

China Sunergy Co., Ltd. (CSUN)

20-F

Annual and transition report of foreign private issuers pursuant to sections 13 or 15(d)

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 20-F

(Mark One)

☐ Registration statement pursuant to Section 12(b) or 12(g) of the Securities Exchange Act of 1934

or

☒ Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2008.

or

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

or

☐ 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: 001-33433

CHINA SUNERGY CO., LTD.

(Exact name of Registrant as specified in its charter)

N/A

(Translation of Registrant's name into English)

Cayman Islands

(Jurisdiction of incorporation or organization)

No. 123 Focheng West Road
Jiangning Economic & Technical Development Zone
Nanjing, Jiangsu 211100, People's Republic of China

(Address of principal executive offices)

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Nanjing, Jiangsu 211100, People's Republic of China

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

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

Title of each class	Name of each exchange on which registered
American Depositary Shares, each representing six ordinary shares, par value \$0.0001 per share	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.

267,766,443 ordinary shares, par value \$0.0001 per share, as of December 31, 2008.

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

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

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

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

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

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐

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

U.S. GAAP ☒ International Financial Reporting Standards as issued by the International Accounting Standards Board ☐ Other ☐

Indicate by check mark which financial statement item the registrant has elected to follow: Item 17 ☐ Item 18 ☒

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 ☐ Item 18 ☐

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

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

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

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INTRODUCTION

In this annual report, except where the context otherwise requires:

- “we,” “us,” “our company,” “our,” “Sunergy” and “China Sunergy” refer to China Sunergy Co., Ltd., its predecessor entities and its subsidiaries;
- “shares” or “ordinary shares” refers to our ordinary shares, “ADSs” refers to our American depositary shares, each of which represents six ordinary shares, and “ADRs” refers to the American depositary receipts that evidence our ADSs;
- “China” or “PRC” refers to the People’s Republic of China, excluding, for the purposes of this annual report, the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan;
- “RMB” or “Renminbi” refers to the legal currency of China; “\$” or “U.S. dollars” refers to the legal currency of the United States; and “Euro” or “€” refers to the legal currency of the European Union;
- “original equipment manufacturing” or “OEM” refers to arrangements under which we process silicon wafers provided by our customers into solar cells and charge processing fees from these customers;
- “Matrix cell” previously named as passivated emitter and rear cell, refers to a solar cell that uses oxide on its front and rear surfaces, and that makes contact with metal at the rear surface only at certain regions;
- “selective emitter cell” refers to a solar cell in which the regions under its front metal contact and the rest of the front surface areas are separately diffused and optimized;
- “HP solar cell” refers to a more efficient version of our standard P-type cell, the conversion efficiency rate of which may generally be higher than that of standard P-type solar cell as a result of an enhanced production process used; and
- when calculating our manufacturing or production capacity of solar cells, we have assumed that all products will be made using 156-millimeter monocrystalline silicon wafers, even though we currently use and expect to continue to use a mixture of monocrystalline and multicrystalline silicon wafers, each in sizes of 125-millimeter and 156-millimeter; to the extent we use smaller wafers or multicrystalline wafers, our actual production will be less than our capacity.

Our financial statements are expressed in the U.S. dollar, which is the reporting and functional currency of China Sunergy Co., Ltd. However, a major portion of the revenues and expenses of our consolidated operating subsidiary is denominated in Renminbi. With respect to amounts not recorded in our consolidated financial statements included elsewhere in this report, 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 noted, all translations from Renminbi to U.S. dollars have been made at a rate of RMB6.8225 to \$1.00, the noon buying rate in effect as of December 31, 2008. We make no representation that any Renminbi or U.S. dollar amounts could have been, or could be, converted to U.S. dollars or Renminbi, at any particular rate, or at all. On June 19, 2009 the noon buying rate was RMB6.8360 to \$1.00.

We completed our initial public offering of 9,775,000 ADSs on May 22, 2007. On May 17, 2007, we listed our ADSs on the Nasdaq Global Market under the symbol “CSUN.” On July 1, 2008, we completed an offering of \$54.5 million principal amount of 4.75% convertible senior notes due June 2013 to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933. Concurrently with the note offering, we also registered the offering of 4,431,000 ADSs, which we loaned to an affiliate of the initial purchaser of the notes, who in turn sold the borrowed ADSs in the offering. We did not receive any proceeds from the offering of the borrowed ADSs, but have received a nominal lending fee from the ADS borrower.

FORWARD-LOOKING INFORMATION

This annual report on Form 20-F contains statements of a forward-looking nature. These statements relate to events involving known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from those expressed or implied by the forward-looking statements. These statements are made under the “safe harbor” provisions of Section 27A of the Securities Exchange Act of 1934, or Exchange Act. Whenever you read a statement that is not simply a statement of historical fact (such as when we describe what we “believe,” “expect” or “anticipate” will occur, and other similar statements), you must remember that our expectations may not materialize, even though we believe that they are reasonable.

Whether actual results will conform with our expectations and predictions is subject to a number of risks and uncertainties, many of which are beyond our control, and reflect future business decisions that are subject to change. Some of the assumptions, future results and levels of performance expressed or implied in the forward-looking statements we make inevitably will not materialize, and unanticipated events affecting our results may occur.

We caution you not to place undue reliance on forward-looking statements. You should read these statements in conjunction with the risk factors disclosed in Item 3 of this annual report, “Key Information—Risk Factors.” We do not undertake any obligation to update or revise the forward-looking statements except as required under applicable law.

I. PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not Applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable.

ITEM 3. KEY INFORMATION

A. Selected Financial Data

The following table presents our selected consolidated financial information. You should read the following information in conjunction with Item 5, “Operating and Financial Review and Prospects.” The selected consolidated statement of operations data for the three years ended December 31, 2006, 2007 and 2008 and the selected consolidated balance sheet data as of December 31, 2006, 2007 and 2008 have been derived from our audited consolidated financial statements included in this annual report and should be read in conjunction with those statements. Our selected consolidated statement of operations data for the period from August 2, 2004 to December 31, 2004 and the year ended December 31, 2005, and the selected consolidated balance sheet data as of December 31, 2004 and 2005, have been derived from our audited consolidated financial statements not included in this annual report. Our audited consolidated financial statements are prepared and presented in accordance with United States generally accepted accounting principles, or U.S. GAAP.

For the Period from August 2, 2004 (Date of Inception) to December 31, 2004	For the Year Ended December 31,			
	2005	2006	2007	2008
(in thousands, except share, per share, operating data and percentages)				

Consolidated Statement of Operations Data

Net revenues	—	\$ 13,750	\$ 149,521	\$ 234,908	\$ 350,920
Cost of revenues	—	(11,796)	(122,889)	(216,881)	(335,454)
Gross profit	—	1,954	26,632	18,027	15,466
Operating expenses:					
Selling expenses	—	(38)	(1,014)	(1,644)	(3,866)
General and administrative expenses	\$ (953) ⁽¹⁾	(1,584)	(9,901) ⁽²⁾	(13,664)	(16,779)
Research and development expenses	—	(49)	(546)	(2,555)	(1,871)
Total operating expenses	(953) ⁽¹⁾	(1,671)	(11,461) ⁽²⁾	(17,863)	(22,516)
Income (loss) from operations	(953)	283	15,171	164	(7,050)
Net income (loss)	\$ (959)	\$ (307)	\$ 11,814	\$ (4,855)	\$ (22,938)
Dividend on Series A redeemable convertible preferred shares	—	—	(13,377) ⁽³⁾	(155)	—
Dividend on Series B redeemable convertible preferred shares	—	—	(28,552) ⁽⁴⁾	(330)	—
Dividend on Series C redeemable convertible preferred shares	—	—	(7,097) ⁽⁵⁾	(233)	—
Net loss attributable to holders of ordinary shares	\$ (959)	\$ (307)	\$ (37,212)	\$ (5,573)	\$ (22,938)
Net loss per share					
-Basic	\$ (0.01)	\$ (0.00)	\$ (0.36)	\$ (0.04)	\$ (0.10)
-Diluted	\$ (0.01)	\$ (0.00)	\$ (0.36)	\$ (0.04)	\$ (0.10)

