restrictions on currency exchange may limit our ability to receive and use our revenues effectively.

Certain portions of our revenue and expenses are denominated in Renminbi. If our revenues denominated in Renminbi increase or expenses denominated in Renminbi decrease in the future, we may need to convert a portion of our revenues into other currencies to meet our foreign currency obligations, including, among others, payment of

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dividends declared, if any, in respect of our common shares. Under China s existing foreign exchange regulations, our PRC subsidiaries are able to pay dividends in foreign currencies, without prior approval from the State Administration of Foreign Exchange, or SAFE, by complying with certain procedural requirements. However, we cannot assure you that the PRC government will not take further measures in the future to restrict access to foreign currencies for current account transactions.

Foreign exchange transactions by our PRC subsidiaries under most capital accounts continue to be subject to significant foreign exchange controls and require the approval of PRC governmental authorities. In particular, if we finance our PRC subsidiaries by means of additional capital contributions, these capital contributions must be approved by certain government authorities including the Ministry of Commerce or its local counterparts. These limitations could affect the ability of our PRC subsidiaries to obtain foreign exchange through equity financing.

We may face a potential risk for failing to comply with certain PRC legal requirements.

We are required to comply with the PRC Environmental Protection Law. For example, some of our subsidiaries are required to have their manufacturing facilities examined and approved by the PRC environmental protection authorities prior to the start of production. However, due to discrepancies between interpretation of the written law and its application to date, some of our subsidiaries, such as CSI Solartronics and CSI Solar Manufacturing, began production without obtaining such approvals. As a result, there is a risk that we may be ordered by the relevant environmental protection authorities to cease manufacturing at these operations and subjected to fines. We are currently negotiating with the relevant authorities to complete the examination and obtain the requisite approvals. We will need to undergo similar reviews and obtain approvals prior to launching our solar wafer manufacturing operations. There can be no assurance that we will obtain the necessary approvals for our manufacturing operations in a timely manner, if at all.

We are required to comply with the PRC Construction Law and relevant regulations in the process of constructing our manufacturing facilities. For example, one of our PRC subsidiaries, CSI Cells, is required to have its recently constructed manufacturing facilities examined and accepted by relevant agencies before being put into service. However, CSI Cells began operating these facilities without completion of the required examination and acceptance procedure. We are currently working with the relevant parties to undergo the required examination and acceptance procedures. However, there is a risk that we may be ordered by the relevant construction administrative authorities to comply and be subject to fines.

Two of our subsidiaries, CSI Luoyang and CSI Cells, commenced construction of their manufacturing facilities without obtaining a construction project planning permit or a construction permit, both of which are required under PRC Construction Law. We are currently cooperating with relevant government agencies to obtain these required permits. However, there is a risk that we may be ordered by the relevant construction administrative authorities to comply and be subject to fines. We also may be subject to actions by competent city planning administrative authorities. If our construction is deemed to have had a serious adverse impact on city planning, these authorities may order us to cease construction or to demolish these facilities within a short time period, or they may confiscate the illegal facilities outright.

In addition, we adopted a share incentive plan in 2006 that grants employees, including some of our PRC employees, share options and restricted shares. We have not yet filed our share incentive plan with SAFE as required by the Implementation Rules of the Individual Foreign Exchange Administrative Measures, or SAFE Rules, and the subsequent Foreign Exchange Operating Procedures for Administration of Domestic Individuals Participating in the Employee Share Ownership Plan or Share Option Plan of An Overseas Listed Company, or Circular 78. Because the SAFE Rules and Circular 78 are newly issued, there is some uncertainty as to how they will be interpreted and implemented. However, if we can not timely fulfill the stated filing requirement, this could have an adverse effect on

our ability to grant share options and restricted shares to our PRC employees.

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Our business benefits from certain incentives under PRC tax law and regulations. The recent promulgation of the PRC Enterprise Income Tax Law and, subsequently, the expiration of, or changes to those incentives, as well as the creation or resumption of certain types of taxation will result in our having to pay additional PRC taxes, which could have a material adverse impact on our operations.

Under the former PRC Income Tax Law on Foreign Invested Enterprise and Foreign Enterprise, or the former Income Tax Law, a foreign invested enterprise, or FIE, in China was typically subject to an enterprise income tax, or EIT, at the rate of 30% on taxable income, and local income tax at the rate of 3% on taxable income. The PRC government provided various incentives to FIEs, including each of our PRC subsidiaries, to encourage the development of foreign investments. Such incentives included reduced tax rates and other measures. FIEs that were determined by PRC tax authorities to be manufacturing companies with authorized terms of operation of more than ten years were eligible for: (i) a two-year exemption from EIT in their first profitable year; and (ii) a 50% reduction in its applicable EIT rate in the succeeding three years. Based on these allowances, CSI Solartronics was initially entitled to a preferential EIT rate of 24% as a manufacturing enterprise located in a coastal economic development zone in Changshu. CSI Solartronics first profitable year was 2002 and thus its initial EIT preferential period ended in 2006. However, CSI Solartronics was granted a three year extension for the 50% reduction in its EIT rate by the Changshu tax authority. Thus, CSI Solartronics was subject to an EIT rate of 12%. CSI Solar Manufacturing was initially entitled to a preferential EIT rate of 15%. Following its first profitable year of operations in 2005, CSI Solar Manufacturing was exempt from EIT until 2006. Since then, it has been subject to an EIT rate of 7.5%. CSI Luoyang and CSI Cells became profitable in 2007. As such, both CSI Luoyang and CSI Cells were exempted from EIT until 2008 and will enjoy a 50% reduction in their applicable EIT rates from 2009 to 2011. CSI Solar Technologies and CSI Advanced are not currently profitable and have therefore not applied for preferential tax treatment.

On January 1, 2008, the PRC s new Enterprise Income Tax Law, or the new EIT law, became effective. Under the new EIT law, both FIEs and domestic enterprises are now subject to an uniform EIT rate of 25%. Furthermore, dividends paid by an FIE to a non-resident shareholder on post-2007 earnings are now subject to a withholding tax of 10%, which may be reduced under any applicable bi-lateral tax treaty between China and the jurisdiction where the non-resident shareholder resides.

In addition, for FIEs established prior to March 16, 2007 (the promulgation date of the new EIT law) that have not attained profitability by January 1, 2008 and, have therefore not begun to realize the preferential tax treatment available to them under the former income tax regime, the new EIT law provides that the preferential five-year tax holiday period will expire within five years. Since the tax holiday of our subsidiaries CSI Solar Technologies and CSI Advanced commenced January 1, 2008, under the new EIT Law, this preferential five-year tax holiday period will expire December 31, 2012.

As the preferential tax benefits currently enjoyed by our PRC subsidiaries expire, their effective tax rates will increase significantly. This could have a material adverse effect on our financial condition and results of operations. Furthermore, our subsidiaries CSI Solar Technologies and CSI Advanced, were not profitable prior to January 1, 2008. As a result, should these subsidiaries not attain profitability prior to January 1, 2013, they will lose their right to enjoy the preferential tax treatment available under the former Income Tax Law. In addition, dividends paid to us by our PRC subsidiaries from pre-2008 earnings are exempt from Chinese dividend withholding tax even if such dividends are paid after January 1, 2008. Dividends paid on post-2007 earnings of are, however, subject to Chinese withholding tax (as described above).

Under the new EIT law, an enterprise registered under the laws of a jurisdiction outside China may be deemed a Chinese tax resident and be subject to EIT upon its worldwide income, if its place of effective management is in China. The PRC State Council recently promulgated detailed implementation rules for the new EIT law. Because the new EIT law and related implementation rules are newly executed, there is uncertainty as to how they will be

interpreted and implemented. Although we are carefully monitoring these legal developments and will timely adjust our effective income tax rate when necessary, we cannot assure you that the new EIT law will not cause material increases in the EIT rates applicable to us or our PRC subsidiaries, which could have a material adverse effect on our financial condition and results of operations.

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Subject to the recently promulgated circular by the PRC State Council on the Implementation of the Grandfathering Preferential Policies under the PRC Enterprise Income Tax Law (Decree No. [2007] 39), or the Implementation Circular, only a certain number of the preferential policies provided under the former Income Tax Law, regulations, and documents promulgated under the legal authority of the State Council are eligible to be grandfathered in accordance with Implementation Circular. Of the preferential policies enjoyed by our PRC subsidiaries, only the two-year exemption and three-year half deduction tax preferential policies are grandfathered by the Implementation Circular. As a result, commencing January 1, 2008, CSI Solartronics is subject to an EIT rate of 25% and CSI Solar Manufacturing is subject to an EIT rate of 12.5% until 2010, when it becomes subject to an EIT rate of 25%.

Furthermore, there is a trend by the Chinese government to cancel or reduce its export tax refund policy. As our subsidiaries currently receive export tax refunds from the PRC government, we may face higher manufacturing costs as a direct or indirect result of such policy changes.

In light of these tax changes, we are exploring preferential tax treatment and applicable policies, if any, available to us under the new EIT tax law. Despite any preferential tax treatment, we expect our manufacturing costs and EIT rate under the new EIT law to be higher than under the former Income Tax Law, which could have a material adverse effect on our financial condition and results of operations.

We face risks related to health epidemics and other outbreaks.

Our business could be adversely affected by the effects of avian flu or another epidemic or outbreak. From 2005 to 2007, there have been reports on the occurrences of avian flu in various parts of China, including a few confirmed human cases and deaths. Any prolonged recurrence of avian flu or other adverse public health developments in China may have a material adverse effect on our business operations. These could include our ability to travel or ship our products outside of China, as well as temporary closure of our manufacturing facilities. Such closures or travel or shipment restrictions would severely disrupt our business operations and adversely affect our results of operations. We have not adopted any written preventive measures or contingency plans to combat any future outbreak of avian flu or any other epidemic.

Risks Related to Our Common Shares

The market price for our common shares may be volatile.

The market price for our common shares has been highly volatile and subject to wide fluctuations. During the period from November 9, 2006, the first day on which our common shares were listed on the Nasdaq Global Market, until June 2, 2008, the market price of our common shares ranged from $6.50 to $48.91 per share and the closing market price on June 2, 2008 was $41.03 per share. The market price for our common shares may continue to be volatile and subject to wide fluctuations in response to a wide variety of factors, including the following:

- announcements of technological or competitive developments;
- regulatory developments in our target markets affecting us, our customers or our competitors;
- actual or anticipated fluctuations in our quarterly operating results;
- changes in financial estimates by securities research analysts;
- changes in the economic performance or market valuations of other solar power companies;

addition or departure of our executive officers and key research personnel;

announcements regarding patent litigation or the issuance of patents to us or our competitors;

fluctuations in the exchange rates between the U.S. dollar, the Euro and RMB;

release or expiry of lock-up or other transfer restrictions on our outstanding common shares; and

sales or perceived sales of additional common shares.

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In addition, the securities market has from time to time experienced significant price and volume fluctuations that are not related to the operating performance of particular companies. These market fluctuations may also have a material adverse effect on the market price of our common shares.

Substantial future sales or perceived sales of our common shares in the public market could cause the price of our common shares to decline.

Sales of our common shares in the public market, or the perception that these sales could occur, could cause the market price of our common shares to decline. As of April 30, 2008, we had 27,770,158 common shares outstanding, excluding restricted shares granted but yet to be vested and subject to restrictions on voting, dividend rights and transferability. In addition, the number of common shares outstanding and be available for sale will increase when the holders of our convertible notes receive common shares upon the conversion of their notes, or the holders of options to acquire our common shares receive our common shares upon the exercise of their options, subject to volume, holding period and other restrictions as applicable under Rule 144 and Rule 701 under the Securities Act of 1933, as amended, or the Securities Act. To the extent these shares are sold into the market, the market price of our common shares could decline.

Your right to participate in any future rights offerings may be limited, which may cause dilution to your holdings.

We may from time to time distribute rights to our shareholders, including rights to acquire our securities. However, we cannot make rights available to you in the United States unless we register the rights and the securities to which the rights relate under the Securities Act or an exemption from the registration requirements is available. We are under no obligation to file a registration statement with respect to any such rights or securities or to endeavor to cause such a registration statement to be declared effective. Moreover, we may not be able to establish an exemption from registration under the Securities Act. Accordingly, you may be unable to participate in our rights offerings and may experience dilution in your holdings.

Our articles of continuance contain anti-takeover provisions that could adversely affect the rights of holders of our common shares.

The following provisions in our amended articles of continuance may deprive our shareholders of the opportunity to sell their shares at a premium over the prevailing market price by delaying or preventing a change of control of our company:

- Our board of directors has the authority, without approval by the shareholders, to issue an unlimited number of preferred shares in one or more series. Our board of directors may establish the number of shares to be included in each such series and may fix the designations, preferences, powers and other rights of the shares of a series of preferred shares.

- Our board of directors is entitled to fix and may change the number of directors within the minimum and maximum number of directors provided for in our articles. Our board of directors may appoint one or more additional directors to hold office for a term expiring no later than the close of the next annual meeting of shareholders, subject to the limitation that the total number of directors so appointed may not exceed one-third of the number of directors elected at the previous annual meeting of shareholders.

You may have difficulty enforcing judgments obtained against us.

We are a corporation organized under the laws of Canada and substantially all of our assets are located outside of the United States. Substantially all of our current operations are conducted in the PRC. In addition, most of our directors and officers are nationals and residents of countries other than the United States. A substantial portion of the assets of these persons are located outside the United States. As a result, it may be difficult for you to effect service of process within the United States upon these persons. It may also be difficult for you to enforce in U.S. courts, judgments obtained in U.S. courts based on the civil liability provisions of the U.S. federal securities laws against us and our officers and directors, most of whom are not residents in the United States and the substantial majority of whose assets are located outside of the United States. In addition, we have been advised by

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our Canadian counsel that a monetary judgment of a U.S. court predicated solely upon the civil liability provisions of U.S. federal securities laws would likely be enforceable in Canada if the U.S. court in which the judgment was obtained had a basis for jurisdiction in the matter that was recognized by a Canadian court for such purposes. We cannot assure you that this will be the case. It is unlikely that an action could be brought in Canada in the first instance for civil liability under U.S. federal securities laws. There is uncertainty as to whether the courts of the PRC would recognize or enforce judgments of U.S. courts against us or such persons predicated upon the civil liability provisions of the securities laws of the United States or any state. In addition, it is uncertain whether such PRC courts would be competent to hear original actions brought in the PRC against us or such persons predicated upon the securities laws of the United States or any state.

We may be classified as a passive foreign investment company, which could result in adverse U.S. federal income tax consequences to U.S. holders of our common shares.

Based on the market price of our common shares and the composition of our income and assets and our operations, we believe we were not a passive foreign investment company, or PFIC, for U.S. federal income tax purposes for our taxable year ended December 31, 2007. However, we must make a separate determination each year as to whether we are a PFIC (after the close of each taxable year). Accordingly, we cannot assure you that we will not be a PFIC for our current taxable year or any future taxable year. A non-U.S. corporation will be considered a PFIC for any taxable year if either (1) at least 75% of its gross income is passive income or (2) at least 50% of the value of its assets is attributable to assets that produce or are held for the production of passive income. The market value of our assets is generally determined by reference to the market price of our common shares, which may fluctuate considerably. If we were treated as a PFIC for any taxable year during which a U.S. person held a common share, certain adverse U.S. federal income tax consequences could apply to such U.S. person. See Item 10. Additional Information E. Taxation United States Federal Income Taxation Passive Foreign Investment Company.

We incur increased costs as a result of being a public company.

As a public company, we incur significant legal, accounting and other public-company related expenses. For example, the Sarbanes-Oxley Act, and related rules and regulations implemented by SEC and the Nasdaq Global Market, have changed the corporate governance practices of public companies and have increased our legal and financial compliance costs and made some activities more time-consuming and costly. We cannot predict or estimate the amount of our future legal, accounting and other public-company related expenses, and the timing of such expenses.

Item 4. *Information on the Company*

A. History and Development of the Company

We were incorporated under the laws of the Province of Ontario in October 2001. We changed our jurisdiction by continuing under the Canadian federal corporate statute, the Canada Business Corporations Act, or CBCA, effective June 1, 2006. As a result, we are governed by the CBCA.