**For the Period from
August 2, 2004 (Date
of Inception) to
December 31, 2004**

For the Year Ended December 31,
2005 2006 2007 2008
**(in thousands, except share, per share,
operating data and percentages)**

Shares used in computation					
-Basic	108,000,000	108,000,000	103,583,178	185,165,757	238,079,890
-Diluted	108,000,000	108,000,000	103,583,178	185,165,757	238,079,890
Other Consolidated Financial Data					
Gross margin	—	14.2%	17.8%	7.7%	4.4%
Consolidated Operating Data					
Solar cells sold (in megawatts, or MW)	—	4.4	46.4	70.0	100.4
Average selling price (in \$ per watt)	— \$	3.10 \$	3.22 \$	2.92 \$	3.32

- (1) Includes a non-cash charge of \$0.8 million relating to forgiveness of shareholder receivables from certain of our directors and executive officers.
- (2) Includes a non-cash charge of \$3.7 million relating to the excess distribution to our president and a non-cash charge of \$0.5 million relating to forgiveness of shareholder receivables from certain of our directors and executive officers.
- (3) Includes a one-time beneficial conversion feature of \$13,110,400.
- (4) Includes a one-time beneficial conversion feature of \$27,999,948.
- (5) Includes a one-time beneficial conversion feature of \$6,941,170.

As of December 31,

2004	2005	2006	2007	2008
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Consolidated Balance Sheet Data

Cash and cash equivalents	\$ 1,032	\$ 2,765	\$14,750	\$60,458	\$94,800
Restricted cash	2,016	21,959	4,952	23,473	62,400
Inventories	30	6,647	44,331	56,092	59,125
Accounts receivable, net	—	1,705	43,048	26,817	8,906

As of December 31,

	2004	2005	2006	2007	2008
Advances to suppliers, net	—	17,408	26,281	79,912	7,320
Amounts due from related parties	2,256	14,104	1,977	2,112	18,583
Property, plant and equipment, net	2,290	13,414	38,730	52,929	102,609
Total assets	8,602	79,307	176,327	321,144	397,725
Short-term bank borrowings	—	\$21,685	\$ 69,263	\$121,841	\$ 97,299
Accounts payable	721	3,216	11,845	7,157	29,099
Advances from customers	—	11,132	950	4,892	706
Amounts due to related parties	2,335	28,437	4	8	246
Total current liabilities	3,114	65,393	92,104	136,243	146,622
Long-term bank borrowings	1,812	8,674	—	—	—
Convertible senior notes payable	—	—	—	—	48,098
Total shareholders' equity	3,193	5,240	22,280	183,848	174,957
Total liabilities, mezzanine equity and shareholders' equity	8,602	79,307	176,327	321,144	397,725

Exchange Rate Information

This annual report contains translations of certain Renminbi amounts into U.S. dollars at the rate of RMB6.8225 to \$1.00, the noon buying rate in effect on December 31, 2008 in New York City for cable transfers of Renminbi as certified for customs purposes by the Federal Reserve Bank of New York. We make no representation that the Renminbi or U.S. dollar amounts referred to in this annual report could have been or could be converted into U.S. dollars or Renminbi, as the case may be, at any particular rate or at all. See Item 3, "Key Information—Risk Factors—Risks Related to Our Company and Our Industry—Fluctuations in exchange rates could adversely affect our business" for discussions of the effects of fluctuating exchange rates. On June 19, 2009, the noon buying rate was RMB6.8360 to \$1.00.

The following table sets forth information concerning exchange rates between the RMB and the U.S. dollar for the periods indicated. These rates are provided solely for your convenience and are not necessarily the exchange rates that we used in this annual report or will use in the preparation of our periodic reports or any other information to be provided to you. The source of these rates is the Federal Reserve Bank of New York.

Period	Noon Buying Rate			
	Period End	Average ⁽¹⁾	Low	High
	(RMB per \$1.00)			
2004	8.2765	8.2768	8.2774	8.2765
2005	8.0702	8.1826	8.2765	8.0702
2006	7.8041	7.9579	8.0702	7.8041
2007	7.2946	7.5806	7.8127	7.2946
2008	6.8225	6.9193	7.2946	6.7800
December 2008	6.8225	6.8539	6.8842	6.8225
2009				
January 2009	6.8392	6.8360	6.8403	6.8225
February 2009	6.8395	6.8363	6.8470	6.8241
March 2009	6.8329	6.8360	6.8438	6.8240
April 2009	6.8180	6.8304	6.8361	6.8180
May 2009	6.8278	6.8235	6.8326	6.8176
June 2009 (through June 19, 2009)	6.8360	6.8337	6.8371	6.8264

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

B. Capitalization and Indebtedness

Not Applicable.

C. Reasons for the Offer and Use of Proceeds

Not Applicable.

D. Risk Factors

Risks Related to Our Company and Our Industry

Current economic and credit environment may adversely affect the demand for our products.

The demand for solar power products is influenced by macroeconomic factors, such as the supply and price of other energy products, as well as government regulations and policies concerning the electric utility industry. The global financial markets have experienced significant disruptions recently, and most of the world's major economies have entered into recession. The global economic downturn could result in weakened market demand for products that require significant initial capital expenditures, including solar power products. For example, recent economic recession in several key solar power markets could result in slower investments in new installation projects that make use of solar power products. Existing projects may also be delayed as a result of the credit and other disruptions. The unfavorable credit environment, which affects the ability of sponsors to obtain financing for their projects, has also contributed to the slowdown of the large solar project market segments. Furthermore, a decrease in the price of other energy products, such as oil, coal and natural gas, may reduce the urgency of the market to invest in alternative energy. These macroeconomic factors have resulted in reduced demand for our solar power products, and have adversely affected our operating results. In 2008, particularly in the fourth quarter, partly due to the impact of global financial market disruption and economic slowdown, some of our customers cancelled or delayed orders for our products. If such negative economic and market trends continue, our business and results of operations may be materially and adversely affected.

Volatile market and industry trends, in particular, the decline in demand for solar products may cause the average selling price of our products to decline, and reduce our revenues and profitability.

We are affected by solar power market and industry trends. In the fourth quarter of 2008, the global solar power industry experienced a precipitous decline in demand. During the same period, the global supply of solar products exceeded the global demand due to the excess production capacity as a result of the global economic downturn. Such oversupply of solar products contributed to the decline in the average selling price of solar cells. The average selling price per watt of our solar cells decreased from \$3.22 in 2006 to \$2.92 in 2007 and increased to \$3.32 in 2008. The increase in 2008 was primarily due to an increase in the average selling price of our solar cells in the first three quarters of 2008, which was offset by a decrease in the average selling price of our solar cells in the fourth quarter of 2008. If demand for solar products continues to decline and the oversupply of solar products continues to exist, the average selling price of our products will be materially and adversely affected, which may reduce our revenues and profitability.

The availability and price of silicon raw materials may affect our gross margins and profitability.

Polysilicon is an essential raw material in our production of solar cells. The procurement costs of silicon wafers and other silicon-based raw materials have accounted for a substantial majority of our cost of revenues since we began our commercial production of solar cells in August 2005. The global supply of polysilicon is controlled by a limited number of producers and in the past several years there was an industry-wide shortage of polysilicon due to the growing demand for solar power products and the continuing expansion of the semiconductor industry. According to Solarbuzz LLC, or Solarbuzz, an independent solar energy research firm, the average long-term supply contract price of polysilicon increased from approximately \$50-\$55 per kilogram in 2006 to \$60-\$65 per kilogram in 2007 and further increased to \$60-\$75 per kilogram in 2008. In addition, according to Solarbuzz, spot prices for solar grade polysilicon were in the range of \$230-\$375 per kilogram for most of the first half of 2008 but rose to a peak of \$400-\$450 per kilogram by mid-2008. Increases in the price of polysilicon have in the past resulted in increases in the price of wafers, and these increases in the price of silicon raw materials have in the past increased our production costs and thus affected our profitability. However, in late 2008 and 2009, newly available polysilicon supply and slowed global solar power market growth have resulted in an excess supply of polysilicon, which created a downward pressure on the price of polysilicon. According to Solarbuzz, spot prices for solar grade polysilicon decreased rapidly to \$150-\$300 per kilogram in the fourth quarter of 2008. We cannot assure you that the price of polysilicon will continue to decline. Given the current silicon raw materials price environment, we seek to exert greater control over incoming silicon raw materials quality while establishing stable and long-term relationships with high quality suppliers. We cannot assure you, however, that our procurement efforts will be successful in ensuring an adequate supply of silicon raw materials at viable prices to meet our solar cell production requirements, especially once the global solar power market regains its growth momentum.