We have formed the following wholly owned subsidiaries:

CSI Solartronics (Changshu) Co., Ltd., or CSI Solartronics, incorporated in November 2001, which has operations located in Changshu, China where we manufacture primarily specialty solar modules and products;

CSI Solar Manufacture Inc., or CSI Solar Manufacturing, incorporated in January 2005, which has operations in Suzhou, China where we manufacture primarily standard solar modules;

CSI Solar Technologies Inc., or CSI Solar Technologies, incorporated in August 2003, which has operations located in Suzhou, China where we conduct solar module product development;

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CSI Central Solar Power Co., Ltd., or CSI Luoyang, incorporated in February 2006, which has operations located in Luoyang, China where we manufacture solar modules and intend to manufacture solar ingots and solar wafers;

CSI Cells Co., Ltd. (formerly known as CSI Solarchip International Co., Ltd.), or CSI Cells, incorporated in June 2006, which has operations located in Suzhou, China where which we manufacture solar cells;

Changshu CSI Advanced Solar Inc., or CSI Advanced, incorporated in August 2006, which has operations located in Changshu, China where we intend to manufacture solar modules; and

CSI Solar Inc., which was incorporated in Delaware in June 2007, through which we carry out marketing and sales efforts in the United States.

In April 2008, we began efforts to incorporate Changshu CSI Solar Power Inc., which will establish operations located in Changshu, China where we intend to expand our existing solar module manufacturing capacity. See Item 4. Information on the Company C. Organizational Structure for additional information on our corporate structure.

Our principal executive offices are located at 675 Cochrane Drive, East Tower, 6th Floor, Markham, Ontario L3R 0B8. Our telephone number at this address is (1-905) 530-2334 and our fax number is (1-905) 530-2001. Our principal place of business is at No. 199 Lushan Rd, Suzhou New District, Suzhou, Jiangsu 215129, People s Republic of China.

You should direct all inquiries to us at the address and telephone number of our principal executive offices set forth above. Our website is www.csisolar.com. The information contained on our website does not form part of this annual report.

B. Business Overview

Overview

We design, develop, manufacture and sell solar cell and module products that convert sunlight into electricity for a variety of uses. We are incorporated in Canada and conduct all of our manufacturing operations in China. Our products include a range of standard solar modules built to general specifications for use in a wide range of residential, commercial and industrial solar power generation systems. We also design and produce specialty solar modules and products based on our customers requirements. Specialty solar modules and products consist of customized modules that our customers incorporate into their own products, such as solar-powered bus stop lighting, and complete specialty products, such as solar-powered car battery chargers. We sell our products under our CSI brand name and to OEM customers under their brand names. We also implement solar power development projects, primarily in conjunction with government organizations to provide solar power generation in rural areas of China.

We currently sell our products to customers located in various markets worldwide, including Germany, Spain, Canada, Korea and China. We sell our standard solar modules to distributors and system integrators. We sell our specialty solar modules and products directly to various manufacturers who integrate the specialty solar modules into their own products and sell and market the specialty solar products as part of their product portfolio.

We have historically manufactured our module products from solar cells purchased from third-party manufacturers. In 2007, we began to pursue a new business model that combines internal manufacturing capacity supplemented by direct material purchases and outsourced toll manufacturing relationships which we believe provides us with several

competitive benefits. We believe that this approach allows us to benefit from the increased margin available to vertically integrated solar manufacturers while reducing the capital expenditures required relative to a fully vertically integrated business model. We also believe that it provides us with greater flexibility to respond to short-term demand patterns and longer-term to take advantage of the availability of low-cost outsourced manufacturing capacity. Additionally, it enables us to improve production yields, control our inventory more efficiently and improve cash management, resulting in increased confidence in our forecasts for revenue growth and margin improvement in the future.

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We believe that we have contractually secured a major portion of our silicon and solar cell requirements to support solar module production of 200 to 220MW in 2008. For silicon material supplies, we have entered into a five-year supply agreement with Luoyang Poly from 2006 to 2010 for high purity silicon. For silicon wafers, we have entered into a fixed price and volume agreement with LDK from 2008 to 2010 for specified quantities of solar wafers, including 50MW for delivery in 2008. We also have standby toll manufacturing arrangements with LDK and other ingot and wafer manufacturers to convert our virgin polysilicon and reclaimed silicon feedstock into wafers. In January 2007, we entered into a supply agreement with Deutsche Solar for a supply of multi-crystalline silicon wafers through 2018. In November 2007, we entered into various agreements with China Sunergy for a supply of 25MW of solar cells for delivery in 2008, and an agreement with Gintech for a supply of 17 to 22MW of solar cells for delivery in 2008. We have other silicon wafer and solar cell supply agreements in place, including a multi-year solar wafer supply contract with Jiangsu Shunda Group Corporation, which should provide us with wafer supplies through 2015, a solar cell supply contract with NSP and a UMgSi materials supply contract with BSI. We believe contracts such as these allow us to diversify our silicon wafer supply sources and also provide an option of securing additional wafer supplies from other sources, helping us to meet demand for our solar products.

We have expanded our in-house manufacturing capacity for both solar cells and solar modules, completing our first solar cell production line with an annual capacity of 25MW in the first quarter of 2007 and our second 25MW production line in the third quarter of 2007. We installed our third and fourth solar cell production lines in November of 2007 and our annual solar cell production capacity was 100MW as of December of 2007. Currently, we intend to use all of our solar cells in the manufacturing of our own solar module products. As of March 31, 2008, we had 400MW of combined annual module manufacturing capacity at our Suzhou, Changshu and Luoyang facilities.

In addition, we have commenced work on two new projects:

Expansion of our internal solar cell manufacturing capacity from 100 to 250MW. We expect to complete this project by the third quarter of 2008.

Construction of a solar ingot and wafer plant in Luoyang, China. We expect to complete the initial phase of this project by the third quarter of 2008, which will give us an annual solar wafer capacity of 40 to 60MW.

We continue to evaluate new technologies, including the use of UMgSi to manufacture more cost-effective modules. We entered into a research partnership and supply contract with a silicon manufacturer to develop a viable and reliable source of UMgSi in 2007. We recently commenced commercial production of e-Modules, a cost-effective medium power solar module product using 100% UMgSi, in March 2008. We converted one of our solar cell lines and dedicated it to upgraded metallurgical grade cells in early April 2008 and ramped up to full production shortly thereafter. Delivery of e-Modules to our European and U.S. customers began in early May. We believe that we are on track to achieve our prior estimate of shipping 30-40MW of e-Modules in 2008. We will continue to receive shipments of UMgSi through 2011 and expect to increase production of our UMgSi products in the future.

We believe that the substantial industry and international experience of our management team has helped us foster strategic relationships with suppliers throughout the solar power industry value chain. We also take advantage of our flexible and low cost manufacturing capability in China to lower our manufacturing and operating costs. We believe we have a proven track record of low cost and rapid expansion of solar cell and solar module manufacturing capacity.

We have grown rapidly since March 2002, when we sold our first solar module products. Our net revenues have increased from $9.7 million in 2004 to $302.8 million in 2007. We sold 2.2MW, 4.1MW, 14.9MW and 83.4MW of our solar module products in 2004, 2005, 2006 and 2007, respectively.

Our Products

We currently design, develop, manufacture and sell solar cell and module products, which consist of standard solar modules and specialty solar modules and products.

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Standard Solar Modules

Our standard solar modules are an array of interconnected solar cells encased in a weatherproof frame. We produce a wide variety of standard solar modules, currently ranging from 0.2W to 300W in power and using multi-crystalline and mono-crystalline solar cells. These products are built to general specifications for a wide range of residential, commercial and industrial solar power generation systems. Our standard solar modules are designed to be durable under harsh weather conditions and easy to transport and install. We sell our standard solar modules under our brand name and to OEM customers under their brand names. Since we began selling our solar module products in March 2002, we increased our annual production capacity from 2MW to 50MW as of December 2006. By the end of the first quarter of 2008, our total production capacity was 400MW across our three module manufacturing facilities in Changshu, Suzhou and Luoyang. The nature of our flexible manufacturing process allows us to increase capacity at low cost within a short period of time to ramp up production for increased demand for standard solar modules or for new solar module products as necessary.

Specialty Solar Modules and Products

We collaborate with our customers to design and manufacture specialty solar modules and products based on our customers specifications and requirements. Our specialty solar modules and products consist of:

customized solar modules; and

complete specialty products.

Our customized solar modules are solar modules that we design and manufacture for customers who incorporate them as a component of their own products. For example, we have manufactured a customized array of six solar modules assembled onto a curved canopy for a customer who incorporated it into its bus stop shelter products. We design and manufacture our complete specialty products, which combine our solar modules with various electronic components that we purchase from third party suppliers. Presently, this has consisted primarily of car battery chargers for a major automotive maker.

Our specialty solar modules and products have been used primarily in the automotive sector as well as the LED lighting sector. We focus on these and other industries, such as the telecommunications sectors, that have off-grid applications that can be powered by solar power. In the future, we intend to increasingly focus on the LED lighting industry. As LED technology advancements continue to create higher quality lighting with less power at increasingly economical prices, we believe that solar power will become a major power source in the LED lighting industry. In addition to specialty solar modules and products used in bus stop signs, our car battery chargers and LED lighting, we have also produced security sensors, signaling systems and mobile phone chargers in the past.

As part of our strategy to broaden our products portfolio and address a wider cross section of the PV market, we have also been actively developing our BIPV product line. Our BIPV products have various advantages over standard PV modules, including improved aesthetics, direct integration into building structures and the ability to be used in a wider range of applications including residential and commercial roofing and architectural glazing. Our BIPV products and systems have thus far been supplied to our BIPV solar glass roofing system project in Luoyang and as part of a contract signed to supply Beijing with solar modules to be used as part of the facilities for the Olympic games. We believe that the demand for BIPV solutions will continue to grow in our key markets, including China, Europe and the United States. We will continue to work closely with our customers to design and develop specialty solar modules and products that meet their specific requirements. We expect sales of these products, which typically have higher margins than our standard solar modules, to increase as we go forward.

Solar Cells

Our first solar cell production line with an annual capacity of 25MW was completed in the first quarter of 2007 and our second 25MW production line was completed in the third quarter of 2007. Our third and fourth solar cell production lines were both finished in November 2007, and, as of December 2007, our total annual solar cell production capacity was 100MW. We are currently expanding our internal solar cell manufacturing capacity from 100MW to 250MW, and expect to complete this by the third quarter of 2008. During production line installation, we apply stringent criteria in vendor selection, including requiring them to demonstrate a minimum of two successful

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equipment implementations for other well-known solar cell manufacturers in the region. Currently, we intend to use all of our solar cells in the manufacturing of our own solar module products.

Our solar cells are currently made on both mono-crystalline and multi-crystalline silicon wafers through multiple manufacturing steps, including surface texturization, diffusion, plasma-enhanced chemical vapor deposition and surface metallization. A functional solar cell generates a flow of electricity when exposed to light. The metal on the cell surface collects and carries away the current to the external circuitry.

A typical solar cell manufacturing process is illustrated as follows:

Solar Power Development Projects

We also implement solar power development projects, primarily in conjunction with government organizations, to provide solar power generation in rural areas of China. In conjunction with the Canadian International Development Agency, or CIDA, we implemented a C$1.8 million Solar Electrification for Western China project between 2002 and June 2005. As part of this project, we installed many demonstration projects and conducted three solar power forums in Beijing, Xining and Suzhou.

The PRC government has demonstrated its support for environmentally-friendly electricity generation through a variety of policy measures, such as integrating BIPV solar power systems into the new stadiums and buildings constructed for the 2008 Summer Olympics in Beijing. We have participated in this construction initiative by providing solar modules for some of these facilities, which provide a peak power output of 66kW.

More recently, we reached an agreement with the Suzhou New District government in Suzhou to begin construction of a PV theme park in 2008. In addition to providing an example of applied PV power generation, the park will serve as a permanent scientific educational center for the public. We believe our participation in the construction of this park will enhance our market reputation in China.

In 2007, we successfully completed our first BIPV solar project, a BIPV solar glass roof system, in collaboration with Luoyang Poly.

Supply Chain Management

Our business depends on our ability to obtain solar wafers and cells. There is presently a shortage of solar wafers and cells as a result of a shortage of high-purity silicon due to the rapid growth of and demand for solar power. Beginning in early 2005, we began managing our supply chain to secure a reliable and cost-effective supply of solar cells. This has allowed us to partially mitigate the effects of the industry-wide shortage of high-purity silicon, while reducing margin pressure. We secure our supply of solar wafers and cells partially through our sourcing of silicon raw materials and toll manufacturing arrangements with suppliers of ingots and wafers and partially through the direct purchase of solar wafers and cells, in addition to producing our own solar cells. We minimize costs and reduce margin pressure primarily through our silicon reclamation program. Further, we leverage the silicon and capital resources of our solar supply chain partners to secure silicon materials and also reduce the

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need to commit significant amounts of our capital as prepayments to polysilicon manufacturers, which is the general practice in our industry, in order to facilitate our above average industry growth rate.

The following chart illustrates our management of the solar power supply chain:

Silicon Raw Materials

Silicon feedstock, which consists of high-purity silicon and reclaimable silicon, is the building block of the entire solar power supply chain.

We have entered into a five-year supply agreement with Luoyang Poly in China from 2006 to 2010. This agreement provides us specified minimum levels of high-purity silicon. We also have an agreement with LDK from 2008 to 2010 for specified quantities of solar wafers and a toll manufacturing arrangement to convert our reclaimed silicon feedstock into wafers. In January 2007, we entered into a twelve-year supply agreement with Deutsche Solar for a supply of multi-crystalline silicon wafers. We have recently entered into a multi-year solar wafer supply contract with Jiangsu Shunda Group Corporation, which should provide us with wafer supplies through 2015. We also have a number of other annual silicon wafer and solar cell supply agreements, including a UMgSi, supply agreement with BSI.

We believe these silicon raw materials agreements will, partially through toll manufacturing arrangements, enable us to secure solar wafers and cells sufficient for a major portion of our estimated 2008 production output. In anticipation of increased demand for solar power products, we are currently in discussions with other China-based suppliers to secure additional silicon feedstock supply. We incorporated CSI Luoyang in 2006 to give us more direct access to major silicon feedstock suppliers located in Luoyang.

Silicon Reclamation Program

We believe that we were one of the first solar cell and module companies to process reclaimable silicon to ultimately produce solar wafers and cells. We recycle the reclaimable silicon that we source and process it through our reclaiming facilities for reuse in the solar supply chain. Our processes recycle silicon from pot scraps, broken or unused silicon wafers, and the top and tail discarded portions of silicon ingots. Our factory in Changshu includes reclamation workshops where our employees sort the reclaimable silicon into reprocessing categories. We believe that our access to relatively inexpensive labor in China for this process that involves a substantial amount of labor gives us a significant competitive advantage compared to international solar module manufacturers. Due to the sharp rise in reclaimable silicon prices in recent years globally, our silicon reclamation program has not been increasing in scale, but maintaining a steady production rate.

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Toll Manufacturing Arrangements

We also engage in toll manufacturing arrangements to source silicon wafers and solar cells, in addition to our internal solar cell manufacturing. Manufacturers of ingots, wafers and cells are facing over-capacity due to shortages of high-purity silicon and are looking for ways to obtain silicon feedstock. Through our toll manufacturing arrangements, we provide the silicon feedstock, which are returned in the forms of ingots, wafers and cells.

Solar Wafers. We currently purchase solar wafers from international and local suppliers, including LDK in China and Green Energy Technology Inc.

Solar Cells. In addition to internal solar cell manufacturing and toll manufacturing arrangements that we have with our solar cell suppliers, we currently purchase solar cells from a number of international and local suppliers. In 2007, we directly purchased solar cells from Gintech, JA Solar Holdings Co, Ltd. and China Sunergy. We intend to continue directly purchasing solar cell supplies and maintaining our smaller scale toll manufacturing arrangements. As we grow our business, we will seek to diversify our cell supply channel mix to ensure flexibility in adapting to future changes in the supply of, and demand for, solar cells. For example, we recently entered into a solar cell supply agreement with NSP.

Solar Module Manufacturing

We assemble our solar modules by interconnecting multiple solar cells through taping and stringing into a desired electrical configuration. The interconnected cells are laid out, laminated in a vacuum, cured by heating and then packaged in a protective light-weight anodized aluminum frame. Our solar modules are sealed and weatherproofed and are able to withstand high levels of ultraviolet radiation, moisture and extreme temperatures.

The diagram below illustrates our solar module manufacturing process:

(1) Laser cutting is only necessary for smaller-sized modules.

We work closely with our customers during the design and manufacture of our specialty solar modules and products. For our customized modules, we collaborate with the customer to make certain that our product is compatible for incorporation into that customer s product. For our complete specialty products, we work with the customer and typically provide sample products to the customer for testing before the product is manufactured on a larger scale.

We selectively use automation to enhance the quality and consistency of our finished products and to improve efficiency in our manufacturing processes. Key equipment in our manufacturing process includes automatic laminators, simulators and solar cell testers. The current design of our assembly lines gives us flexibility to adjust the ratio of manufacturing equipment to skilled labor for quality and efficiency control. We use manufacturing equipment purchased primarily from Chinese solar power equipment suppliers. The location of our manufacturing operations in China gives us the advantage of proximity to these Chinese manufacturers, who typically sell solar power manufacturing equipment at more competitive prices compared to similar machinery offered by international solar power equipment manufacturers. We source critical testing equipment from international manufacturers. The manufacturing of solar module products remains a labor intensive process, and we leverage China s competitive labor costs by using labor in our manufacturing process when it proves to be more efficient and cost-effective than using equipment.

We may not, however, utilize our production facilities to their full capacity. Overall production output depends in part on the product mix and sizes of the solar modules produced by each laminator and is affected by the timing of

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customer orders and requested completion dates. Our production output is also constrained by the availability of solar cells and silicon raw materials and demand for our solar module products. Although there is a gap between our production capacity and production output, it is important for manufacturers of solar module products to maintain additional production capacity to handle surges in customer demand and quick changes in the product mix and timing of completion demanded by customers. Due to the relatively inexpensive cost of solar module manufacturing equipment, it is generally cost-efficient to maintain additional production capacity.

Our manufacturing facilities can be easily reset, allowing us to quickly ramp up production for increased orders or new solar module products as necessary. We currently operate our manufacturing lines in three factories in China and typically operate these lines 24 hours a day by rotating shifts of employees to operate the lines. We currently produce a higher volume of standard solar modules in our factories located in Suzhou, Changshu and Luoyang and manufacture most of our specialty solar modules and products, which tend to be lower volume, at our Changshu facilities. Our employees are trained to work on different types of solar module products. This gives us the flexibility to quickly increase our manufacturing capacity and lines with additional employees in order to meet increases in demand.

Quality Control and Certifications

Our quality control was set up according to the quality system requirements of ISO 9001:2000 and ISO:TS 16949 standards. The latter originated from QS 9000 and VDA quality systems and is now the world-wide quality system standard for the automotive industry. Our quality systems are reviewed and certified by TUV Rheinland Group, a leading international service company that documents the safety and quality of products, systems and services. Our quality control focuses on incoming inspection through which we ensure the quality of the components and raw materials that we source from third parties and includes the use of simulators and solar cell testers. We focus on in-process quality control by examining our manufacturing processes and on output quality control by inspecting finished products and conducting reliability and other tests.

We have obtained IEC 61215 and TUV Class II safety European standards for sales in Europe. We have also obtained certifications of CAN ORD-UL 1703 and UL 1703 since March 2007, which allow us to sell products in North America.

Markets and Customers

We currently sell our standard solar modules primarily to distributors and system integrators. Our distributor customers include companies that are exclusive solar power distributors and engineering and design firms that include our standard solar modules in their system installations. Our system integrator customers typically design and sell complete, integrated systems that include our standard solar modules along with other system components. We sell our specialty solar modules and products to various manufacturers who either integrate these products into their own products or sell and market them as part of their product portfolio. Our standard solar module customers include leading solar power distributors and system integrators such as ProSolar Energ-Tetecnik GmbH, Otto Bihler Maschinenfabrik GmbH & Co. KG, Schüco International KG and City Solar AG. Our specialty solar modules and products customers include various manufacturers who incorporate our customized modules in their bus stop, road lighting and marine lighting products.

As we expand our manufacturing capacity and enhance our brand name, we anticipate developing additional customer relationships in other markets and geographic regions to decrease our market concentration and dependence. We are aiming to increase our sales to customers located in several markets such as Germany, Spain, Italy, South Korea, China, the United States and Canada. These solar power markets have been significantly influenced by past and current government subsidies and incentives, or, in the case of Canada, by intended future government subsidies and

incentives. While we expect to expand our markets, we expect that Germany and Spain will continue to remain our major markets in the near future.

Germany. The renewable energy laws in Germany require electricity transmission grid operators to connect various renewable energy sources to their electricity transmission grids and to purchase all electricity generated by such sources at guaranteed feed-in tariffs. Additional regulatory support measures include investment cost subsidies, low-interest loans and tax relief to end users of renewable energy.

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Germany s renewable energy policy has had a strong solar power focus, which contributed to Germany surpassing Japan as the leading solar power market in terms of annual megawatt additions in 2004. According to Solarbuzz, the size of the total German market reached 1,328MW in 2007. Our products are used for large-size ground mounted solar power field, commercial rooftop and residential rooftop installations. The feed-in tariffs for rooftop applications less than 30kWh and between 30kWh and 100kWh was 0.4921 and 0.4682 per kWh, respectively, in 2007. Our major customers located in Germany in 2007 are City Solar AG, Schüco International KG and pro solar Solarstrom.

Spain. According to Solarbuzz, the Spanish market grew 482% and reached 637MW in 2007. In Spain, the actual feed-in tariff for solar power energy is fully guaranteed for 25 years and guaranteed at 80% subsequently. The feed-in tariff for applications less than 100kWh was 0.4404 per kWh for the first 25 years of system operation, and 0.3523 per kWh after 25 years of system operation in 2007. Spain was our second largest market as measured by net revenue generated after Germany in 2007 and is expected to remain in this position in 2008.

Italy. At the end of 2007, the Italian solar market was 90MW. According to Solarbuzz, current feed-in tariff rates for systems between 1 and 20kWh are 0.445 per kWh for solar electricity generated and consumed onsite and are 0.460 per kWh for systems between 20 and 50kWh. Further, according to Solarbuzz, the Italian market saw an enormous boost in large installations in 2007, a trend which is expected to continue in 2008.

China. China passed the Renewable Energy Law in February 28, 2005, which went into effect on January 1, 2006. The Renewable Energy Law authorizes relevant authorities to set favorable prices for the purchase of on-grid solar power-generated electricity, and provides other financial incentives for the development of renewable energy projects. In January 2006, China s National Development and Reform Commission further promulgated two implementation rules of the Renewable Energy Law, and other implementation rules are expected in the future.

China finances its off-grid solar installations through the now completed township program and the current village program. The current five-year plan from 2006 to 2010 is targeted to provide electricity to 29,000 villages, mainly in Western China. The Ministry of Housing and Urban-Rural Development (formerly, the Ministry of Construction) has recently promulgated directives encouraging the development and use of solar power energy in both urban and rural areas. Various local authorities have also introduced initiatives to encourage the adoption of renewable energy including solar power energy. Furthermore, in October 2005, the Shanghai municipal government endorsed the 100,000 M 2 Project, the goal of which is to install solar energy heating systems onto 100,000 M 2 rooftops in Shanghai in the coming years.

We believe that we will be well-positioned to take advantage of growth opportunities in the Chinese solar power energy market, which has the potential to become one of the fastest growing markets for solar power. Our projects in China include working with the government of Suzhou to construct a 300kW solar power system in Suzhou and installation of a BIPV solar glass roof system in Luoyang.

United States. There are now six states in the U.S. that offer significant incentives, with California offering the most preferential incentives. In January 2006, the California Public Utilities Commission enacted the California Solar Initiative, a $2.9 billion program that will subsidize solar power systems by $2.80 per watt. Due to excessive demand, this subsidy has been reduced to the current $2.50 per watt. Combined with federal tax credits for solar power usage, the subsidy may account for as much as 50% of the cost of a solar power system. The program will last from 2007 to 2017 and is expected to dramatically increase the use of solar power for on-grid applications in California. We incorporated CSI Solar, Inc. to enhance our sales and marketing efforts in the U.S.

Canada. In March 2006, Canada s largest province, Ontario, announced a solar power subsidy, by which a fixed price of C$0.42 per kWh is offered for solar power transferred to the electrical grid starting in the fall of 2006. The program will last 20 years and is expected to substantially increase the market for solar power in Ontario.

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Japan. According to Solarbuzz, 1.9GW of PV systems had been installed, mainly on residential homes, by the end of 2007. The Japanese government has a long-term energy goal to install 4.82GW of PV by FY2010, and is a signatory to the Kyoto Protocol, requiring it to reduce greenhouse gas emissions by 6% from the 1990 baseline level by 2012. Japan currently funds a number of key programs supporting domestic PV installations and has recently announced a plan to begin installing PV on federal buildings through 2012.

South Korea. The South Korean market reached 50MW in 2007. The South Korean government has established a number of initiatives to enhance self-sufficiency in energy supplies and invest in renewable energy systems. Under the Public Institution Renewable Obligation Law created in 2004, the government has mandated that newly built public facilities exceeding 3,000 square meters invest at least 5% of its construction expenses in renewable energy systems. Current feed-in tariff rates for systems over 30kW are KRW 677.8 per kWh and KRW 711.25 per kWh for systems under 30kWh.

Sales and Marketing

Standard Solar Modules

We market and sell our standard solar module products worldwide predominantly through a direct sales force and via market-focused sales agents. We have direct sales personnel or sales agent representatives that cover our markets in Europe, North America and Asia. Our marketing programs include conferences and technology seminars, sales training, trade show exhibitions, public relations and advertising. We sell our products primarily under two types of arrangements, supply contracts and OEM/tolling manufacturing arrangements.

Sales contracts. In late 2007 and early 2008, we entered into annual sales and distribution agreements with most of our customers and deliver standard solar modules according to a pre-agreed monthly schedule. We typically require full payment of the contract price by letters of credit or telex money transfers prior to shipping. In certain circumstances, we provide short term credit sales ranging from 21 to 45 days. On rare occasions, we provide medium term credit sales from 60 to 120 days to creditworthy customers. We may increase these sales when expanding into the U.S. market.

OEM/tolling manufacturing arrangements. From time to time, to address solar wafer and cell shortage issues, we enter into OEM/tolling arrangements with our customers.

Under these arrangements, we purchase or obtain on a consignment basis silicon wafers and cells from customers and then sell solar module products back to those customers who sell these products under their own brands. In addition, we have been using our own solar cells in certain services we provide to a limited number of strategic partners with the finished solar module products branded with their labels.

Specialty Solar Modules and Products

In addition to the above efforts, we target our sales and marketing efforts of our specialty solar modules and products at companies in selected industry sectors, including the automotive, telecommunications and LED lighting sectors. As standard solar modules increasingly become commoditized and technology advancements allow for greater usage of solar power in off-grid applications, we will continue to expand our sales and marketing focus on our specialty solar modules and products and capabilities. Our sales and marketing team works with our specialty solar modules and products development team to make certain that we take the changing customer preferences and demands into account in our product development and that our sales and marketing team is able to effectively communicate to customers our product development changes and innovations. To further enhance this communication we will enter into cooperative

agreements with our customers to share solar power technical and management expertise in our respective areas of expertise. We intend to establish additional relationships in other market sectors as the specialty solar modules and products market expands. As a result of a combination of factors, including smaller contract dollar value due to specialized product use and market factors relating to these products, sales of specialty solar modules and products constitute a decreasing percentage of our total annual revenue, in contrast to our increasing standard module business.

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Solar Power Development Projects

In 2007, we began successfully expanding into commercial solar power development projects, mainly in China. These include commencement of our BIPV solar roof installation in Luoyang. In the early part of 2008, we contracted with the Suzhou government to develop a 300kW solar power system in Suzhou New District. We believe that these solar power development projects will generate significant goodwill and publicity for us.

Customer Support and Service

We provide customers with after-sales support, including product return and warranty services. Our standard solar modules are typically sold with a two-year guarantee for defects in materials and workmanship and a 10-year and 25-year warranty against declines of more than 10.0% and 20.0%, respectively, of the initial minimum power generation capacity at the time of delivery. Our specialty solar modules and products are typically sold with a one-year guarantee against defects in materials and workmanship and may, depending on the characteristics of the product, contain a limited warranty of up to ten years, against declines of the minimum power generation capacity specified at the time of delivery.

Competition

The market for solar module products is competitive and continually evolving. We compete with international companies such as BP Solar, Sharp Solar and SolarWorld and companies located in China such as Suntech Power Holdings Co., Ltd., Yingli Green Energy Holding Company Limited, Solarfun Power Holdings Co., Ltd. and Trina Solar Limited. Many of our competitors are also developing or currently producing products based on alternative solar technologies such as thin film photovoltaic materials that may ultimately have costs similar to, or lower than, our projected costs. For example, solar modules produced using thin film materials, such as amorphous silicon, cadmium telluride and CIGS technology, are generally less efficient, with conversion efficiencies ranging from 5% to 10% according to Solarbuzz, but require significantly less silicon to produce than crystalline silicon solar modules, such as our products, and are less susceptible to increases in silicon costs. Some of our competitors have also become vertically integrated, from upstream polysilicon manufacturing to solar system integration. We may also face competition from semiconductor manufacturers, several of which have already announced their intention to start production of solar modules. In addition, the solar power market in general competes with other sources of renewable and alternative energy and conventional power generation. We believe that the key competitive factors in the market for solar module products include:

- supply chain management;
- strength of supplier relationships;
- manufacturing efficiency;
- power efficiency and performance;
- price;
- customer relationships and distribution channels;
- brand name and reputation; and
- aesthetic appearance of solar module products.

In the immediate future, because of the growing demand for solar module products and the shortage of high-purity silicon, we believe that the ability to compete in our industry will continue to depend on the ability to effectively manage the supply chain and form strategic relationships. Consolidation of the segments of the solar power supply chain is already occurring and is expected to continue in the near future. We, however, believe consolidation of the industry will benefit our company in the long term. We believe that as the supply of high-purity silicon stabilizes, the key to competing successfully will shift to more traditional sales and marketing activities. We believe that the strong relationships that we are building now with both suppliers and customers will support us in that new competitive environment when the time arrives.

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Insurance

We maintain property insurance policies with reputable insurance companies to cover our equipment, facilities, buildings and their improvements, office furniture and inventory. These insurance policies cover losses due to fire, floods and other natural disasters. To keep up with the pace of our rapid sales growth and facilities expansions, we substantially increased the level of our insurance coverage over properties, general commercial and product liabilities in 2007. In 2007, we also added key-man life insurance to our company s insurance portfolio to cover our founder, chairman, president and chief executive officer, Dr. Shawn Qu, and four other senior executive officers. We do not maintain business interruption insurance or insurance relating to marine, air and inland transit risks for the export of our products. We consider our overall insurance coverage to be adequate. However, significant damages to any of our manufacturing facilities, whether as a result of fire or other causes, could have a material adverse effect on our results of operations.

Environmental Matters

Except for the circumstances disclosed in the Item 3, Key Information D. Risk Factors Risks Related to Doing Business in China, we believe we have obtained all environmental permits necessary to conduct the business currently carried on by us at our existing manufacturing facilities. We have conducted environmental studies in conjunction with our solar power development projects to assess and reduce the environmental impact of our facilities.

As we expand our silicon reclamation program and research and development activities and move into solar ingot, solar wafer and solar cell manufacturing, we have begun to generate material levels of noise, waste water, gaseous wastes and other industrial wastes in the course of our business operations. Additionally, as we expand our internal solar components production capacity, our risk of facility incidents with a potential environmental impact also increases.

We will also continue to devote efforts to ensure that our products comply with the European Union s Restriction of Hazardous Substances Directive, which took effect in July 2006, by reducing the amount of lead and other restricted substances used in our solar module products. Our operations are subject to regulation and periodic monitoring by local environmental protection authorities. If we fail to comply with present or future environmental laws and regulations, we could be subject to fines, suspension of production or a cessation of operations.