We have a limited operating history and we have incurred losses in certain prior periods and may incur losses in the future.

We incurred net losses of \$0.3 million, \$4.9 million and \$22.9 million in 2005, 2007 and 2008, respectively. We cannot assure you that we will not incur net losses in the future or that there will not be any earnings or revenue declines in any future periods. Our ability to achieve and maintain profitability depends on, among others, the growth rate of the solar power market, the continued global market acceptance of solar power products in general and our existing and future products in particular, our ability to secure quality raw materials, primarily silicon wafers, the pricing trend of solar power products, the competitiveness of our products as well as our ability to provide new products to meet the demands of our customers, our ability to achieve our manufacturing expansion plans and our ability to control our costs and expenses. We may not be able to achieve or sustain profitability on a quarterly or annual basis. Furthermore, our limited operating history may not provide a meaningful basis for evaluating our business, financial performance and prospects. Accordingly, even though we achieved growth or profitability during certain prior periods, 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 have as a company which has a limited operating history and is seeking to develop and manufacture new products in a rapidly evolving market.

Our dependence on a limited number of third-party suppliers for key raw materials and customized manufacturing equipment could prevent us from timely delivering our products to our customers in the required quantities, which could result in order cancellations and decreased revenue.

We purchase silicon raw materials, primarily silicon wafers, from a limited number of third-party suppliers. Our top ten suppliers supplied approximately 58.8% of the silicon raw material supplies we procured in 2008, mostly under contracts with a term of less than one year. If we fail to develop or maintain our relationships with our major suppliers, we may be unable to manufacture our products or our products may only be available at a higher cost or after a long delay, 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 order cancellations and loss of market share. Historically, we encountered problems with respect to the quality of silicon raw material supplied by some of our suppliers, which resulted in lower conversion efficiencies of our solar cells. Some of our suppliers have failed to perform their delivery obligations in the past. In addition, many of our contracts do not provide for a remedy for non-delivery beyond a refund of any advance payment that we may have made, and our legal recourse in cases of non-delivery may be limited.

The failure of any major supplier to supply raw materials that meet our quality, quantity and cost requirements in a timely manner could impair our ability to manufacture our products and could increase our costs, particularly if we are unable to obtain these materials and components from alternative sources on a timely basis or on commercially reasonable terms. The pricing terms under our raw material supply framework agreements generally are to be determined based on future negotiations. If we cannot reach agreement on pricing terms with those suppliers in the future, those agreements will not be enforceable and we would then need to seek alternative supplies. In such an event, we may not be able to secure sufficient alternative supplies.

In addition, certain of our manufacturing equipment has been designed and made specifically for us. As a result, such equipment is not readily available from multiple vendors and would be difficult to repair or replace. Any significant damage to, or breakdown of, our customized manufacturing equipment could cause material interruptions to our operations and consequentially could have a material adverse effect on our business and results of operations.

Our costs and expenses may increase as a result of entering into fixed price, firm purchase commitment arrangements with our suppliers.

In response to the industry-wide shortage of silicon raw materials experienced during the past few years, we have purchased silicon raw materials using short-term and long-term contracts from a limited number of international and domestic suppliers. Some agreements provide for firm purchase commitments and fixed pricing or pricing adjustable within a relatively small range. Beginning the fourth quarter of 2008, the price of silicon raw materials decreased precipitously because of the excess supply of silicon raw materials resulting from slower global solar power market growth. In light of such excess supply, we are seeking to re-negotiate with our long-term supply partner in regard to certain long-term supply contracts signed in 2008. We cannot assure you that we will be successful in re-negotiating or terminating existing contracts. If we fail to re-negotiate or terminate these contracts, we may be subject to contractual damages. If we pay more for supplies than the current market prices available to our competitors because of our commitments under long-term supply contracts, we may be placed at a competitive disadvantage, and our profitability could decline. In addition, if demand for our solar power products decreases and such agreements require us to purchase more silicon raw materials than are required to meet our demand, we may incur costs associated with carrying excess inventory, which may have a material adverse effect on our cash flows. To the extent we are not able to pass these increased costs and expenses on to our customers, our business, financial condition and results of operations may be materially and adversely affected.

We have significant outstanding bank borrowings, and we may not be able to arrange adequate financing when they mature or may encounter other difficulties in maintaining liquidity.

As of December 31, 2008, we had \$94.8 million in cash and cash equivalents, and we had \$97.3 million in outstanding borrowings, all of which would become due within one year. In the first quarter of 2009, we borrowed additional loans and repaid some of our loans, and all of our current loans will become due within one year of the date of this report. Recent turmoil in the credit markets and the potential impact on the liquidity of financial institutions may adversely affect our ability to fund our business through borrowings, under either existing or newly created instruments in the public or private markets on terms that we believe to be reasonable, if at all. We cannot assure you that we will be able to obtain extensions of these facilities as they mature. If we are unable to obtain extensions of these facilities, or if we are unable to obtain sufficient alternative funding on reasonable terms to make repayments, we will have to repay these borrowings with cash generated by our operating activities. We cannot assure you that our business will generate sufficient cash flows from operations to repay these borrowings. In addition, repaying these borrowings with cash generated by our operating activities will divert our financial resources from the requirements of our ongoing operations and future growth.

Historically, given the state of the industry, we generally needed to make prepayments at a certain percentage of the order value to our suppliers of silicon raw materials in advance of shipment. Due to the relative oversupply of polysilicon, since the first quarter of 2009, prepayment as a percentage of the entire contract has been reducing. However, we anticipate that our purchases of silicon raw materials will continue to require us to make significant working capital commitments. We may also need additional capital for the expansion and modification of our manufacturing lines in the future. As a result of these requirements, we may require additional debt or equity financing. Furthermore, we have granted credit terms for our sales to some of our large customers. Receivables from our top three customers represented approximately 96.4% of our total accounts receivable as of December 31, 2008, including CEEG (Shanghai) Solar Science and Technology Co., Ltd., an entity controlled by our chairman, Mr. Tingxiu Lu, which accounted for over 42.9% of our total accounts receivable as of December 31, 2008. Failure to timely collect our receivables may adversely affect our cash flows. Any of our customers may fail to meet their payment obligations, especially due to the current credit crisis, which would materially and adversely affect our financial position, liquidity and results of operations. If we fail to effectively manage our cash flows from operations, borrowings and equity contributions to support our cash flow requirements, we may encounter difficulty in liquidity, which would have a material adverse effect on our business, financial condition and future prospects.

Our advance payments to most of our silicon raw material suppliers expose us to the credit risk of these suppliers, and if these suppliers default in delivery or refunding the payment, our financial condition, results of operations and liquidity may be adversely affected.

Under the supply contracts with most of our silicon raw material suppliers entered into during an industry-wide shortage of silicon raw materials in the past few years, we made prepayments to our suppliers prior to the scheduled delivery dates for silicon raw materials. The prepayment as a percentage of the entire contract has been reducing due to the dramatic change of the availability of polysilicon since the fourth quarter of 2008, and our advances to suppliers decreased to approximately \$7.3 million as of December 31, 2008. However, we still depend on a limited number of suppliers and we make such advance payments without receiving collateral. As a result, our claims for such advance payments would rank only as unsecured claims, exposing us to the credit risks of the suppliers in the event of their insolvency or bankruptcy. We may not be able to recover such advance payments and would suffer losses should the suppliers fail to fulfill their delivery obligations under the contracts.

Our dependence on a limited number of customers may cause significant fluctuations or declines in our revenues.