The Chinese Customs have recently increased their scrutiny on the import of scrap silicon over a concern that the recycling process for certain types of scrap silicon may cause environmental damage if not performed in a fully licensed factory and have subjected certain importations of recyclable silicon by some China-based companies, including us. See Item 3. Key Information D. Risk Factors If we are unable to secure an adequate and cost effective supply of solar wafers, solar cells or reclaimable silicon, our revenue, margins and profits could be adversely affected and Compliance with environmental regulations can be expensive and noncompliance with these regulations may result in adverse publicity and potentially significant monetary damages, fines and suspensions of our business operations.

Government regulation

This section sets forth a summary of the most significant regulations or requirements that affect our business activities in China or our shareholders right to receive dividends and other distributions from us.

Renewable Energy Law and Other Government Directives

In February 2005, China enacted its Renewable Energy Law, which became effective on January 1, 2006. The Renewable Energy Law sets forth policies to encourage the development and use of solar energy and other non-fossil energy. The renewable energy law sets forth the national policy to encourage and support the use of solar and other renewable energy and the use of on-grid generation. It also authorizes the relevant pricing authorities to set favorable prices for the purchase of electricity generated by solar and other renewable power generation systems.

The law also sets forth the national policy to encourage the installation and use of solar energy water-heating system, solar energy heating and cooling system, solar photovoltaic system and other solar energy utilization

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systems. It also provides financial incentives, such as national funding, preferential loans and tax preferences for the development of renewable energy projects. In January 2006, China s National Development and Reform Commission promulgated two implementation directives of the Renewable Energy Law. These directives set forth specific measures in setting prices for electricity generated by solar and other renewal power generation systems and in sharing additional expenses occurred. The directives further allocate the administrative and supervisory authorities among different government agencies at the national and provincial levels and stipulate responsibilities of electricity grid companies and power generation companies with respect to the implementation of the renewable energy law.

In November 2005, China s National Development and Reform Commission promulgated the Renewable Energy Industry Development Guidance Catalogue, where solar power figured prominently. In January 2006, China s National Development and Reform Commission promulgated an implementation directive for the renewable energy power generation industry. This directive sets forth specific measures for setting the price of electricity generated by solar and other renewable power generation systems and in sharing the costs incurred. The directive also allocates administrative and supervisory authority among different government agencies at the national and provincial levels and stipulates the responsibilities of electricity grid companies and power generation companies with respect to the implementation of the renewable energy law.

On August 31, 2007, China s National Development and Reform Commission promulgated the Medium and Long-Term Development Plan for the Renewable Energy Industry. This plan sets forth national policy to provide financial allowance and preferential tax regulations for the renewable energy industry. A similar demonstration of PRC government commitment to renewable energy is also stipulated in the Eleventh Five-Year Plan for Renewable Energy Development, which was promulgated by China s National Development and Reform Commission in March 2008.

China s Ministry of Housing and Urban-Rural Development (formerly, the Ministry of Construction) also issued a directive in June 2005, which seeks to expand the use of solar energy in residential and commercial buildings and encourages the increased application of solar energy in different townships. In addition, China s State Council promulgated a directive in July 2005, which sets forth specific measures to conserve energy resources.

Environmental Regulations

As we expand our silicon reclamation program and research and development activities and move into solar ingot, solar wafer and solar cell manufacturing, we have begun to generate material levels of noise, waste water, gaseous wastes and other industrial wastes in the course of our business operations. Additionally, as we expand our internal solar components production capacity, our risk of facility incidents with a potential environmental impact also increases. We are subject to a variety of governmental regulations related to the storage, use and disposal of hazardous materials. The major environmental regulations applicable to us include the Environmental Protection Law of the PRC, the PRC Law on the Prevention and Control of Noise Pollution, the PRC Law on the Prevention and Control of Air Pollution, the PRC Law on the Prevention and Control of Water Pollution, the PRC Law on the Prevention and Control of Solid Waste Pollution, the PRC Law on Evaluation of Environmental Affects and the Regulations on the Administration of Construction Project Environmental Protection.

Restriction on Foreign Businesses

The principal regulation governing foreign ownership of solar power businesses in the PRC is the Foreign Investment Industrial Guidance Catalogue. Under the current catalogue, which was amended in 2007 and become effective on December 1, 2007, the solar power business is classified as an encouraged foreign investment industry.

While the 2004 catalogue provided a narrow scope for the solar power business, consisting of construction and operation of solar power stations, the scope provided by the current catalogue includes the production of solar cell manufacturing machines; the production of solar air condition, heating and drying systems; the manufacture of solar cells as well as the construction and operation of solar power stations.

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Tax

PRC enterprise income tax is calculated based on taxable income determined under PRC accounting principles. In accordance with the PRC Income Tax Law on Foreign Invested Enterprise and Foreign Enterprise, or the former Income Tax Law, and the related implementing rules, FIEs incorporated in the PRC were generally subject to an enterprise income tax of 30% on taxable income and a local income tax of 3% of taxable income. The former Income Tax Law and the related implementing rules provided certain favorable tax treatments to foreign invested enterprises. For instance, beginning with its first year of profitability, a foreign invested manufacturing enterprise with in operation for no less than ten years would be eligible for an enterprise income tax exemption of two years followed by a three-year 50% reduction in its applicable enterprise income tax rate.

The effective income tax rate applicable to us in China depends on various factors, such as tax legislation, the geographic composition of our pre-tax income and non-tax deductible expenses incurred.

On March 16, 2007, the National People s Congress, the Chinese legislature passed the new EIT Law, which became effective on January 1, 2008. On December 6, 2007, the State Council approved and promulgated the Implementation Rules of PRC Enterprise Income Tax Law, which took effect simultaneously with the new EIT Law.

The new EIT Law applies a uniform 25% enterprise income tax rate to both FIEs and domestic enterprises and eliminates many of the preferential tax policies afforded to foreign investors. Furthermore, dividends out of post-2007 earnings paid by an FIE to a non-resident shareholder are now subject to a withholding tax of 10%, which may be reduced under any applicable bi-lateral tax treaty between China and the jurisdiction where the non-resident shareholder resides.

An enterprise registered under the laws of a jurisdiction outside China may be deemed a Chinese tax resident if its place of effective management is in China. If an enterprise is deemed to be a Chinese tax resident, its worldwide income will be subject to the enterprise income tax. According to the Implementation Rules of the new EIT Law, the term place of effective management is defined as a body that has material and overall management and control over the manufacturing and business operations, personnel and human resources, finances and treasury. In addition, under the new EIT Law, foreign shareholders could become subject to a 10% income tax on any gains they realized from the transfer of their shares. Once a non-Chinese company is deemed to be a Chinese tax resident by following the place of effective management concept, Chinese income tax withholding may be imposed and applied to dividend distributions from the deemed Chinese tax resident to its foreign shareholders.

The new EIT Law provides a five-year grandfathering period, starting from its effective date, for those enterprises established before the promulgation date of the new EIT Law and which that were entitled to enjoy preferential tax policies under then prevailing former Income Tax Law or regulations.

However, subject to the Circular by the PRC State Council on the Implementation of the Grandfathering Preferential Policies under the PRC Enterprise Income Tax Law (Decree No. [2007] 39), or the Implementation Circular, promulgated on December 26, 2007, only a certain number of the preferential policies provided under the former Income Tax Law, regulations, and documents promulgated under the legal authority of the State Council are eligible to be grandfathered in accordance with Implementation Circular.

While many former preferential tax treatments became null and void after the effectiveness of the new EIT Law, according to relevant requirements defined in the Implementation Rules of PRC Income Tax Law and other relevant regulations, foreign invested enterprises may continue to enjoy a preferential tax rate of 15% if they qualify as high and new technology enterprises specially supported by the PRC government.

Subject to the recently promulgated circular by the PRC State Council on the Implementation of the Grandfathering Preferential Policies under the PRC Enterprise Income Tax Law (Decree No. [2007] 39), or the Implementation Circular, only a certain number of the preferential policies provided under the former Income Tax Law, regulations, and documents promulgated under the legal authority of the State Council are eligible to be grandfathered in accordance with Implementation Circular. With respect to our PRC operations, only the two-year exemption and three-year half deduction tax preferential policies enjoyed by our PRC subsidiaries are included in the scope of those grandfathered by the Implementation Circular. Given this, from January 1, 2008, CSI

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Solartronics is subject to an EIT rate of 25% and CSI Solar Manufacturing is subject to an EIT rate of 12.5% until 2010, when it becomes subject to an EIT rate of 25%

Pursuant to the Provisional Regulation of China on Value Added Tax (VAT) and their implementing rules, all entities and individuals that are engaged in the sale of goods, the provision of repairs and replacement services and the importation of goods in China are generally required to pay VAT at a rate of 17.0% on the gross sales proceeds received, less any deductible VAT already paid or borne by the taxpayer. Additionally, when exporting goods, the exporter is entitled to a portion of or all the refund of VAT that it has already paid or borne. In the case of CSI Solar Manufacturing, our imported raw materials that are used for manufacturing export products are imported into China under bonded conditions with an exemption on import VAT.

Foreign Currency Exchange

Foreign currency exchange regulation in China is primarily governed by the following rules:

Foreign Currency Administration Rules (1996), as amended, or the Exchange Rules; and

Administration Rules of the Settlement, Sale and Payment of Foreign Exchange (1996), or the Administration Rules;

Currently, the Renminbi is convertible for current account items, including the distribution of dividends, interest payments, trade and service-related foreign exchange transactions. Conversion of Renminbi for most capital account items, such as direct investment, security investment and repatriation of investment, however, is still subject to the approval of the PRC State Administration of Foreign Exchange, or SAFE.

Under the Administration Rules, foreign-invested enterprises may buy, sell and/or remit foreign currencies only at those banks authorized to conduct foreign exchange business after providing valid commercial documents and, in the case of most capital account item transactions, obtaining approval from the SAFE. Capital investments by foreign-invested enterprises outside of China are also subject to limitations, which include approvals by the Ministry of Commerce, the SAFE and the State Reform and Development Commission.

Dividend Distribution

The principal regulations governing distribution of dividends paid by wholly foreign owned enterprises include:

Wholly Foreign Owned Enterprise Law (1986), as amended; and

Wholly Foreign Owned Enterprise Law Implementation Rules (1990), as amended.

Under these regulations, foreign-invested enterprises in China may pay dividends only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, a wholly foreign owned enterprise in China is required to set aside at least 10.0% of their after-tax profit based on PRC accounting standards each year to its general reserves until the accumulative amount of such reserves reach 50.0% of its registered capital. These reserves are not distributable as cash dividends. The board of directors of a foreign-invested enterprise has the discretion to allocate a portion of its after-tax profits to staff welfare and bonus funds, which may not be distributed to equity owners except in the event of liquidation.

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C. Organizational Structure

The following diagram illustrates our company s organizational structure, and the place of formation, ownership interest, affiliation and the operation focus of each of our subsidiaries.

See Item 4. Information on the Company A. History and Development of the Company for additional information on our corporate structure.

D. Property, Plant and Equipment

The following is a summary of our properties, including information on our manufacturing facilities and office buildings:

We have manufacturing facilities in Suzhou that occupy approximately 22,908 square meters, under two leases that will expire in September 2010. We have the right to renew the leases on six-month s prior written notice if the terms we offer are not less favorable than terms offered by other prospective tenants. We also rent offices with an aggregate of approximately 40 square meters in Suzhou for our research and development and certain administrative personnel under a lease expiring in September 2008. In Changshu, we rent our facilities of approximately 4,500 square meters under a lease that expired in January 2008 and 1,955 square meters of manufacturing space under a lease that will expire in December 2008.

CSI Luoyang holds the land use rights certificate for a piece of land in Luoyang of approximately 35,345 square meters, on which we have constructed a manufacturing facility of approximately 4,627.5 square meters for module manufacturing and an office building of approximately 1,915 square meters. CSI Luoyang is currently applying for land use rights for a piece of land of approximately 79,685.125 square meters, on which we plan to construct wafer manufacturing facilities.

CSI Cells holds the land use rights certificate for a piece of land in Suzhou of approximately 65,661 square meters. We recently built a solar cell facility and completed our first solar cell production line in the first quarter of 2007. The manufacturing facility has approximately 10,000 square meters and we have built an office building of approximately 3,900 square meters on the same land.

CSI Advanced holds the land use rights certificate for a piece of land in Changshu of 40,000 square meters, on which we have built a module manufacturing facility of approximately 23,480 square meters. Production in this facility began in April of 2008.

We believe our current facilities and our planned facilities will meet our future needs and are consistent with our business plans.

Item 4A. *Unresolved Staff Comments*

None.

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Item 5. *Operating and Financial Review and Prospects*

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our consolidated financial statements and the related notes included elsewhere in this annual report on Form 20-F. This discussion may contain forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under Item 3. Key Information D. Risk Factors or in other parts of this annual report on Form 20-F.

A. Operating Results

The most significant factors that affect our financial performance and results of operations are:

availability and price of solar cells and silicon raw materials;

industry demand;

government subsidies; and

product mix and pricing.

Availability and Price of Solar Cells, Wafers and Silicon Raw Materials. We produce solar modules, which are an array of interconnected solar cells encased in a weatherproof frame, and products that use solar modules. Solar cells are the most important component for making solar modules. Our solar cells are currently made on mono-crystalline wafers and multi-crystalline silicon wafers through multiple manufacturing steps, including surface texturization, diffusion, plasma-enhanced chemical vapor deposition and surface metalization. Solar wafers are the most important material for making solar cells. There is presently a shortage of solar cells and wafers as a result of a shortage of high-purity silicon caused primarily by the recent expansion of, and increased demand in, the solar power and semiconductor industries. Based on our experience, we believe that the average prices of high-purity silicon, solar wafers and solar cells will remain high for the near future until the industry-wide high-purity silicon shortage eases. Any increase in demand from the semiconductor industry will compound the shortage. Increases in the prices of high-purity silicon, solar wafers and solar cells have in the past increased our production costs and may continue to impact our cost of revenues and net income in the future. In addition, we have experienced late delivery and supply shortages, which have affected our production.

Beginning in early 2005, we began managing our supply chain through toll manufacturing arrangements and our silicon reclamation program to secure a cost-effective supply of solar cells. This has allowed us to mitigate the effects of the industry-wide shortage of high-purity silicon, while reducing margin pressure. Currently, we secure a large percentage of our supply of solar cells and solar wafers through our sourcing of silicon raw materials and toll manufacturing arrangements with suppliers of ingots, wafers and cells. We also purchase solar wafers and solar cells directly from our suppliers. In the past, we have been able to achieve cost savings through our toll manufacturing arrangements primarily because of our silicon reclamation processes.

We believe that our current silicon raw material supply agreements and toll manufacturing arrangements will enable us to secure solar cells and solar wafers sufficient for a major portion of our estimated 2008 production output. However, as we grow our business and as high-purity silicon becomes more readily available, we plan to diversify our solar wafers and solar cell supply channel mix to ensure flexibility in adapting to the future changes in the supply of and demand for solar wafers and cells. We plan to enter into long-term supply contracts and expand our in-house solar cell manufacturing capability. We completed our first solar cell production line in the first quarter of 2007. Despite

our plans to have a balanced and diversified solar cell supply channel mix, we cannot assure you that we will be able to secure sufficient quantities of solar wafers, cells and silicon raw materials to grow our revenues as planned or that we will be able to successfully develop a cost-effective solar cell manufacturing capability. See Item 3. Key Information D. Risk Factors Risks Related to Our Company and Our Industry The current industry-wide shortage of high-purity silicon may constrain our revenue growth and decrease our gross margins and profitability and Item 3. Key Information D. Risk Factors Risks Related to Our Company and Our Industry We may not succeed in developing a cost-effective solar cell manufacturing capability.

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Given the current state of the industry, suppliers of solar wafers, cells and silicon raw materials typically require customers to make prepayments well in advance of shipment. While we also sometimes require our customers to make partial prepayments, there is typically a lag between the time of our prepayment for solar wafers, cells and silicon raw materials and the time that our customers make prepayments to us. As a result, the purchase of solar wafers, cells and silicon raw materials through toll manufacturing arrangements, has required, and will continue to require, us to make significant working capital commitments beyond that generated from our cash flows from operations to support our estimated production output.

Industry and Seasonal Demand. Our business and revenue growth depends on demand for solar power. Although solar power technology has been used for several decades, the solar power market has grown significantly in the past several years. We believe growth in the near term will be constrained by the limited availability of high-purity silicon, but is expected to accelerate after 2008. See Item 4. Information on the Company B. Business Overview for a more detailed discussion on the factors driving the growth of the solar power industry and the challenges that it faces. In addition, we believe that industry demand may be affected by seasonality. Demand tends to be lower in the winter quarter than in the subsequent warmer quarters, primarily because of adverse weather conditions in one of our key markets, such as Germany, that complicate the installation of solar power systems. For example, our sales to Germany slowed down in the fourth quarter of 2006 and the first quarter of 2007 due primarily to such changes in seasonal demands and partially to the inventory clearing efforts by some smaller solar module producers exiting the market. However, the demand from other key markets may offset seasonal fluctuations from time to time. For instance, high fourth quarter 2007 demand from Spain, a warm weather market, allowed us to achieve a record sales quarter, despite a slow down in German sales. As governments around the world continue to approve subsidies that encourage the use of solar energy, we expect to be able to leverage on this diverse availability of global markets, thus mitigating any significant effects of seasonality on our business results in the future.

See Item 3. Key Information D. Risk Factors Risks Related to Our Company and Our Industry If solar power technology is not suitable for widespread adoption, or sufficient demand for solar power products does not develop or takes longer to develop than we anticipate, our revenues may not continue to increase or may even decline, and we may be unable to sustain our profitability.

Government Subsidies. We believe that the near-term growth of the market for on-grid applications depends in large part on the availability and size of government subsidies and economic incentives. Today, the cost of implementing and operating a solar power system substantially exceeds the cost of purchasing power provided by the electric utility grid in many locations. As a result, federal, state and local governmental bodies in many countries, most notably Germany, Spain, Italy, South Korea, the United States, Japan and China, have provided subsidies and economic incentives to reduce dependency on conventional sources of energy. These have come in the form of rebates, tax credits and other incentives to end users, distributors, system integrators and manufacturers of solar power products, to promote the use of solar energy in on-grid and, to a lesser extent, off-grid applications. The demand for our solar module products, in particular our standard solar modules, is affected significantly by these government subsidies and economic incentives. Any reductions or eliminations in government subsidies and economic incentives could reduce demand for our products and affect our revenues.

Product Mix and Pricing. We began selling our solar module products in March 2002 and all of our net revenues in 2002 and 2003 were generated from sales of specialty solar modules and products. We did not begin selling standard solar modules until 2004. By the end of 2004, the sale of standard solar modules represented 72.5% of our net revenues. In 2005 and 2006, that percentage increased to 76.9% and 96.8%, respectively, excluding silicon materials sales. In 2007, approximately 96% of our solar module product net revenues consisted of standard solar module sales. The remainder was primarily generated from sales of silicon materials.

Our standard solar modules are priced based on the number of watts of electricity they can generate as well as overall demand in the solar power industry. We price our standard solar modules based on the prevailing market price at the time we enter into sales contracts with our customers, taking into account the size of the contract, the strength and history of our relationship with each customer and our solar wafers, cells and silicon raw materials costs. Over the past few years, the average selling prices for standard solar modules have risen year-to-year across the industry primarily because of high demand. Correspondingly, the average selling price of our standard solar

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module products increased from $3.62 per watt in 2004 to $3.92 per watt in 2005, $3.97 per watt in 2006 and $3.75 per watt in 2007. We believe the average price of solar modules may decline starting in the later part of 2008, as government subsidies in some key markets decline, markets mature, manufacturing costs decrease and competition increases. Since 2007, we have entered into annual sales and distribution contracts with our customers, some of which are subject to quarterly adjustments, and believe such arrangements enable us to reduce our exposure to market fluctuation.

Overview of Financial Results

We evaluate our business using a variety of key financial measures.

Net Revenues

We generate revenues primarily from the sale of solar module products, consisting of standard solar modules and specialty solar modules and products. Solar module products accounted for 97.7%, 87.6% and 96% of our net revenues in 2005, 2006 and 2007, respectively. We also generate revenues from the implementation of solar power development projects, primarily in conjunction with government organizations, to provide solar power generation in rural areas of China. To date, these have consisted of government-related assistance packages. Since the fourth quarter of 2006, we have generated revenues from resales to third parties of surplus inventory of silicon materials. Going forward, we believe that revenues from the resales of silicon materials will be relatively small and intermittent. In 2007, we increased our wafer to module and cell to module tolling business, which entails customers supplying solar wafers and/or solar cells to us, which we then fashion into solar modules in our facilities and charge a tolling fee to cover additional materials costs and generate revenue. In 2007, we engaged in 7.9MW of tolling business, resulting in revenue of $8.1 million. Going forward, we believe that revenues from our tolling business will become a regular component of our overall net revenues. Main factors affecting our net revenues include average selling prices per watt, unit volume shipped, product demand and product mix. Our net revenues are net of business tax, value-added tax and returns and exchanges.

A small number of customers have historically accounted for a major portion of our net revenues. In 2005, 2006 and 2007, our top five customers during those periods collectively accounted for approximately 62.1%, 53.5% and 78.8% of our net revenues, respectively, and sales to our largest customer for each of those years accounted for 36.8%, 14.3% and 21.1%, respectively. Our largest customers have changed from year to year, primarily because of the short product life cycles of our specialty solar modules and products, our recent entry into the standard solar module business and the rapid expansion of our business and operations. Changes in our product mix and strategic marketing decisions have also resulted in changes in our market concentration from year to year. The following table sets forth certain information relating to our total net revenues derived from our customers categorized by their geographic location for the periods indicated:

	Year Ended December 31,					
	2005		2006		2007	
Region	Total Net Revenues	%	Total Net Revenues	%	Total Net Revenues	%
	(In thousands of US$, except percentages)					
Europe	15,264	83.3	51,981	76.2	286,588	94.7
Asia	504	2.8	14,200(1)	20.8	13,605	4.5
America	2,556	13.9	2,031	3.0	2,605	0.8

Total net revenues	$ 18,324	100.0	$ 68,212	100.0	$ 302,798	100.0

(1) $8.3 million of the $14.2 million net revenues were generated from a one-time silicon materials sale that took place in the fourth quarter of 2006.

Cost of Revenues

Our cost of revenues consists primarily of the costs of:

solar wafers;

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materials used in solar cell production, such as metallic pastes;

solar cells;

other materials for the production of solar modules such as glass, aluminum frame and polymer backing;

production labor, including salaries and benefits for manufacturing personnel;

warranty costs;

overhead, including utilities, production equipment maintenance, share-based compensation expenses for options granted to employees in our manufacturing department and other support expenses associated with the manufacture of our PV products; and

depreciation and amortization of manufacturing equipment and facilities, which have increased due to capacity expansion and which are expected to increase as we continue expand our manufacturing capabilities and construct additional facilities.

Solar wafers and cells make up the major portion of our cost of revenues. We purchase solar wafers and some of our solar cells directly from wafer and cell suppliers. The costs of solar wafers and cells that we directly purchase are the price that we pay to our suppliers. Some of our solar wafers and cells are obtained through toll manufacturing arrangements through which we source and provide silicon feedstock to suppliers of ingots, wafers and cells. These suppliers ultimately convert these silicon raw materials into the solar wafers and cells that we use for our production of solar modules. The costs of solar wafers and cells that we obtain through these toll manufacturing arrangements comprise: (i) costs of purchasing the silicon feedstock; (ii) labor costs incurred in inventory management; (iii) labor costs incurred in sorting the reclaimable silicon as part of our silicon reclamation program; and (iv) tolling fees charged by our suppliers under the tolling arrangements. The payments we make to our suppliers for the solar wafers and cells and the payment our suppliers make to us for the silicon feedstock that we source are generally settled separately. We do not include payments we receive for providing silicon feedstock as part of these toll manufacturing arrangements in our net revenues.

Where solar cells are manufactured by our own solar cell manufacturing facility, the cost of solar cells consists of: (i) the costs of purchasing solar wafers, (ii) labor costs incurred in manufacturing solar cells, (iii) other materials and utilities we use for manufacturing the solar cells and (iv) depreciation charges incurred for our solar cell manufacturing facility, equipment and building.

Our cost of revenues also includes warranty costs. We accrue 1.0% of our net revenues as warranty costs at the time revenues are recognized. Our standard solar modules are typically sold with a two-year guarantee for defects in materials and workmanship and a 10-year and 25-year warranty against declines of more than 10.0% and 20.0%, respectively, of the initial minimum power generation capacity at the time of delivery. Our specialty solar modules and products are typically sold with a one-year guarantee against defects and may, depending on the characteristics of the product, contain a limited warranty of up to ten years, against declines of the minimum power generation capacity specified at the time of delivery. Our cost of revenues has historically increased as we increased our net revenues. We expect our cost of revenues to increase as we increase our production volume.

Gross Profit/ Gross Margin

Our gross profit is affected by a number of factors, including the average selling prices for our products, product mix and our ability to cost-effectively manage our supply chain.

Our gross margin decreased from 38.8% for 2005 to 18.0% for 2006 and to 7.9% for 2007, primarily as a result of the growth of our standard solar module products business. The decrease in gross margin is also attributable to the higher costs of solar cells and silicon materials and the reduced proportion of reclaimable silicon in relation to raw silicon as we continue to grow. The decrease in gross margin from 2005 to 2007 was also attributable to a decrease in average selling prices for standard solar modules in the fourth quarter of 2006 and the first quarter of 2007 as a result of lower-than-anticipated market demand.

We believe that we will face some margin compression in the sale of standard solar modules in 2008 as compared to 2007 because we expect the decrease in the price for high-purity silicon lags the decrease in average

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selling price of our products. On the other hand, we also believe this will be partially offset by an increase in our business volume, which will result in improvement of economies of scale, cost savings through research and development and an increase in our in-house solar cell manufacturing.

Operating Expenses

Our operating expenses include selling expenses, general and administrative expenses and research and development expenses. Our operating expenses have increased in recent years as we grow our business. We expect this trend to continue as our net revenues grow in the future.

Selling Expenses

Selling expenses consist primarily of salaries, sales-associated transportation and customs expenses, sales commissions for sales agents, advertising, promotional and trade show expenses and other sales and marketing expenses. Since the second quarter of 2006, selling expenses have included share-based compensation expenses for options and restricted shares granted to our sales and marketing personnel. As we expand our business, we will increase our sales and marketing efforts and target companies in selected industry sectors in response to the evolving industry trend. We expect our selling expenses to increase in the near term as we increase our sales volume, hire additional sales personnel, target more markets and initiate additional marketing programs to reach our goal of building a leading global brand. However, assuming our net revenues increase at the rate we expect, over time we anticipate that our non-transportation selling expenses will decrease as a percentage of our net revenues while sales-associated transportation and customs expenses will increase alongside net revenues due to cost, insurance and freight terms requested by our customers.

General and Administrative Expenses

General and administrative expenses consist primarily of salaries and benefits for our administrative and finance personnel, consulting and professional service fees, government and administration fees, exchange gain or loss, insurance fees and provisions for bad debt and inventory write-off. Since the second quarter of 2006, our general and administrative expenses have included share-based compensation expenses for options and restricted shares granted to our general and administrative personnel, directors and consultants. We expect our general and administrative expense to increase as we hire additional personnel, upgrade our information technology infrastructure and incur expenses necessary to fund the anticipated growth of our business. We also expect general and administrative expenses to increase to support our operations as a public company, including compliance-related costs. However, assuming our net revenues increase at our anticipated rate, we expect that our general and administrative expenses will decrease as a percentage of our net revenues.

Research and Development Expenses

Research and development expenses consist primarily of costs of raw materials used in our research and development activities, salaries and benefits for research and development personnel and prototype and equipment costs related to the design, development, testing and enhancement of our products and silicon reclamation program. Since the second quarter of 2006, our research and development activities have included share-based compensation expenses for options and restricted shares granted to our research and development employees. We expense our research and development costs as incurred. To date, our research and development expenses have been minor primarily related to our continuous efforts to improve our solar cell and module manufacturing processes, and are not separated from our cost of revenues.

We expect to devote more efforts to research and development in the future and expect that our research and development expenses will increase as we hire additional research and development personnel, expand and promote innovation in our products portfolio, devote more resources towards using new technologies and alternative materials in our solar cell manufacturing and silicon reclamation program.

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Share-based Compensation Expenses

Under our 2006 share incentive plan, we have granted and have outstanding a total of 1,642,045 options to purchase our common shares and 566,190 restricted shares as of December 31, 2007. For a description of the options and restricted shares granted, including the exercise prices and vesting periods, see Item 6. Directors, Senior Management and Employees B. Compensation of Directors and Executive Officers 2006 Share Incentive Plan. Under Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), Share-Based Payment, (SFAS123R), we are required to recognize share-based compensation as compensation expense in our statement of operations based on the fair value of equity awards on the date of the grant, with the compensation expense recognized over the period in which the recipient is required to provide service in exchange for the equity award.

As required by SFAS 123R, we have made an estimate of expected forfeitures and are recognizing compensation costs only for those equity awards expected to vest. We estimate our forfeitures based on past employee retention rates and our expectations of future retention rates. We will prospectively revise our forfeiture rates based on actual history. Our share option and restricted share compensation charges may change based on changes to our actual forfeitures.

For the year ended December 31, 2007, we recorded share-based compensation expenses of approximately $9.2 million, compared to approximately $6.1 million in 2006. We have categorized these share-based compensation expenses in our (i) cost of revenues; (ii) selling expenses; (iii) general and administrative expenses; and (iv) research and development expenses, depending on the job functions of grantees to whom we granted the options or restricted shares. The following table sets forth the allocation of our share-based compensation expenses both in absolute amount and as a percentage of total share-based compensation expenses.

	Years Ended December 31,			
	2005	2006	2007	
	(In thousands of US$, except for percentages)			
Share-based compensation expenses included in:				
Cost of revenues	169	2.8	274	3.0
Selling expenses	1,945	31.7	2,287	25.1
General and administrative expenses	3,942	64.1	6,277	69.0
Research and development expenses	89	1.4	264	2.9
Total share-based compensation expenses	6,145	100.0%	9,102	100.0%

We expect to incur additional share-based compensation as we expand our operations. For example, we anticipate that research and development expenses will increase as we hire additional research and development personnel to further enhance our technology platform and meet the expected growth of our operations.

Interest Expenses

Interest expenses consist primarily of interest expenses with respect to our short- and medium-term loans from Chinese commercial banks and the accrued interest and non-cash charges on the convertible notes that we issued in 2006 to HSBC HAV2 (III) Limited, or HSBC, and JAFCO Asia Technology Fund II, or JAFCO, (each of which reference includes any affiliate to which it transferred shares issued upon conversion of the notes), and the convertible notes we issued in December 2007 privately to qualified institutional investors. Discounts against the debt portion of the convertible notes were amortized over the maturity of the convertible notes using the straight-line method, which

is not materially different from the effective interest rate method. We accrued non-cash charges in connection with the premium at redemption equal to 10% per annum on the principal amount of the notes from their issue date to redemption assuming the convertible notes had matured without being converted and amortization of discounts against the debt portion. Our non-cash charges of $134,666 and $706,320 in 2005 and 2006, respectively, consisted primarily of the amortization of discount on debt and the charges we incurred in connection with this premium. All of the convertible notes issued to HSBC and JAFCO were converted into 5,542,005 common shares on July 1, 2006. In December 2007, we issued additional convertible notes in the principal amount of $75 million, which will mature ten years from the issuance date.