We currently sell a substantial portion of our solar cells to a limited number of customers. Our top three customers contributed over 46.3% of our net revenues in 2008, including CEEG (Shanghai) Solar Science and Technology Co., Ltd., an entity controlled by our chairman, Mr. Tingxiu Lu, which contributed over 13.2% of our net revenues in 2008. Sales to our top five customers accounted for 60.0% of our net revenues during the same period, including CEEG (Shanghai) Solar Science and Technology Co., Ltd. Sales to each of aleo solar AG and Wuxi Guofei Green Energy Source Co., Ltd. contributed over 10% of our net revenues for the year ended December 31, 2008.

Sales to our customers are typically made through non-exclusive arrangements. We anticipate that our dependence on a limited number of customers will continue in 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.

The practice of requiring customers to make advance payments when they place orders with us has declined, and we have experienced and will continue to experience increased needs to finance our working capital requirements and are exposed to increased credit risk of our customers.

We generally required our customers to make an advance payment of a certain percentage of their orders, a business practice that helped us to manage our accounts receivable, prepay our suppliers and reduce the amount of funds that we needed to finance our working capital requirements. In line with market trend, this practice of requiring our customers to make advance payments is on the decline, and has resulted in our increased need to obtain additional short-term borrowings to fund our current cash requirements. Furthermore, a larger portion of our revenues have been and may continue to be, derived from credits sales to our customers. As a result of the disruptions in the financial markets and other macro-economic challenges currently affecting the world economy, our customers may experience cash flow concerns. As a result, they may delay their payment to us. Any inability of current or potential customer to pay us may adversely affect our earnings and cash flow.

If we are unable to maintain a high utilization rate of our manufacturing capacity, our operating margins may decline substantially.

Our ability to achieve profitability depends in part on our ability to maintain a high utilization rate of our manufacturing capacity. With our recent expansion of manufacturing capacity and the slowed growth of the solar power market, it is more difficult for us to obtain enough orders for the solar cells that we are capable of producing. If we are unable to obtain sufficient orders for our products, procure sufficient raw materials, or if we experience any material equipment failure, then we will not be able to maintain a high utilization rate of our manufacturing capacity. As we incur fixed costs associated with our facilities and equipment whether they are being utilized, operating at less than full utilization results in expenses without corresponding revenue, which may reduce our operating margins.

The reduction or elimination of government subsidies and economic incentives for on-grid solar energy applications could cause demand for our products and our revenues to decline.

Almost all of our solar cells sold are eventually used in the on-grid market, where the solar power systems are connected to the utility grid and generate electricity to feed into the grid. 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. The reduction or elimination of subsidies and economic incentives may adversely affect the growth of this market or result in increased price competition, either of which could cause our revenues to decline.

Today, when upfront system costs are factored into cost per kilowatt, the cost of solar power substantially exceeds the cost of power furnished by the electric utility grid in almost all locations. As a result, national and local governmental bodies in many countries, most notably in Germany, Spain, Italy, the United States and China, have provided subsidies and economic incentives in the form of feed-in tariffs, rebates, tax credits and other incentives to distributors, system integrators and manufacturers of solar power products in order to promote the use of solar energy in on-grid applications and to reduce dependence on other forms of energy. These government economic incentives could potentially be reduced or eliminated altogether. For example, Germany has been a strong supporter of solar power products and systems and is a significant market for our customers that engage in solar module manufacturing and system integration businesses. Utilities in Germany are generally obligated to purchase electricity generated from grid-connected solar power systems at defined feed-in tariff rates, which will decline over time according to a predetermined schedule. Specifically, German subsidies decline at a rate of 5.0% to 6.5% per year for systems installed after 2006 based on the type and size of the solar power systems. Political or market changes in Germany could result in significant reductions or eliminations of subsidies or economic incentives, such as a more accelerated reduction of feed-in tariffs than as planned according to the current schedule. Furthermore, in September 2008, the Spanish government introduced a cap of 500 MW for 2009 for the feed-in tariff, which may limit the demand in the grid-connected market in Spain. Reductions in, or eliminations of, subsidies and economic incentives for on-grid solar energy applications could result in decreased demand for our products and cause our revenues to decline.

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

The market for solar power products is highly competitive and continually evolving. We expect to face increased competition, which may result in price reductions, reduced margins or loss of market share. Our competitors include solar power divisions of large conglomerates such as BP Solar, Kyocera, Sanyo and Sharp Corporation, as well as specialized cell manufacturers such as JA Solar Holdings Co., Ltd., Motech Industries Inc., Q-Cells AG, Suntech Power Holdings Co., Ltd. and Solarfun Power Holdings Co., Ltd. Some of our competitors, for example Renewable Energy Corporation ASA, have also become vertically integrated, from upstream polysilicon manufacturing to solar system integration. During periods of silicon supply shortage, their internally produced raw materials may enable them to realize a higher margin in comparison with other solar cell manufacturers.

We may also face new competition from semiconductor manufacturers, several of which have already announced their intention to start production of solar cells. Decrease in polysilicon price and increase in solar power product manufacturing could result in substantial downward pressure on the price of solar power products and intensify the competition in 2009. In addition, the entire solar power industry faces competition from conventional and non-solar renewable energy technologies. Due to the relatively high manufacturing costs compared to most other energy sources, solar energy is generally not competitive without government subsidies and economic incentives.

Many of our existing and potential competitors have substantially greater financial, technical, manufacturing and other resources than we do. Our competitors' greater size in some cases provides them with a competitive advantage with respect to manufacturing costs due to their economies of scale and their ability to purchase raw materials at lower prices. For example, those of our competitors that also manufacture semiconductors may source both semiconductor grade silicon wafers and solar grade silicon wafers from the same supplier. As a result, such competitors may have stronger bargaining power with the supplier and have an advantage over us in pricing as well as obtaining silicon wafer supplies at times of shortage. Many of our competitors also have more established distribution networks and larger customer bases. In addition, many of our competitors have well-established relationships with our customers and have extensive knowledge of our target markets. As a result, they may be able to devote greater resources to the research, development, promotion and sale of their products or respond more quickly to evolving industry standards and changes in market conditions than we can. It is possible that new competitors or alliances among existing competitors could emerge and 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.

Prices for our silicon raw materials and products, and therefore our results of operations, may vary according to seasonal demand, unpredictable events such as adverse weather conditions and natural disasters, and other factors.

The price of polysilicon, an essential raw material for our production of solar cells, is volatile. Historically our margins and results of operations have been materially and adversely affected by the availability and price of polysilicon and other silicon raw materials. The market prices for our products are also subject to fluctuation due to a number of other factors and could decline unexpectedly. For example, the price for solar cells in Germany, which is used throughout our industry as a pricing benchmark, could be adversely affected by changes in the subsidies available for solar power, and price declines in Germany or in any other major market for solar cells could adversely affect our average selling prices. Purchases of solar power products also tend to decrease during the winter months because of adverse weather conditions in certain regions, which complicate the installation of solar power systems. Historically, our results of operations have been affected by such seasonality of industry-wide demand for solar power products. Our quarterly operating results also may fluctuate from period to period due to other factors, including adverse weather conditions and natural disasters. For example, unusually heavy snowstorms in central China in the first quarter of 2008 disrupted our power supply and the transportation of our raw materials and finished products, forcing us to suspend our operations for three weeks. Any of these various factors could negatively affect our production, margins and results of operations and, as a result of these factors, you may not be able to rely on period to period comparisons of our operating results as an indication of our future performance.

If solar power technology is not suitable for widespread adoption, or if 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 achieve or 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. Historical and current market data on the solar power industry are not as readily available as those 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 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;
- success of other alternative energy generation technologies, such as wind power, hydroelectric power 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 or decreases in capital expenditures by end users of solar power products;
- availability of government subsidies and incentives to support the development of the solar power industry;
- capital expenditures by end users of solar power products, which tend to decrease when the economy slows down; and
- deregulation of the electric power industry and the broader energy industry.

If solar power technology is not viable for widespread adoption or sufficient demand for solar power products does not develop or develops to a lesser extent than we anticipate, our revenues may suffer and we may be unable to sustain our profitability.