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Loss on Change in Fair Value of Derivatives

Loss on change in fair value of derivatives in our 2006 financial statements is associated with the convertible notes that we issued to HSBC and JAFCO. Prior to March 2006, at any time after the occurrence of a predefined event of default upon written demand from the note holders, the note holders were entitled to receive a premium of the higher of 12% per annum internal rate of return to the note holders or a market value-based return assuming full conversion of all convertible notes. Since the market value-based return created a net settlement provision, we were required to bifurcate the compound embedded derivatives and record them as derivatives or derivative financial instruments, which are stated at fair value on the issuance date and each financial reporting period thereafter. Changes in fair value of the compound embedded derivatives were recorded in profits and losses as non-cash charges. The fair value of the convertible notes, excluding the compound embedded derivative liabilities, were determined with reference to a valuation conducted by an independent appraiser. These non-cash charges amounted to $316,000 and $6,997,000 million in 2005 and 2006, respectively. In March 2006, this feature was eliminated such that an event of default entitles the note holders to receive a premium of 18% per annum internal rate of return to the note holders, effectively removing the net settlement provision. As a result, since March 2006, we no longer incurred this charge.

Loss on Financial Instruments Related to Convertible Notes

In addition to the compound embedded derivatives which arose as part of the issuance of our convertible notes, our convertible notes issued to HSBC and JAFCO also included freestanding financial instrument liabilities associated with the obligation to issue the second tranche of convertible notes to the investors and the investors option to subscribe for a third tranche of convertible notes. These financial instruments do not meet the definition of derivative instruments under U.S. GAAP. However, the investors option to subscribe to the third tranche of convertible notes represents our written option which was required to be marked to market on the date of issuance and each financial reporting period thereafter. The changes in the fair value of the marked to market financial instrument was reported in profits and losses as a non-cash charge. These non-cash charges amounted to $263,089 in 2005 and $1,189,500 in 2006, all of which was incurred during the first quarter of 2006. We issued the second tranche convertible notes together with the convertible notes pursuant to the investors option in March 2006. As a result, since March 2006, we no longer incurred this charge.

Income Tax Expense

We recognize deferred tax assets and liabilities for temporary differences between financial statement and income tax bases of assets and liabilities. Valuation allowances are provided against deferred tax assets when management cannot conclude that it is more likely than not that some portion or all of the deferred tax asset will be realized.

We are incorporated in Canada and are subject to Canadian federal and provincial corporate income taxes. As a Canadian controlled private corporation, we enjoyed preferential tax rates for active business income carried on in Canada up to an annual limit. Since the listing of our common shares on the Nasdaq, we are no longer eligible for these preferential tax rates.

PRC enterprise income tax is calculated based on taxable income determined under PRC accounting principles. In accordance with the PRC Income Tax Law on Foreign Invested Enterprise and Foreign Enterprise, or the former Income Tax Law, and the related implementing rules, foreign invested enterprises incorporated in the PRC were generally subject to an enterprise income tax of 30% on taxable income and a local income tax of 3% of taxable income. The former Income Tax Law and the related implementing rules provided certain favorable tax treatments to foreign invested enterprises. For instance, beginning with its first year of profitability, a foreign invested manufacturing enterprise with in operation for no less than ten years would be eligible for an enterprise income tax exemption of two years followed by a three-year 50% reduction in its applicable enterprise income tax rate.

The effective income tax rate applicable to us in China depends on various factors, such as tax legislation, the geographic composition of our pre-tax income and non-tax deductible expenses incurred.

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On March 16, 2007, the National People s Congress, the Chinese legislature, passed the new EIT Law, which became effective on January 1, 2008. On December 6, 2007, the State Council approved and promulgated the Implementation Rules of PRC Enterprise Income Tax Law, which took effect simultaneously with the new EIT Law.

The new EIT Law applies a uniform 25% enterprise income tax rate to both foreign invested enterprises and domestic enterprises and eliminates many of the preferential tax policies afforded to foreign investors. Furthermore, dividends paid by an FIE to a non-resident shareholder on post-2007 earnings are now subject to a withholding tax of 10%, which may be reduced under any applicable bi-lateral tax treaty between China and the jurisdiction where the non-resident shareholder resides.

An enterprise registered under the laws of a jurisdiction outside China may be deemed a Chinese tax resident if its place of effective management is in China. If an enterprise is deemed to be a Chinese tax resident, its worldwide income will be subject to the enterprise income tax. According to the Implementation Rules of PRC Enterprise Income Tax Law, the place of effective management is defined as a body that has material and overall management and control over the manufacturing and business operations, personnel and human resources, finances and treasury. In addition, under the new EIT Law, foreign shareholders could become subject to a 10% income tax on any gains they realized from the transfer of their shares, if such income is regarded as income from sources within the PRC.

The new EIT Law provides a five-year grandfathering period, starting from its effective date, for those enterprises established before the promulgation date of the new EIT Law that were entitled to enjoy preferential tax policies under then prevailing former Income Tax Law or regulations.

Subject to the recently promulgated circular by the PRC State Council on the Implementation of the Grandfathering Preferential Policies under the PRC Enterprise Income Tax Law (Decree No. [2007] 39), or the Implementation Circular, only a certain number of the preferential policies provided under the former Income Tax Law, regulations, and documents promulgated under the legal authority of the State Council are eligible to be grandfathered in accordance with Implementation Circular. Of the preferential policies enjoyed by our PRC subsidiaries, only the two-year exemption and three-year half deduction tax preferential policies are grandfathered by the Implementation Circular. As a result, since January 1, 2008, CSI Solartronics has been subject to an EIT rate of 25% and CSI Solar Manufacturing subject to an EIT rate of 12.5% until 2010, when it becomes subject to an EIT rate of 25%.

While many former preferential tax treatments became null and void after the effectiveness of the new EIT Law, according to relevant requirements defined in the Implementation Rules of PRC Income Tax Law and other relevant regulations, foreign invested enterprises may continue to enjoy a preferential tax rate of 15% if they qualify as high and new technology enterprises specially supported by the PRC government.

As these tax benefits expire, the effective tax rate of our PRC subsidiaries may increase significantly.

Critical Accounting Policies

We prepare financial statements in accordance with U.S. GAAP, which requires us to make judgments, estimates and assumptions that affect (i) the reported amounts of our assets and liabilities, (ii) the disclosure of our contingent assets and liabilities at the end of each fiscal period and (iii) the reported amounts of revenues and expenses during each fiscal period. We continually evaluate these estimates based on our own historical experience, knowledge and assessment of current business and other conditions, our expectations regarding the future based on available information and reasonable assumptions, which together form our basis for making judgments about matters that are not readily apparent from other sources. Since the use of estimates is an integral component of the financial reporting process, our actual results could differ from those estimates. Some of our accounting policies require a higher degree of judgment than others in their application.

When reviewing our financial statements, you should consider (i) our selection of critical accounting policies, (ii) the judgment and other uncertainties affecting the application of such policies and (iii) the sensitivity of reported results to changes in conditions and assumptions. We believe the following accounting policies involve the most significant judgment and estimates used in the preparation of our financial statements.

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Revenue Recognition

We record sales of our solar module products when the products are delivered and title has passed to our customers. We only recognize revenues when prices to the seller are fixed or determinable and collection is reasonably assured. We also recognize revenues from reimbursements of shipping and handling costs of products sold to customers. Our sales contracts typically contain our customary product warranties but do not contain post-shipment obligations or any return or credit provisions. A majority of our contracts provide that products are shipped under the term of free on board, or FOB, Ex-works, or cost, insurance and freight, or CIF. Under FOB, we fulfill our obligation to make delivery when the goods have passed over the ship s rail at the named port of shipment. From that point on, the customer has to bear all costs and risks of loss or damage to the goods. Under Ex-works, we fulfill our obligation to make delivery when we have made the goods available at our premises to the customer. The customer bears all costs and risks involved in transporting the goods from our premises to their desired destination. Under CIF, we must pay the costs, marine insurance and freight necessary to bring the goods to the named port of destination but the risk of loss of or damage to the goods, as well as any additional costs due to events occurring after the time the goods have been delivered on board the vessel, is transferred to the customer when the goods pass the ship s rail at the port of shipment. Sales are generally recorded when the risk of loss or damage is transferred from us to the customers.

Warranty Cost

It is customary in our business and industry to warrant or guarantee the performance of our solar module products at certain levels of conversion efficiency for extended periods. Our standard solar modules are typically sold with a two-year guarantee for defects in materials and workmanship and a 10-year and 25-year warranty against declines of more than 10.0% and 20.0%, respectively, of the initial minimum power generation capacity at the time of delivery. Our specialty solar modules and products are typically sold with a one-year guarantee against defects in materials and workmanship and may, depending on the characteristics of the product, contain a limited warranty of up to ten years, against declines of the minimum power generation capacity specified at the time of delivery. We therefore maintain warranty reserves (recorded as accrued warranty costs) to cover potential liabilities that could arise from these guarantees and warranties. We accrue 1.0% of our net revenues as warranty costs at the time revenues are recognized and include that amount in our cost of revenues. Due to limited warranty claims to date, we accrue the estimated costs of warranties based primarily on an assessment of our competitors accrual history. Through our relationships with, and management s experience working at, other solar power companies and on the basis of publicly available information regarding other solar power companies accrued warranty costs, we believe that accruing 1.0% of our net revenues as warranty costs is within the range of industry practice and is consistent with industry-standard accelerated testing, which assists us in estimating the long-term reliability of solar modules, estimates of failure rates from our quality review and other assumptions that we believe to be reasonable under the circumstances. However, although we conduct quality testing and inspection of our solar module products, our solar module products have not been and cannot be tested in an environment simulating the up to 25-year warranty periods. We have not experienced any material warranty claims to date in connection with declines of the power generation capacity of our solar modules. As is typical in the industry, however, we have experienced some claims concerning other defects or workmanship. We will prospectively revise our actual rate to the extent that actual warranty costs differ from the estimates.

Impairment of Long-lived Assets

We evaluate our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When these events occur, we measure impairment by comparing the carrying amount of the assets to future undiscounted net cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected undiscounted cash flow is less than the carrying amount of the assets, we will recognize an impairment loss based on the fair value of the assets. There was no impairment charge recognized during the years ended December 31, 2005, 2006 and 2007, respectively.

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Allowance for Doubtful Accounts

We conduct credit evaluations of customers and generally do not require collateral or other security from our customers. We establish an allowance for doubtful accounts primarily based upon the age of the receivables and factors surrounding the credit risk of specific customers. With respect to advances to suppliers, our suppliers are primarily suppliers of solar cells and silicon raw materials. We perform ongoing credit evaluations of our suppliers financial conditions. We generally do not require collateral or security against advances to suppliers, as they tend to be recurring supply partners. However, we maintain a reserve for potential credit losses, which has been historically insignificant.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined by the weighted average method. Cost of inventories consists of costs of direct materials, and where applicable, direct labor costs, tolling costs and any overhead that we incur in bringing the inventories to their present location and condition.

Adjustments are recorded to write down the cost of obsolete and excess inventory to the estimated market value based on historical and forecast demand. The inventory reserves were nil, $266,254 and $455,572 for the years ended December 31, 2005, 2006 and 2007, respectively.

We outsource portions of our manufacturing process, including converting silicon into ingots, cutting ingots into wafers, and converting wafers into solar cells, to various third-party manufacturers. These outsourcing arrangements may or may not include transfer of title of the raw material inventory (silicon, ingots or wafers) to the third-party manufacturers. Such raw materials are recorded as raw materials inventory when purchased from suppliers.

For those outsourcing arrangements in which the title is not transferred, we maintain such inventory on our balance sheet as raw materials inventory while it is in physical possession of the third-party manufacturer. Upon receipt of the processed inventory, it is reclassified to work-in-process inventory and a processing fee is paid to the third-party manufacturer.

For those outsourcing arrangements, which are characterized as sales, in which title (including risk of loss) transfer to the third-party manufacturer, we are constructively obligated, through raw materials sales contracts and processed inventory purchase contracts which have been entered into simultaneously with the third-party manufacturers, to repurchase the inventory once processed. In this case, the raw material inventory remains classified as raw material inventory while in physical possession of the third-party manufacturer and cash is received, which is classified as advances from suppliers and customers on the balance sheet and not as revenue or deferred revenue. Cash payments for outsourcing arrangements, which require prepayment for repurchase of the processed inventory are classified as advances to suppliers on the balance sheet. There is no right of offset for these arrangements and accordingly, advances from suppliers and customers and advances to suppliers remain on the balance sheet until the processed inventory is repurchased.

Fair value of derivative and freestanding financial instruments

The carrying value of our cash and cash equivalents, trade receivables, advances to suppliers, short-term investments, derivative assets and liabilities, accounts payable and short-term borrowings approximate their fair value due to the short-term maturity of these instruments. Long-term bank borrowings approximate their fair value as these contracts were recently entered into and market interest rates have not fluctuated significantly since the commencement of those instruments.

Valuations for derivative and freestanding financial instruments are typically based on the following hierarchy: (i) prices quoted on an organized market, (ii) prices obtained from other external sources such as brokers or over-the-counter third parties and (iii) valuation models and other techniques usually applied by market participants. Prior to our initial public offering in November 2006, when the convertible notes initially issued to HSBC and JAFCO and our common shares were not publicly traded, we relied solely on valuation models in determining these values and in preparing our financial statements for the year ended December 31, 2006.

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We used a binomial model to value the conversion option and early redemption put option. The binomial model requires the input of assumptions, some of which are subjectively determined, such as the fair values of the common shares and the underlying notes, life of the option, the risk free interest rate over the period of the option, a standard derivation of expected volatility, and expected dividend yields. We determined the fair value of the underlying common shares based on valuations by an independent appraiser. For a more detailed discussion on the assumptions involved in determining the fair value of our common shares, see Overview of Financial Results Share-based Compensation Expenses.

In determining the fair value of the freestanding note option, we used the Black-Scholes option pricing model. The option-pricing model requires the input of assumptions, some of which are subjectively determined, such as the fair value of the underlying convertible note, the exercise price of the option, the life of the option, the risk free rate over the period of the option, and a standard derivation of expected volatility.

In determining the fair value of the freestanding forward instrument, we used the fair value of the convertible note less the subscription price and interest forgone by not exercising the forward, discounted for the expected time the forward would be outstanding.

Changes to any of the assumptions used in the valuation model could materially impact the valuation results. A more detailed discussion on fair value calculations is reflected in Note 8 to our consolidated financial statements included elsewhere in this annual report.

Income Taxes

Deferred income taxes are recognized for temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements, net operating loss carry forwards and credits by applying enacted statutory tax rates applicable to future years. Deferred tax assets are reduced by a valuation allowance when, in our opinion, it is more likely than not that some portion or all of the deferred tax assets will not be realized. To date, we have not recorded a valuation allowance against our deferred tax assets.

Current income taxes are provided for in accordance with the laws of the relevant taxing authorities. The components of the deferred tax assets and liabilities are individually classified as current and non-current based on the characteristics of the underlying assets and liabilities.

Share-based compensation

We account for share-based compensation in accordance with SFAS No. 123 (revised 2004), Share-Based Payment (SFAS 123R). SFAS 123R requires us to use a fair-value based method to account for share-based compensation. Accordingly, share-based compensation cost is measured at the grant date, based on the fair value of the award, and is recognized as expense over the requisite service period. Our option plans are described more fully in Note 17 to our consolidated financial statements included elsewhere in this annual report.

Recent Accounting Pronouncements:

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS 157), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measures. SFAS 157 applies under most other accounting pronouncements that require or permit fair value measurements and does not require any new fair value measurements. This statement is effective for financial statements issued for fiscal year beginning after November 15, 2007. The provisions of SFAS 157 should be applied prospectively as of the beginning of the fiscal year in which the statement is initially applied, except for a limited form

of retrospective application for certain financial instruments. We are currently evaluating the impact, if any, of this statement on our consolidated financial statements. We do not anticipate that the adoption of this statement will have a material effect on our financial position, cash flow or results of operations.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159). SFAS 159 permits companies to choose to measure at fair value many financial instruments and certain other items that are not currently required to be measured at fair value. SFAS 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. We are currently evaluating the

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impact, if any, of this statement on our consolidated financial statements. We do not anticipate that the adoption of this statement will have a material effect on our financial position, cash flow or results of operations.

In December 2007, the FASB issued SFAS No. 141R, Business Combination (SFAS 141R), to improve reporting and to create greater consistency in the accounting and financial reporting of business combinations. The standard requires the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction; establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to disclose to investors and other users all of the information they need to evaluate and understand the nature and financial effect of the business combination. SFAS 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, with the exception of the accounting for valuation allowances on deferred taxes and acquired tax contingencies. SFAS 141R amends SFAS 109, Accounting for Income Taxes, such that adjustments made to valuation allowances on deferred taxes and acquired tax contingencies associated with acquisitions that closed prior to the effective date of SFAS 141R would also apply the provisions of SFAS 141R. An entity may not apply it before that date. We have not made any acquisitions in the reporting year.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements (SFAS 160) to improve the relevance, comparability, and transparency of financial information provided to investors by requiring all entities to report noncontrolling (minority) interests in subsidiaries in the same way as required in the consolidated financial statements. Moreover, SFAS 160 eliminates the diversity that currently exists in accounting for transactions between an entity and noncontrolling interests by requiring they be treated as equity transactions. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. We are currently evaluating whether the adoption of SFAS 160 will have a significant effect on our consolidated financial position, results of operations or cash flows.

In March 2008, the FASB issued SFAS No. 161, Disclosures About Derivative Instruments and Hedging Activities (SFAS 161) an amendment of FASB Statement No. 133. The new standard requires enhanced disclosures to help investors better understand the effect of an entity s derivative instruments and related hedging activities on its financial position, financial performance and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The Company will adopt SFAS 161 on January 1, 2009. Management is currently assessing the impact of SFAS 161 on its consolidated financial statements.

In May, 2008, the FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles (SFAS 162). The new standard is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with U.S. generally accepted accounting principles (GAAP) for nongovernmental entities. SFAS 162 is effective 60 days following the Securities and Exchanges Commission s approval of the Public Company Accounting Oversight Board Auditing amendments to AU Section 411, The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles. It is only effective for nongovernmental entities; therefore, the GAAP hierarchy will remain in AICPA Statement on Auditing Standards (SAS) No. 69, The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles, for state and local governmental entities and federal governmental entities. Management is currently assessing the impact of SFAS 162 on its consolidated financial statements.

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Results of Operations

The following table sets forth a summary, for the periods indicated, of our consolidated results of operations and each item expressed as a percentage of our total net revenues. Our historical results presented below are not necessarily indicative of the results that may be expected for any future period.

	Years Ended December 31,					
	2005		2006		2007	
	(In thousands of US$, except percentages)					
Net revenues:						
Solar modules	$ 18,324	100.0%	$ 68,212	100%	302,798	100%
Cost of revenues						
Solar modules	11,211	61.2	55,872	81.9	279,022	92.1
Gross profit	7,113	38.8	12,340	18.1	23,776	7.9
Operating expenses						
Selling expenses	158	0.9	2,909	4.3	7,531	2.5
General and administrative expenses	1,708	9.3	7,923	11.6	17,204	5.70
Research and development expenses	16	0.1	398	0.6	998	0.31
Total operating expenses	1,882	10.3	11,230	16.5	25,733	8.5
Income/(loss) from operations	5,231	28.5	1,110	1.6	(1,957)	(0.7)
Interest expenses	(239)	(1.3)	(2,194)	(3.2)	(2,367)	(0.8)
Interest income	21	0.1	363	0.5%	562	0.2
Tax refund for reinvestment					925	0.3
Loss on change in fair value of derivatives related to convertible notes	(316)	(1.7)	(6,997)	(10.3)		
Loss on financial instruments relating to convertible bonds	(263)	(1.4)	(1,190)	(1.7)		
Other gain/(loss) net	(25)	(0.1)	(90)	(0.1)	2,443	0.8
Income/(loss) before taxes	4,409	24.1	(8,998)	(13.2)	(394)	(0.2)
Income tax benefit/(expense)	(605)	(3.3)	(432)	(0.6)	184	0.1
Net income/(loss)	$ 3,804	20.8%	$ (9,430)	(13.8)	$ (210)	(0.1)

(1) Less than 0.1.

Year Ended December 31, 2007 Compared to Year Ended December 31, 2006

Net Revenues. Our total net revenues increased 344% from $68.2 million for the year ended December 31, 2006 to $302.8 million for the year ended December 31, 2007. The significant increase in net revenues was primarily generated from the sale of our solar module products from $59.8 million for the year ended December 31, 2006 to $282 million for the year ended December 31, 2007. As a percentage of total revenues, solar module product sales increased from 88% to 93%, with remaining revenue figures attributable to OEM/tolling and third party silicon material sales.

The volume of our solar module products sold increased from 14.9MW for the year ended December 31, 2006 to 83.4MW for the year ended December 31, 2007. The significant increase in the volume of our solar module products sold was driven by several factors, including favorable incentive programs that stimulated demand for our products in our main target markets of Germany, Spain and Italy, establishment of customer relationships with several large solar integrators in our target markets and an increase in module production capacity to fulfill this demand.

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Cost of Revenues. Our cost of revenues increased from $55.9 million in 2006 to $279 million in 2007. The increase in our cost of revenues was due primarily to a significant increase in the quantity of silicon, solar wafers and solar cells needed to produce an increased output of our standard solar modules and the rising prices of silicon feedstock and solar wafers and cells arising from the industry-wide shortage of high-purity silicon. As a percentage of our total net revenues, cost of revenues increased from 81.9% for the year ended December 31, 2006 to 92.1% for the year ended December 31, 2007.

Gross Profit. As a result of the foregoing, our gross profit increased from $12.3 million for the year ended December 31, 2006 to $23.8 million for the year ended December 31, 2007. Our gross margin decreased from 18.1% for the year ended December 31, 2006 to 7.9% for the year ended December 31, 2007. The decrease in gross margin was due primarily to the rising prices of silicon feedstock, solar wafers and solar cells arising from the industry-wide shortage of high-purity silicon and a decrease in average selling prices for our solar module products.

Operating Expenses. Our operating expenses increased by 130% from $11.2 million for the year ended December 31, 2006 to $25.8 million for the year ended December 31, 2007. The increase in our operating expenses was due primarily to an increase in our general and administrative expenses and selling expenses, a result of our corresponding net revenue increase of 344% from the previous year. Operating expenses as a percentage of our total net revenue decreased from 16.5% for the year ended December 31, 2006 to 8.5% for the year ended December 31, 2007.

Selling Expenses. Our selling expenses increased from $2.9 million for the year ended December 31, 2006 to $7.5 million for the year ended December 31, 2007. Selling expenses as a percentage of our total net revenues decreased from 4.3% for the year ended December 31, 2006 to 2.5% for the year ended December 31, 2007. The increase in our selling expenses was due primarily to (i) the increase in share-based compensation expenses that we incurred in connection with our grant of share options and restricted shares to sales and marketing personnel, (ii) the increase in freight charges and export processing fees caused by our increasing use of cost, insurance and freight sales terms in 2007 comparing to mostly free-on-board or ex-work sales terms in 2006 and (iii) an increase in salaries and benefits as we hired additional sales personnel to handle our increased sales volume.

General and Administrative Expenses. Our general and administrative expenses increased by 117.7% from $7.9 million for the year ended December 31, 2006 to $17.2 million for the year ended December 31, 2007, primarily due to (i) the increase in share-based compensation expenses that we incurred in connection with our grant of share options and restricted shares to general and administrative employees and (ii) increases in salaries and benefits for our administrative and finance personnel as we hired additional personnel in connection with the growth of our business. As a percentage of our total net revenues, general and administrative expenses decreased from 11.6% for 2006 to 5.7% for 2007, primarily as a result of the greater economies of scale that we achieved in 2007.

Research and Development Expenses. Our research and development expenses increased significantly from $0.4 million for the year ended December 31, 2006 to $1.0 million for the year ended December 31, 2007, due to increased efforts in development of new products and technology improvement. We expect our expenditures for research and development efforts to increase significantly in 2008 as we undertake technology development related to future product offerings.

Share-Based Compensation Expenses. Our share-based compensation expense in 2006 was $6.1 million as compared to $9.2 million in 2007 due to additional share options issued in 2007.

Interest Expenses. We incurred interest expenses of approximately $2.2 million for the year ended December 31, 2006 compared to $2.4 million for the year ended December 31, 2007. The interest expenses for the $2.2 million for the year ended December 31, 2006 were in connection with (i) the convertible notes that we sold to HSBC and JAFCO in November 2005 and March 2006 and which were outstanding before July 1, 2006, (ii) non-cash

amortization of discount on debts in relation to the convertible notes issued to HSBC and JAFCO and (iii) interest payable for our various short-term borrowings before our initial public offering in November 2006. These convertible notes were converted on July 1, 2006. As we grew our business, we entered into additional commercial bank loans and issued new convertible notes in 2007. We believe that we will continue to enter into new commercial bank loans for further expansion and revenue growth in 2008. As a result, we expect that our interest expenses will increase.

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Loss on Change in Fair Value of Derivatives Related to Convertible Notes. We recorded nil for the loss on change in fair value of derivatives related to convertible notes for the year ended December 31, 2007 compared to $7.0 million for the year ended December 31, 2006. In March 2006, after amending the terms of our convertible notes issued to HSBC and JAFCO, we no longer incurred this charge.

Loss on Financial Instruments Related to Convertible Notes. We recorded nil for the year ended December 31, 2007 compared to $1.2 million for the year ended December 31, 2006. After issuing our second tranche convertible notes together with convertible notes issued to HSBC and JAFCO pursuant to the investors option in March 2006, we no longer incurred this charge.

Other Net Gain/Loss. We recorded a net currency exchange gain for the year ended December 31, 2007 of $2.4 million.

Income Tax Benefit/Expense. Our income tax expense was $0.4 million for the year ended December 31, 2006, as compared to a gain of $0.2 million for the year ended December 31, 2007, in part due to the tax benefit from the amortization of an increase in deferred tax assets associated with expenses related to our initial public offering and convertible note offering in December 2007, based on Canadian tax regulations.

Net Loss. As a result of the cumulative effect of the above factors, we recorded net loss of $0.2 million for the year ended December 31, 2007, as compared to a $9.4 million net loss for the year ended December 31, 2006.

Year Ended December 31, 2006 Compared to Year Ended December 31, 2005

Net Revenues. Our total net revenues increased by more than three times from $18.3 million in 2005 to $68.2 million in 2006. The significant increase was primarily due to a sizable increase in net revenues generated from the sale of solar module products from $17.9 million in 2005 to $59.8 million in 2006. Included in our total net revenue for 2006 was $8.3 million generated from silicon material sales. The volume of our solar module products sold increased from 4.1MW in 2005 to 14.9MW in 2006. Among our solar module product categories, the major increase was driven primarily by the sales of our standard solar modules. Net revenues from the sale of standard solar modules increased from $13.7 million in 2005 to $57.6 million in 2006 with an increase in volume from 3.4MW in 2005 to 14.5MW in 2006.

The significant increase in the overall volume of our products sold was driven primarily by a significant increase in market demand for our standard solar modules, in particular in Germany and elsewhere in Europe. The average selling price of our standard solar modules rose from $3.62 per watt in 2005 to $3.97 per watt in 2006. The average selling price of our specialty solar modules and products remained stable at $5.27 per watt in 2005 and 2006.

Cost of Revenues. Our cost of revenues increased significantly from $11.2 million in 2005 to $55.9 million in 2006. The increase in our cost of revenues was due primarily to a significant increase in our expenditures on silicon feedstock and solar cells. This was caused by a significant increase in the quantity of solar cells needed to produce an increased output of our standard solar modules and the rising prices of silicon feedstock and solar cells due to the industry-wide shortage of high-purity silicon. As a percentage of our total net revenues, however, cost of revenues showed a substantial increase from 61.2% in 2005 to 81.9% in 2006 primarily because we did not achieve as much cost savings advantage as we had achieved mostly through our silicon reclamation program in 2005 due to a global silicon supply shortage and increased competition for reclaimable silicon materials.

Gross Profit. As a result of the foregoing, our gross profit increased by 42% from $7.1 million in 2005 to $12.3 million in 2006. Our overall gross margin in percentage decreased from 38.8% in 2005 to 18.1% in 2006.

Operating Expenses. Our overall operating expenses increased by $9.3 million, from $1.9 million in 2005 to $11.2 million in 2006. Of this amount, $5.98 million related to share-based compensation expense recorded in 2006 whereas we had no share-based compensation expense for 2005. The remaining $3.32 million increase related to increase in personnel cost and fees for professional services. As a percentage of our total net revenue, operating expenses increased by 6.2%, from 10.3% in 2005 to 16.5% in 2006. Share-based compensation expense accounted for 8.8% of this increase, indicating that our remaining operating expenses effectively decreased as a percentage of

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total revenues mainly due to a much higher level of sales as compared to 2005, achievement of increases in economies of scale and controlled spending.

Selling Expenses. Our selling expenses increased by $2.75 million from $157,763 in 2005 to $2.9 million in 2006. The increase in our selling expenses in 2006 was primarily due to share-based compensation expenses of $1.9 million incurred for our sales and marketing personnel, as a result of our tying a portion of sales commissions related to product sales by granting either options to purchase our common shares or by granting restricted shares.

General and Administrative Expenses. Our general and administrative expenses increased from $1.7 million in 2005 to $7.9 million in 2006, of which $3.9 million related to share-based compensation expenses for our general and administrative personnel as we achieved greater economies of scale in 2006.

Research and Development Expenses. We have increased the level of our research and development activities in 2006 in connection with the expansion of our operations. Our research and development expenses increased from $16,381 in 2005 to $397,859 in 2006. In addition we incurred $88,764 in share-based compensation charge for our research and development personnel.

Interest Expenses. We incurred interest expenses of approximately $2.2 million in 2006, compared to $239,225 in 2005. The increase in our interest expenses in 2006 were primarily attributable to interest expense accrued in connection with the convertible notes that we issued to HSBC and JAFCO in November 2005 and March 2006, all of which were converted into our common shares in July 2006 and, to a lesser extent, to interest on short-term borrowings.

Loss on Change in Fair Value of Derivatives Related to Convertible Notes. We recorded a charge of $316,000 in 2005 compared to $7.0 million in 2006. The loss on change in fair value of derivatives related to convertible notes, the non-cash interest charge mentioned above and the loss on financial instruments related to Convertible Notes mentioned below were one-time charges incurred in connection with an increase in the option value of the convertible notes that we issued to HSBC and JAFCO in November 2005. These notes were converted into common shares in early July 2006.

Loss on Financial Instruments Related to Convertible Notes. We recorded a non-cash charge of $1.19 million in 2006, compared to $263,089 in 2005.

Income Tax Expense. Our income tax expense was $605,402 in 2005, as compared to $431,994 in 2006.

Net Income. As a result of the cumulative effect of the above factors, we recorded a net loss of $9.4 million in 2006, compared to $3.8 million of net income in 2005. The difference of $13.2 million was due to share-based compensation expenses of $6.1 million and non-cash charges related to the convertible notes of $8.9 million, offset by $1.8 million income from operations in 2006.

B. Liquidity and Capital Resources

Cash Flows and Working Capital

To date, we have financed our operations primarily through cash flows from operations, short-term borrowings, convertible note issuances, equity contributions by our shareholders and the proceeds from our initial public offering. As of December 31, 2007, we had $37.67 million in cash and cash equivalents. Our cash and cash equivalents primarily consist of cash on hand, demand deposits and liquid investments with original maturities of three months or less that are outstanding and placed with banks and other financial institutions.

In December 2007, we issued $75.0 million principal amount of convertible senior notes due 2017 in a private placement pursuant to Rule 144A of the Securities Act. The notes bear interest at a rate of 6% per annum. The notes are convertible into common shares based on an initial conversion rate of 50.6073 common shares per $1,000 principal amount of notes (which represents an initial conversion price of approximately $19.76 per common share). The notes may be converted at any time prior to the close of business on the business day immediately preceding the stated maturity date. We may redeem the notes on or after December 24, 2012 at a redemption price equal to 100% of the principal amount of the notes, plus accrued and unpaid interest to, but excluding, the redemption date (i) in whole or in part, if the closing price for our common shares exceeds 130% of the conversion

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price for at least 20 trading days within a period of 30 consecutive trading days ending within five trading days of the notice of redemption, or (ii) in whole only, if at least 95% of the initial aggregate principal amount of the notes originally issued have been redeemed, converted or repurchased and, in each case, cancelled. Noteholders may require us to repurchase the notes for cash on December 24, 2012 and December 15, 2014 at a repurchase price equal to 100% of the principal amount, plus accrued and unpaid interest to, but excluding, the repurchase date. In addition, we are required to make an offer to purchase the notes for cash upon a change in control at 100% of the principal amount of the notes, plus accrued and unpaid interest to, but excluding, the purchase date. In May 2008, we commenced an offer to our existing noteholders to convert their notes into our common shares at an increased conversion rate. The conversion offer is intended to reduce our ongoing fixed interest obligations, to improve the trading liquidity of our common shares by increasing the number of outstanding common shares available for trading and to facilitate greater access to equity capital markets for us.