Advances in solar power technology could render our products uncompetitive or obsolete, which could reduce our market share and cause our sales and profit to decline.

The solar power market is characterized by evolving technology standards that require improved features, such as higher conversion efficiencies and higher power output. This requires us to develop new solar power products and enhancements for existing solar power products to keep pace with evolving industry standards and changing customer requirements. For example, currently we are focused on crystalline silicon technology and the expansion of production capacity based on crystalline silicon, which today is the primary technology used by most solar cell manufacturers. Some overseas producers have focused on developing alternative forms of solar power technologies, such as thin-film technologies. Failure to further refine our technology and to develop and introduce new solar power 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 bring to market competitive new solar power products or enhance our existing solar power 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 power products. In addition, if we, or our customers, are unable to manage product transitions, our business and results of operations would be negatively affected.

We may not be successful in the commercial production of N-type solar cells or other new products, which could limit our growth prospects.

We are currently developing process technology for manufacturing N-type solar cells. The conversion efficiency rate of N-type solar cells may generally be higher than that of P-type solar cells. But there are substantial technical difficulties in manufacturing N-type solar cells on a large scale, such as the difficulties associated with applying electrical contacts to silicon materials. Therefore, we believe that to date, only a limited number of manufacturers in the world produce N-type solar cells on a commercial scale.

We may face significant challenges in manufacturing N-type solar cells. Minor deviations in the manufacturing process can cause substantial decreases in yield and cell conversion efficiencies and, in some cases, cause production to be suspended or yield no output. In addition, the silicon wafer required for the manufacture of N-type solar cells is different from that used for the manufacture of P-type solar cells. We may face difficulty in securing wafer supply for the manufacture of N-type solar cells. If we are unable to commence manufacturing our N-type solar cells on a timely basis, or if we face technological difficulties in cost-efficiently producing our N-type solar cells with the expected performance on a stable level, or if we are unable to secure sufficient raw material supplies or generate sufficient customer demand for our N-type solar cells, our business and prospects may be adversely impacted.

In addition, we commenced mass commercial production of selective emitter cells, an improved version of the P-type solar cells that we and most other solar cell manufacturers produce, in the fourth quarter of 2007. We are also developing Matrix cells. However, these products are still new and their stability and performance is still unproven. We may face difficulty in the development and commercial production of selective emitter cells, Matrix cells or other new products. We may also have difficulty in converting existing manufacturing lines or installing new manufacturing lines for the production of new products. These difficulties could arise from a number of reasons, including difficulties or delays in obtaining or installing equipment, adapting our production to new processes or training our personnel. We may also have difficulties in achieving the higher conversion efficiencies that we expect to achieve with these new products. Any of these difficulties may adversely affect our business, results of operations and financial condition.

Our future success substantially depends on our ability to increase both our manufacturing capacity and total output, which exposes us to a number of risks and uncertainties.

We currently have ten solar cell manufacturing lines, with an aggregate annual production capacity of 320 MW, assuming the use of 156-millimeter monocrystalline silicon wafers. Our future success depends on our ability to increase both our manufacturing capacity and total output. 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 and increase output is subject to significant risks and uncertainties, including:

- the need to raise significant additional funds, which we may be unable to obtain on commercially viable terms or at all, to purchase raw materials and to build additional manufacturing facilities;
- delays and cost overruns as a result of a number of factors, many of which are beyond our control, such as increases in the price of silicon raw materials and problems with equipment vendors;
- delays or denial of required approvals by relevant government authorities;
- diversion of significant management attention;
- the ability to secure sufficient silicon raw materials, primarily silicon wafers, to support our expanded manufacturing capacity; and
- the recovery of global economy and demand for solar products in overseas markets as influenced by world wide credit crisis and its effects.

If we are unable to establish or successfully operate additional manufacturing capacity, or if we encounter any of the risks described above, we may be unable to expand our business as planned. Moreover, we cannot assure you that if we do expand our manufacturing capacity as planned, we will be able to generate sufficient customer demand for our solar power products to support our increased production levels.

We may experience difficulty in achieving acceptable yields and product performance as a result of manufacturing problems, which could negatively impact our future revenue.

The technology for the manufacture of solar cells is highly complex and is continually being modified in an effort to improve yields and product performance. The quality of the raw materials used, microscopic impurities such as dust and other contaminants, difficulties in the manufacturing process, or malfunctions of the equipment or facilities used can lower yields, cause quality control problems, interrupt production or result in losses of products in process.

Because our existing manufacturing capabilities are, and our future manufacturing capabilities will likely remain, concentrated in our manufacturing facilities in Nanjing, China, any problem in our facilities may limit our ability to manufacture products. We may encounter problems in our manufacturing facilities as a result of, among other things, 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. For example, the unusually heavy snowstorms in the first quarter of 2008 disrupted our power supply and forced us to suspend our manufacturing operations for three weeks. Any disruption in our manufacturing process that forces us to shut down and restart our production causes a drop-off in production quality during the first two or three weeks after we resume production, which in turn reduces our yield as more of our output falls below our quality control standards during that period.

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

Our future success depends substantially on the continued services of Mr. Tingxiu Lu, our chairman, our executive officers and key employees, especially Dr. Jianhua Zhao, our vice chairman and chief technology officer, Mr. Ruennsheng Allen Wang, our chief executive officer and Dr. Aihua Wang, our vice president. If one or more of our executive officers or key employees were unable or unwilling to continue in their present positions, we might not be able to replace them easily, timely, or at all. For example, Mr. Kenneth Luk resigned from the position as our chief financial officer in March 2009. Dr. Fengming Zhang resigned from the positions as our director and vice president in charge of manufacturing technology in April 2009. We subsequently appointed Mr. Shiliang Guo as our acting chief financial officer and director. An external search for a new chief financial officer and a vice president has been initiated but we may not timely find replacements. If we lose the services of our executive officers or key employees due to their resignation, non-compliance with applicable law or any other reason, especially if we cannot timely find replacements, our business may be severely disrupted, our financial conditions and results of operations may be materially and adversely affected and we may incur additional expenses to recruit, train and retain personnel. If any of our executive officers or key employees joins a competitor or forms a competing company, we may lose customers, suppliers, know-how and key professionals and staff members. Each of our executive officers and key employees has entered into an employment agreement with us which contains non-competition provisions. However, if any dispute arises between our executive officers or our key employees and us, these agreements may not be enforceable in China, where these executive officers or our key employees reside, in light of the uncertainties with China's legal system. See "—Risks Related to Doing Business in China—Uncertainties with respect to the Chinese legal system could have a material adverse effect on us."

If we fail to manage our growth and expansion effectively, our business may be adversely affected.

We have experienced a period of rapid growth and expansion that has placed, and continues to place, significant strain on our management personnel, systems and resources. To accommodate our growth, we anticipate that we will need to implement a variety of new and upgraded operational and financial systems, procedures and controls, including improvements to our accounting and other internal management systems, all of which require substantial management efforts. We also will need to continue to expand, train, manage and motivate our workforce, manage our customer relationships and manage our relationships with raw material suppliers. All of these endeavors will require substantial management effort and skill and the incurrence of additional expenditures. If we fail to manage our growth effectively, that failure may have a material adverse effect on our business.

Future acquisitions may have an adverse effect on our ability to manage our business.

If we are presented with appropriate opportunities, we may acquire technologies, businesses or assets that are complementary to our business. Future acquisitions would expose us to potential risks, including risks associated with the assimilation of new personnel, unforeseen or hidden liabilities, the diversion of management attention and resources from our existing business and the inability to generate sufficient revenues to offset the costs and expenses of acquisitions. Any difficulties encountered in the acquisition and integration process may have an adverse effect on our ability to manage our business.

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

In 2008, we derived 44.0% of our net revenues from sales of our products to customers outside of China. We intend to continue to expand our sales in Europe as well as in other overseas markets such as the United States, Korea and other Asian countries and regions. The marketing, distribution and sale of our solar power products in the international markets expose us to a number of risks, including:

- fluctuations in currency exchange rates;
- increased costs associated with maintaining marketing efforts in various countries;
- difficulty and costs relating to compliance with the different commercial and legal requirements of the overseas markets in which we offer our products;
- difficulty in engaging and retaining sales personnel who are knowledgeable about, and can function effectively in, overseas markets;

- 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; and
- demand for solar products in overseas markets as influenced by world wide credit crisis and its effects.

If we are unable to attract, train and retain qualified 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 qualified personnel, particularly technical personnel with expertise in the solar power industry. Since our industry is characterized by high demand and intense competition for talent, there can be no assurance that we will be able to attract or retain the qualified technical staff or other highly- skilled employees that we will need to achieve our strategic objectives. As we are still a relatively young company and our business has grown rapidly, our ability to train and integrate new employees into our operations may not meet the growing demands of our business. If we are unable to attract and retain qualified personnel, our business may be materially and adversely affected.

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

Our success depends largely on our ability to use and develop our technology and know-how without infringing the intellectual property rights of third parties. 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 other intellectual property rights of third parties. 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. 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.

Failure to protect our intellectual property rights may undermine our competitive position, and litigation to protect our intellectual property rights may be costly.

We rely primarily on trade secrets, patent laws and other contractual restrictions to protect our intellectual property. Nevertheless, these afford only limited protection, and the actions we take to protect our intellectual property rights may not be adequate to provide us with meaningful protection or commercial advantage. For example, we have three patents and five pending patent applications in China. We cannot assure you that in a legal proceeding the claims of our patents would be found valid or that the claims would be interpreted as having sufficient scope to protect the technology we consider important to our business, nor can we assure you that our patent applications will eventually issue with claims of sufficient scope to protect additional technology significant to our business. As a result, we may be unable to exclude third parties from using the technologies that we have developed and compete with us, which could have a material adverse effect on our business, financial condition or operating results.

Furthermore, we have granted NewSouth Innovations Pty Limited, a non-exclusive, royalty-free license to use the technology for manufacturing N-type solar cells covered in one of our patents in China for internal research purposes, and a right to commercially utilize or sublicense such technology after March 1, 2009, provided that they may not sublicense such technology to certain of our Chinese competitors until after March 1, 2010. As a result, we may not be able to block our competitors from using the technology covered by this patent after March 1, 2010, which could have a material adverse effect on our business, financial condition or operating results.

In addition, litigation may be necessary to enforce our intellectual property rights. We cannot assure you that the outcome of such potential litigation will be in our favor. Such litigation may be costly and may divert management attention as well as divert other resources away from our business. In addition, we have no insurance coverage against litigation costs and would have to bear all costs arising from such litigation to the extent we are unable to recover them from other parties. The occurrence of any of the foregoing could have a material adverse effect on our business, results of operations and financial condition.

Changes to existing 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 adopted by electric utilities. These regulations and policies often relate to electricity pricing and technical requirements regarding the interconnection between customer-owned electricity generation and the grid. In a number of countries, these regulations and policies are being 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 customers of using our solar power products and make them less desirable, thereby harming our business, prospects, results of operations and financial condition.

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 to design products that comply with the varying standards. Any new government regulations or utility policies pertaining to our solar power products may result in significant additional expenses to us or cause a significant reduction in demand for our solar power products.

Fluctuations in exchange rates could adversely affect our business.

The 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 and China's foreign exchange policies. 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 was permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy caused the Renminbi to appreciate approximately 21.5% against the U.S. dollar over the following three years. Since reaching a high against the U.S. dollar in July 2008, however, the Renminbi has traded within a narrow band against the U.S. dollar, remaining within 1% of its July 2008 high but never exceeding it. As a consequence, the Renminbi has fluctuated sharply since July 2008 against other freely traded currencies, in tandem with the U.S. dollar. For example, the Renminbi appreciated approximately 27% against the Euro between July 2008 and November 2008. It is difficult to predict how long the current situation may last and when and how it may change again.

A major portion of our sales are denominated in Renminbi and Euros, with the remainder in U.S. dollars, while a substantial portion of our costs and expenses is denominated in Renminbi and U.S. dollars, with the remainder in Euros. Fluctuations in exchange rates, particularly among the U.S. dollars, Renminbi and Euros, may affect our net profit margins and could result in fluctuations in foreign currency exchange and operating gains and losses. We incurred a net foreign exchange loss of approximately \$6.9 million in 2008. 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, 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 ordinary shares and ADSs. 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. As a large proportion of our revenue is paid to us in Euros, fluctuation between the Euro and the RMB may also have a material effect on our results of operations.

Noncompliance with present or future construction and environmental regulations may result in potentially significant monetary damages and fines.

In the past, we had begun operating facilities without having obtained all the necessary approvals on the completion acceptance of our certain facilities from relevant PRC construction and environmental protection authorities. As of the date of this annual report, we have obtained the approval from the relevant PRC environmental protection authorities and are in the process of obtaining all the approvals from the relevant PRC construction authorities with respect to the completion acceptance for these facilities. As of the date of this annual report, we have not received any administrative penalties in respect of such non-compliance. If we are not able to obtain these approvals, we could be required to pay fines, suspend production or cease operations.

As our manufacturing processes generate noise, waste water, gases and other industrial wastes, we are required to comply with all national and local regulations regarding protection of the environment. We believe we are in material compliance with present environmental protection requirements and have all necessary environmental permits to conduct our business, except as disclosed herein. However, if more stringent regulations are adopted in the future, the costs of compliance with such new regulations could be substantial. We believe that we have all of the permits necessary to conduct our business as it is presently conducted. If we fail to comply with present or future environmental regulations, however, we may be required to pay substantial fines, suspend production or cease operations. We use, generate and discharge toxic, volatile and otherwise hazardous chemicals and wastes in our research and development and manufacturing activities. 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 in our business operations.

We have limited insurance coverage and may incur losses resulting from product liability claims.

As the insurance industry in China is still in an early stage of development, product liability insurance available in China offer limited coverage compared to that offered in many other countries. We do not have any product liability insurance. As with other solar power product manufacturers, we are exposed to risks associated with product liability claims if the use of our solar power 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 began commercial shipment of our solar power products in August 2005, 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. The successful assertion of product liability claims against us could result in potentially significant monetary damages and require us to make significant payments. In addition, we have purchased business interruption insurance in 2008, but we can not assure you that it is adequate.

Problems with product quality or product performance may result in a decrease in customers and revenues, incur unexpected expenses or cause us to incur warranty expenses, and may damage our market reputation and prevent us from achieving increased sales and market share.

Our products may contain defects that are not detected until after they are sold or are installed because we cannot test for all possible scenarios. We have received in the past, and may receive from time to time in the future, complaints from certain customers that portions of our solar cells have quality deficiencies. If we deliver solar cells that do not satisfy our customers' or end users' quality requirements, or if there is a perception that our products are of poor quality, our credibility and the market acceptance and sales of our solar power products could be harmed. We may also incur substantial expenses to compensate the customers. Historically, some of our sales contracts with overseas customers provided for a 10-year warranty for the performance of our solar cells, and in some cases, our solar cells were sold with up to a 20-year warranty. In 2008, we sold 2.6 MW of solar modules, in most cases with a two-year warranty for defects in material and workmanship and a minimum power output warranty of up to 25 years following the date of purchase. As a result, we bear the risk of extensive warranty claims long after we have sold our products and recognized revenues. We have sold solar cells only since August 2005. Due to the short usage history of our products, we cannot assure you that our assumptions regarding the durability and reliability of our products are reasonable. Our warranty provisions may be inadequate, and we may have to incur substantial expense to repair or replace defective products in the future. Any increase in the defect rate of our products would cause us to increase the amount of our warranty reserves and have a correspondingly negative impact on our operating results. Furthermore, widespread product failures may damage our market reputation, reduce our market share and cause our sales to decline.

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, therefore, be adversely impacted.

We are subject to reporting obligations under the U.S. securities laws. Beginning with our annual report on Form 20-F for the fiscal year ending December 31, 2008, we are required to prepare a management report on our internal controls over financial reporting containing our management's assessment of the effectiveness of our internal controls over financial reporting. In addition, our independent registered public accounting firm must attest to and report on the effectiveness of our internal controls over financial reporting.