For additional information on past convertible note issuances, see Item 7. Major Shareholders and Related Party Transactions B. Related Party Transactions Issuance, Sale and Conversion of Convertible Notes.

We have significant working capital requirements because our suppliers of solar wafers, cells and silicon raw materials typically require us to make prepayments in cash of 20% to 30% of the purchase price and require us to pay the balance of the purchase price by letters of credit or additional cash payments prior to delivery. In a long term supply contract, customary with the current industry practice, we are required to make large prepayments in cash to our supplier in advance of the planned delivery with the prepayments being proportionally off-set against deliveries from the supplier during the contract term. Due to the industry-wide shortage of high-purity silicon, working capital and access to financings to allow for the purchase of silicon feedstock are critical to growing our business. Advances to suppliers increased significantly from $13.5 million as of December 31, 2006 to $32.8 million as of December 31, 2007. While we also require some of our customers to make prepayments, there is typically a lag between the time of our prepayment for solar wafers and cells and silicon raw materials and the time that our customers make prepayments to us.

We expect that our accounts receivable and inventories, two of the principal components of our current assets, will continue to increase as our net revenues increase. We require prepayments in cash of 10% to 30% of the purchase price from some of our customers, and require many of them to pay the balance of the purchase price by letters of credit prior to delivery. In some cases, we extend short-term credit to customers after delivery. The prepayments are recorded as current liabilities under advances from suppliers and customers, and amounted to $2.8 million as of December 31, 2005, $3.2 million as of December 31, 2006 and $1.9 million as of December 31, 2007. Until the letters of credit are drawn in accordance with their terms, or we collect sales credit, the balance of the purchase price is recorded as accounts receivable. As the market demand changes and we continue to diversify our geographical markets, we have increased and may continue to increase credit term sales to creditworthy customers after careful review of the customers credit standings. Inventories have increased significantly due to our toll manufacturing arrangements and the rapid growth of our operations and business. We do not record the silicon feedstock and other silicon raw materials that we source and provide to toll manufacturers in our net revenues. We account for the silicon feedstock as consigned inventory and for payments received from our toll manufacturers as advances from suppliers and customers. Because of the tight credit control that we impose on our customers, our allowance for doubtful accounts has not been significant in prior years. Allowance for doubtful accounts was nil and $374,178 as of December 31, 2006 and 2007, respectively. While we plan to increase credit term sales in 2008 to selected creditworthy customers, we cannot assure you that the allowance for doubtful accounts will remain immaterial in the future.

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The following table sets forth a summary of our cash flows for the periods indicated:

	Year Ended December 31,		
	2005	2006	2007
	(In thousands of US$)		
Net cash used in operating activities	$ (4,670)	$ (46,276)	$ (80,224)
Net cash used in investing activities	(646)	(7,770)	(42,483)
Net cash provided by financing activities	9,330	88,307	124,828
Net increase (decrease) in cash and cash equivalents	4,221	34,631	(3,244)
Cash and cash equivalents at the beginning of the year	2,059	6,280	40,911
Cash and cash equivalents at the end of the year	$ 6,280	$ 40,911	$ 37,667

Operating Activities

Net cash used in operating activities increased from $46.3 million in 2006 to $80.2 million in 2007, primarily due to our solar wafer purchase advance payments as well as the rapid growth of our solar module operation and business. Net cash used in operating activities in 2006 was $46.3 million, compared to net cash used in operating activities in 2005 of $4.7 million. The increase in cash outflow in 2006 and 2007 mainly resulted from a significant increase in the level of our inventories due to the rapid growth of our operations in 2006 and 2007 and advances to suppliers and accounts receivable at the end of 2007 compared to the end of 2006.

Investing Activities

Net cash used in investing activities increased from $7.8 million in 2006 to $42.5 million in 2007, primarily due to our expansion of module production capacity and into internal solar cell manufacturing, a higher capital expenditure business. Net cash used in investing activities increased from $645,997 in 2005 to $7.7 million in 2006, primarily due to the construction and installation of our new solar cell manufacturing facility.

Financing Activities

Net cash provided by financing activities increased from $88.3 million in 2006 to $124.8 million in 2007, primarily as a result of the proceeds from our issuance of $75.0 million principal amount convertible notes in December 2007. Net cash provided by financing activities increased from $9.3 million in 2005 to $88.3 million in 2006, primarily as a result of the proceeds from our initial public offering in November 2006.

We believe that our current cash and cash equivalents, anticipated cash flow from operations and planned commercial bank borrowings will be sufficient to meet our anticipated cash needs, including our cash needs for working capital and capital expenditures for the rest of 2008 under our current market guidance. We may, however, require additional cash due to changing business conditions or other future developments, including any investments or acquisitions we may decide to pursue. The availability of commercial loans from Chinese commercial banks may also be affected by administrative policies of the PRC government, which in turn may affect our plans for business expansion. If our existing cash or availability to additional capital via bank borrowings are insufficient to meet our requirements, we may seek to sell additional equity securities or debt securities or borrow from other sources. We cannot assure you that financing will be available in the amounts we need or on terms acceptable to us, if at all. The sale of additional equity securities, including convertible debt securities, would dilute our shareholders. The incurrence of debt would divert cash for working capital and capital expenditures to service debt obligations and could result in operating and financial covenants that restrict our operations and our ability to pay dividends to our shareholders. If we are unable to

obtain additional equity or debt financing as required, our business operations and prospects may suffer.

Capital Expenditures

We made capital expenditures of $560,793, $7.1 million and $42.0 million in 2005, 2006 and 2007, respectively. Our capital expenditures were used primarily to build facilities and purchase equipment for the

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expansion of our assembly lines for the production of solar modules and our expansion into solar cell production. For 2008, we have a total commitment of $91.5 million.

Restricted Net Assets

Our PRC subsidiaries are required under PRC laws and regulations to make appropriations from net income as determined under accounting principles generally accepted in the PRC, or PRC GAAP, to non-distributable reserves which include a general reserve and a staff welfare and bonus reserve. The general reserve is required to be made at not less than 10% of the profit after tax as determined under PRC GAAP. The staff welfare and bonus reserve is determined by our board of directors. The general reserve is used to offset future extraordinary losses. Our PRC subsidiaries may, upon a resolution of the board of directors, convert the general reserve into capital. The staff welfare and bonus reserve is used for the collective welfare of the employees of the PRC subsidiaries. These reserves represent appropriations of the retained earnings determined under PRC law. In addition to the general reserve, our PRC subsidiaries are required to obtain approval from the local government authorities prior to distributing any registered share capital. Accordingly, both the appropriations to general reserve and the registered share capital of the our PRC subsidiaries are considered as restricted net assets. These restricted net assets amounted to $4.6 million, $51.6 million and $82.4 million as of December 31, 2005, 2006, and 2007, respectively.

C. Research and Development, Patents and Licenses, Etc.

As of December 31, 2007, we had 15 research and product development employees. Our research and development efforts have focused on the following areas: (a) developing new technologies in ingot, wafer, cell and module manufacturing for using low-cost alternative silicon materials such as UMgSi; (b) improving the conversion efficiency of solar cells; (c) improving manufacturing yield and reliability of solar modules and reducing manufacturing costs; (d) designing and developing new and efficient specialty solar modules and products to meet customer requirements; and (e) silicon reclamation technologies which allow manufacturing of solar cells using low-cost silicon feedstock. Our research and development team works closely with our manufacturing team, our suppliers, our partners and our customers.

Our senior management, led by Dr. Qu, our founder, chairman, president and chief executive officer, Mr. Genmao Chen, our director, research and development, Dr. Lingjun Zhang, our general manager of CSI Cells, and Mr. Chengbai Zhou, our principal technical fellow for solar modules, all have extensive experience in the solar power industry. We have also established collaborative research and development relationships with a number of universities and research institutes, including the University of Toronto in Canada and Tsinghua University in China.

Going forward, we will focus on the following research and development initiatives, which, among other projects, we believe will contribute to our competitiveness:

Alternative silicon materials technologies. We have been working on developing new technologies for the past year in solar ingot, wafer, cell and module manufacturing using UMgSi. We have made significant progress in this area recently and believe that we will be able to produce additional solar modules in 2008 by using UMgSi materials. We anticipate additional future increases if our large scale production trials have favorable results and our supply partners are able to produce and provide contracted quantities of UMgSi at a consistent acceptable quality level. We are also developing technologies which allow us to use partial or 100% of low-cost silicon feedstock for manufacturing of solar cells.

Solar module manufacturing technologies. We intend to focus on developing state-of-the-art testing and diagnostic techniques that improve solar module production yield and efficiency. We are also studying light transmission and reflection technologies inside the solar module to find ways to increase the light absorption of solar cells for the

purpose of improving power output.

Product development of specialty solar modules and products. We will seek to improve our product development capabilities for specialty solar modules and products to position ourselves for the expected growth in this area of the solar power market. For example, we are collaborating with a research institute in China to

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develop a concentrator module technology and a glass curtain wall company based in China to develop BIPV technology.

Our first BIPV project was completed in the City of Luoyang, China at the end of the second quarter of 2007. We have recently entered into a new contract to supply BIPV modules and other BIPV related design elements for a project for the Beijing Olympic games.

Solar cell manufacturing. As we expand into solar cell manufacturing, we have invested both manpower and equipment in the development of process technologies to increase the conversion efficiencies of our solar cells.

Silicon reclamation technologies. We intend to continue to work on technology improvement methods and increase our know-how and the efficiency of our silicon reclamation program, including increasing scrap silicon recovery yields. We are developing new technologies and designing equipment for refining certain scrap silicon materials and expanding on the types of materials that can be utilized to manufacture solar cells.

D. Trend Information

Other than as disclosed elsewhere in this annual report on Form 20-F, we are not aware of any trends, uncertainties, demands, commitments or events that are reasonably likely to have a material adverse effect on our net revenues, income, profitability, liquidity or capital resources, or that caused the disclosed financial information to be not necessarily indicative of future operating results or financial conditions.

E. Off-balance Sheet Arrangements

We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of third parties. We have not entered into any derivative contracts that are indexed to our shares and classified as shareholder s equity, or that are not reflected in our consolidated financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or that engages in leasing, hedging or research and development services with us.

F. Tabular Disclosure of Contractual Obligations

Contractual Obligations and Commercial Commitments

The following table sets forth our contractual obligations and commercial commitments as of December 31, 2007:

	Payment Due by Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
	(In thousands of US$)				
Short-term debt obligations	$ 40,374	$ 40,374	$	$	$
Interest related to short-term debt(1)	750	750			
Operating lease obligations	2,149	786	1,193	85	85
Purchase obligations(2)	1,686,021	338,483	632,638	269,631	445,269
Convertible notes(3)	120,000	4,500	9,000	9,000	97,500

Other long-term borrowing(4)	17,866		17,866		
Total	$ 1,867,160	$ 384,893	$ 660,697	$ 278,716	$ 542,854

(1) Interest is derived using 6.2% interest per annum.

(2) Includes commitments to purchase production equipment in the amount of $91.4 million and commitments to purchase solar cells and silicon raw materials in the amount of $1,594.6 million.

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(3) Assumes redemption of $75.0 million aggregate principal amount of 6.0% convertible senior notes due December 15, 2017. Assumes none of the convertible senior notes have been converted into ordinary shares. The holders of our convertible senior notes may require us to repurchase the convertible senior as early as December 2012. This figure also includes interest payable until December 5, 2017.

(4) Includes syndicated commercial loans with ICBC and China s Bank of Communication. A total of $50 million in secured loans cover a three-year expansion plan. Funds are available at various stages and with different terms and rates.

The above table excludes income tax liabilities of $2.3 million recorded in accordance with FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109, or FIN 48, because we are unable to reasonably estimate the timing of future payments of these liabilities due to uncertainties in the timing of the effective settlement of these tax positions. For additional information on FIN 48, see the notes to our consolidated financial statements, included herein.

Other than the contractual obligations and commercial commitments set forth above, we did not have any other long-term debt obligations, operating lease obligations, purchase obligations or other long-term liabilities as of December 31, 2007.

G. Safe Harbor

This annual report on Form 20-F contains forward-looking statements that relate to future events, including our future operating results and conditions, our prospects and our future financial performance and condition, all of which are largely based on our current expectations and projections. The forward-looking statements are contained principally in the sections entitled Item 3. Key Information D. Risk Factors, Item 4. Information on the Company and Item 5. Operating and Financial Review and Prospects. These statements are made under the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. You can identify these forward-looking statements by terminology such as may, will, expect, anticipate, future, intend, plan, believe, estimate, is/are likel similar expressions. Forward-looking statements involve inherent risks and uncertainties.

Known and unknown risks, uncertainties and other factors, may cause our actual results, performance or achievements to be materially different from any future results, performances or achievements expressed or implied by the forward-looking statements. See Item 3. Key Information D. Risk Factors for a discussion of some risk factors that may affect our business and results of operations. These risks are not exhaustive. Other sections of this annual report on Form 20-F may include additional factors that could adversely impact our business and financial performance. Moreover, because we operate in an emerging and evolving industry, new risk factors may emerge from time to time. It is not possible for our management to predict all risk factors, nor can we assess the impact of these factors on our business or the extent to which any factor, or combination of factors, may cause actual result to differ materially from those expressed or implied in any forward-looking statement.

In some cases, the forward-looking statements can be identified by words or phrases such as may, will, expect, anticipate, aim, estimate, intend, plan, believe, potential, continue, is/are likely to or other similar ex have based the forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements include, among other things, statements relating to:

- our expectations regarding the worldwide demand for electricity and the market for solar power;

our beliefs regarding lack of infrastructure reliability and long-term fossil fuel supply constraints;

our beliefs regarding the inability of traditional fossil fuel-based generation technologies to meet the demand for electricity;

our beliefs regarding the importance of environmentally friendly power generation;

our expectations regarding governmental support for the deployment of solar power;

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our beliefs regarding the future shortage or availability of the supply of high-purity silicon;

our beliefs regarding the acceleration of adoption of solar power technologies and the continued growth in the solar power industry;

our beliefs regarding the competitiveness of our solar module products;

our expectations with respect to increased revenue growth and improved profitability;

our expectations regarding the benefits to be derived from our supply chain management and vertical integration manufacturing strategy;

our beliefs and expectations regarding the use of UMgSi and solar power products made of this material;

our ability to continue developing our in-house solar components production capabilities and our expectations regarding the timing and production capacity of our internal manufacturing programs;

our beliefs regarding our securing adequate silicon and solar cell requirements to support our solar module production;

our beliefs regarding the effects of environmental regulation;

our beliefs regarding the changing competitive arena in the solar power industry;

our future business development, results of operations and financial condition; and

competition from other manufacturers of solar power products and conventional energy suppliers.

This annual report on Form 20-F also contains data related to the solar power market in several countries. These market data, including market data from Solarbuzz, include projections that are based on a number of assumptions. The solar power market may not grow at the rates projected by the market data, or at all. The failure of the market to grow at the projected rates may materially and adversely affect our business and the market price of our common shares. In addition, the rapidly changing nature of the solar power market subjects any projections or estimates relating to the growth prospects or future condition of our market to significant uncertainties. If any one or more of the assumptions underlying the market data proves to be incorrect, actual results may differ from the projections based on these assumptions. You should not place undue reliance on these forward-looking statements.

The forward-looking statements made in this annual report on Form 20-F relate only to events or information as of the date on which the statements are made in this annual report on Form 20-F. Except as required by law, we undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, after the date on which the statements are made or to reflect the occurrence of unanticipated events.

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Item 6. *Directors, Senior Management and Employees*

A. Directors and Senior Management

The following table sets forth information regarding our directors and executive officers as of the date of this annual report on Form 20-F.