There have been historical deficiencies with our internal controls. For example, in connection with the audit of our financial statements as of and for the year ended December 31, 2007, we and our independent registered public accounting firm identified several significant deficiencies in connection with access control on important transactions in our enterprise resource planning, or ERP, system, our management of inventory and fixed assets, bad debt provision and ERP software application development. We have undertaken remedial steps to improve our internal control over financial reporting and our disclosure controls.

In connection with the preparation of this annual report on Form 20-F, we carried out an evaluation of the effectiveness of our internal control over financial reporting. Based on this evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2008. See “Item 15. Control and Procedures.” If we fail to maintain an effective system of internal control over financial reporting and an effective system of 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 ADSs may be adversely impacted. Furthermore, we have incurred and anticipate that we will continue to incur considerable costs, management time and other resources in an effort to comply with Section 404 and other requirements of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act.

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

Mr. Tingxiu Lu, our chairman, currently beneficially owns 14.6% of our outstanding share capital. Further, most of our bank borrowings are guaranteed by China Electric Equipment Group Co., Ltd., or CEEG, an entity controlled by Mr. Lu. CEEG guaranteed the bank borrowings of Sunergy Nanjing for up to RMB1 billion until May 2010, subject to adjustment in the event of a material change in CEEG’s credit or operational status. Mr. Lu 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 ADSs. These actions may be taken even if they are opposed by our other shareholders and holders of our ADSs, including those who purchased our ADSs in our initial public offering.

We have been named as defendant in connection with securities class action lawsuits, which, if determined adversely, could negatively affect our business and results of operations.

We and several of our directors and officers were named defendants in three purported class actions currently pending in the United States District Court for the Southern District of New York—Brown v. China Sunergy Co., Ltd. et al., Case No. 07-CV-07895 (DAB), Sheshtawy v. China Sunergy Co., Ltd. et al., Case No. 07-CV-08656 (DAB), and Giombetti v. China Sunergy Co., Ltd. et al., Case No. 07-CV-09689 (DAB). On September 29, 2008, the District Court appointed a lead plaintiff and consolidated the three cases. The lead plaintiff alleges that we made false and misleading statements in our registration statement and prospectus in connection with our initial public offering in May 2007 regarding, among other things, the procurement of polysilicon, and seek unspecified damages. Although we intend to vigorously defend against the class actions, it is time-consuming and costly and could divert the attention of our senior management. An unfavorable resolution of these lawsuits or any future lawsuits could materially and adversely affect our results of operations and financial condition. See Item 8, “Financial Information—Legal Proceedings.”

Risks Related to Doing Business in China

Adverse changes in political and economic policies of the PRC government could have a material adverse effect on the overall economic growth of China, which could reduce the demand for our products and materially and adversely affect our competitive position.

All of our business operations are conducted in China and a majority of our sales are made in China. Accordingly, our business, financial condition, results of operations and prospects are affected significantly by economic, political and legal developments in China. The Chinese economy differs from the economies of most developed countries in many respects, including:

- the amount of government involvement;

- the level of development;
- the growth rate;
- the control of foreign exchange; and
- the allocation of resources.

While the Chinese economy has grown significantly in the past 20 years, the growth has been uneven, both geographically and among various sectors of the economy. The PRC government has implemented various measures to encourage or control economic growth and guide the allocation of resources. Some of these measures benefit the overall Chinese economy, but may also have a negative effect on us. For example, our financial condition and results of operations may be adversely affected by government control over capital investments or changes in tax regulations that are applicable to us. As the PRC economy is increasingly linked to the global economy, it is affected in various respects by downturns and recessions of major economies around the world, such as the recent financial services and economic crises of these economies. The various economic and policy measures enacted by the PRC government to forestall economic downturns or shore up the PRC economy could materially affect our clients' businesses and our business.

The Chinese economy has been transitioning from a planned economy to a more market-oriented economy. Although in recent years the PRC government has implemented measures emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises, a substantial portion of the productive assets in China is still owned by the PRC government. The continued control of these assets and other aspects of the national economy by the PRC government could materially and adversely affect our business. The PRC government also exercises significant control over Chinese economic growth through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Efforts by the PRC government to slow the pace of growth of the Chinese economy could result in decreased capital expenditures by solar energy users, which in turn could reduce demand for our products.

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 wholly owned subsidiary, China Sunergy (Nanjing) Co., Ltd., or Sunergy Nanjing, previously named CEEG (Nanjing) PV-Tech Co., Ltd., a limited liability company established in China. Sunergy Nanjing is 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 have not been fully developed 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 involves uncertainties. We cannot predict the effect of future developments in the PRC legal system, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, the preemption of local regulations by national laws, or the overturn of local government's decisions by the superior government. These uncertainties 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.

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

We conduct substantially all of our operations through Sunergy Nanjing. We rely on dividends paid by Sunergy Nanjing for our cash needs, including the funds necessary to pay dividends and other cash distributions to our shareholders, to service any debt we may incur 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. Sunergy Nanjing is also required to set aside at least 10% of its after-tax profit based on PRC accounting standards each year to its general reserves until the accumulative amount of such reserves reaches 50% of its registered capital. These reserves are not distributable as cash dividends. Sunergy Nanjing is also required to allocate a portion of its after-tax profits, as determined by its board of directors, to its staff welfare and bonus funds, which may not be distributed to equity owners. In addition, if Sunergy Nanjing 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.

Furthermore, the dividends we receive from our PRC subsidiary may also be adversely affected by the new PRC Enterprise Income Tax Law, or the New EIT Law, and its Implementing Regulation, which became effective on January 1, 2008. See “—Our global income and the dividends we receive from our PRC subsidiary may be subject to PRC tax under the New EIT Law, which would have a material adverse effect on our results of operations.”

Our global income and the dividends we receive from our PRC subsidiary may be subject to PRC tax under the New EIT Law, which would have a material adverse effect on our results of operations.

Under the New EIT Law and its Implementing Regulation, which have become effective on January 1, 2008, an enterprise established outside of the PRC with “de facto management bodies” within the PRC is considered a resident enterprise and will be subject to a 25% PRC income tax on its global income. The implementation rules define the term “de facto management bodies” as “establishments that carry out substantial and overall management and control over the manufacturing and business operations, personnel, accounting, properties, etc. of an enterprise.” On April 22, 2009, the State Administration of Taxation released a circular, or the Resident Enterprise Circular which sets out the standards and procedures for recognizing the location of the “de facto management bodies” of an enterprise registered outside of the PRC and funded by Chinese enterprises as controlling investors, or the Chinese Funded Enterprise. Under the Resident Enterprise Circular, if (i) a Chinese Funded Enterprise’s major management department and personnel who are responsible for carrying out daily operations are located in the PRC; (ii) the department or the personnel who have the right to decide or approve the Chinese Funded Enterprise’s financial and human resource matters are located in the PRC; (iii) the major assets, account book, company seal and meeting minutes of the Chinese Funded Enterprise are located or stored in the PRC; and (iv) the directors or management personnel holding no less than 50% voting rights of the Chinese Funded Enterprise habitually reside in the PRC, such Chinese Funded Enterprise shall be considered a resident enterprise. The Resident Enterprise Circular explicitly provides that the above standards shall apply to the enterprises which are registered outside the PRC and funded by Chinese enterprises as controlling investors, therefore such standards may be cited for reference only and may not be directly adopted when considering whether our Company’s “de facto management body” is in the PRC or not. Accordingly, it is still uncertain whether we may be considered a resident enterprise under the New EIT Law. If we are considered a resident enterprise and earn income other than dividends from our PRC subsidiary, we will be subject to a 25% PRC income tax on our global income and such 25% PRC income tax on our global income could significantly increase our tax burden and materially and adversely affect our cash flow and profitability.

Under the applicable PRC tax laws in effect before January 1, 2008, dividend payments to foreign investors made by foreign-invested enterprises such as our PRC subsidiary, Sunergy Nanjing, were exempt from PRC withholding tax. Pursuant to the New EIT Law and its Implementing Regulation, however, dividends generated after January 1, 2008 and payable by a foreign-invested enterprise to its foreign investors will be subject to a 10% withholding tax if the foreign investors are considered as non-resident enterprises without any establishment or place of business within China or if the dividends payable have no connection with the establishment or place of business of the foreign investors within China, unless any such foreign investor’s jurisdiction of incorporation has a tax treaty with China that provides for a reduced withholding arrangement. The Cayman Islands, where we are incorporated, does not have such a tax treaty with China. China Sunergy (Hong Kong) Co., Ltd., or Sunergy Hong Kong, the direct holder of the 100% equity interest in Sunergy Nanjing, is incorporated in Hong Kong. According to the Mainland and Hong Kong Special Administrative Region Arrangement on Avoiding Double Taxation or Evasion of Taxation on Income agreed between China and Hong Kong in August 2006, dividends paid by a foreign-invested enterprise in China to its direct holding company in Hong Kong will be subject to withholding tax at a rate of no more than 5% (if the foreign investor owns directly at least 25% of the shares of the foreign-invested enterprise). Under the Implementing Regulation of the New EIT Law, if we and Sunergy Hong Kong were regarded as resident enterprises, the dividends payable to us from Sunergy Nanjing would be exempt from the PRC income tax. If we were regarded as a non-resident enterprise and Sunergy Hong Kong were regarded as a resident enterprise, then Sunergy Hong Kong would be required to withhold a 10% withholding tax on any dividends payable to us, while if Sunergy Hong Kong is regarded as a non-resident enterprise, then Sunergy Nanjing would be required to withhold a 5% withholding tax on any dividends payable to Sunergy Hong Kong. In either case, the amount of funds available to us to meet our cash requirements, including the payment of dividends to our shareholders and debt service on any debt we incur, could be materially reduced.

In addition, because there remains uncertainty regarding the interpretation and implementation of the concept of “de facto management bodies,” if we are regarded as a PRC resident enterprise, under the New EIT Law any dividends to be distributed by us to our non-PRC shareholders or holders of ADSs will be subject to a withholding tax. We also cannot assure you that any gain realized by non-PRC shareholders or holders of our ADSs from the transfer of our shares or ADSs will not be subject to a withholding tax. Unless there are further rules announced by the Chinese tax authorities, we are required under the New EIT Law to withhold PRC income tax on our dividends payable to our non-PRC shareholders or holders of ADSs, or any gain realized by our non-PRC shareholders or holders of ADSs from transfer of the shares or ADSs, and your investment in our ADSs may be materially and adversely affected.

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

Certain portions of our revenues 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 dividends declared, if any, in respect of our ordinary shares or ADSs. Under China’s existing foreign exchange regulations, Sunergy Nanjing is 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.

Most foreign exchange transactions by Sunergy Nanjing under capital accounts continue to be subject to significant foreign exchange controls and require the approval of, or registration with, PRC governmental authorities. In particular, if Sunergy Nanjing borrows foreign currency loans from us or other foreign lenders, these loans must be registered with the SAFE, and if we finance Sunergy Nanjing by means of additional capital contributions, these capital contributions must be approved or registered by certain government authorities including the SAFE, the Ministry of Commerce or their local counterparts. These limitations could affect the ability of Sunergy Nanjing to obtain foreign exchange through debt or equity financing, and could affect our business and financial condition.

Our business benefits from certain PRC preferential tax treatments. Expiration of, or changes to, these incentives could have a material adverse effect on our operating results.

The PRC government has provided various incentives to foreign-invested enterprises. Because Sunergy Nanjing is a foreign-invested enterprise engaged in manufacturing businesses and located in Nanjing, which is within a coastal economic zone, it was entitled to a preferential enterprise income tax rate of 24% prior to January 1, 2008. As a foreign-invested enterprise engaged in manufacturing businesses, Sunergy Nanjing was also entitled to a two-year exemption from the enterprise income tax for its first two profitable years of operation and to a 50% reduction of its applicable income tax rate for the succeeding three years. On March 16, 2007, the National People’s Congress of China, or the Congress, enacted the New EIT Law, under which foreign invested enterprises and domestic companies would be subject to enterprise income tax at a uniform rate of 25%. The New EIT Law also provides for transitional measures for enterprises established prior to the promulgation of the New EIT Law and eligible for lower tax rate preferential treatment in accordance with the then-prevailing tax laws and administrative regulations. These enterprises will gradually become subject to the unified tax rate over a five-year transitional period from January 1, 2008 (enterprises which were subject to enterprise income tax rate of 24% before January 1, 2008 are subject to enterprise income tax of 25% from January 1, 2008); enterprises which were established and already enjoyed preferential income tax treatments before March 16, 2007 will continue to enjoy them (i) in the case of preferential tax rates, for a period of five years from January 1, 2008, and the enterprises which previously enjoyed the tax rate of 24% shall be subject to the tax rate of 25% in 2008, or (ii) in the case of preferential tax exemption or reduction for a specified term, until the expiration of such term. In addition, certain enterprises may still benefit from a preferential tax rate of 15% under the New EIT Law if they qualify as “high and new technology enterprises strongly supported by the State,” subject to certain general factors described therein. On April 14, 2008, the Ministry of Finance, the Ministry of Science and Technology and the State Administration of Taxation jointly promulgated the Administration Measures for Recognition of High and New Technology Enterprises, or the Recognition Measures. Pursuant to the New EIT Law, the Implementing Regulation and the Recognition Measures, enterprises which have been granted the new and high technology enterprises status shall enjoy a preferential income tax rate of 15%. In October 2008, Sunergy Nanjing obtained the high and new technology enterprise certificate with a three-year validity term. Therefore, Sunergy Nanjing is entitled to a preferential income tax rate of 15% as long as it maintains its qualification as “high and new technology enterprises” under the New EIT Law and the Recognition Measures. If Sunergy Nanjing fails to maintain the “high and new technology enterprise” qualification, its applicable EIT rate may increase to up to 25%, which could have a material adverse effect on our results of operations. We cannot assure you that we will be able to maintain our current effective tax rate in the future. Any discontinuation of preferential tax treatment or any increase of the enterprise income tax rate applicable to Sunergy Nanjing could have a material adverse effect on our financial condition and results of operations.

Our failure to obtain the prior approval of the China Securities Regulatory Commission, or the CSRC, of the listing and trading of our ADSs on the Nasdaq Global Market could have a material adverse effect on our business, operating results, reputation and trading price of our ADSs.

On August 8, 2006, six PRC regulatory agencies, including CSRC, promulgated the Regulation on Mergers and Acquisitions of Domestic Companies by Foreign Investors, which became effective on September 8, 2006.

This regulation, among other things, has certain provisions that purport to require offshore special purpose vehicles, or SPVs, formed for the purpose of acquiring PRC domestic companies and controlled by PRC individuals, to obtain the approval of the CSRC prior to listing their securities on an overseas stock exchange. The application of this PRC regulation remains unclear with no consensus currently existing among the leading PRC law firms regarding the scope and applicability of the CSRC approval requirement. On September 21, 2006, the CSRC published on its official website a notice specifying the documents and materials that are required to be submitted for obtaining CSRC approval. We believe, based on the advice of our PRC counsel, Jun He Law Offices, that although the CSRC generally has jurisdiction over overseas listing of SPVs like us, it was not necessary for us to obtain CSRC approval for our initial public offering given the fact that we had legally completed the acquisition of all the equity interest in Sunergy Nanjing before the new regulation became effective. Uncertainty as to how this regulation will be interpreted or implemented still remains. If the CSRC or another PRC regulatory agency subsequently determines that the CSRC's approval was required for our initial public offering, we may face sanctions by the CSRC or another PRC regulatory agency. If this happens, these regulatory agencies may impose fines and penalties on our operations in the PRC, limit our operating privileges in the PRC, delay or restrict the repatriation of the proceeds from our initial public offering into the PRC, restrict or prohibit payment or remittance of dividends by Sunergy Nanjing, or take other actions that could have a material adverse effect on our business, financial condition, results of operations, reputation and prospects, as well as the trading price of our ADSs. Also, if later the CSRC requires that we obtain its approval, we may be unable to obtain a waiver of the CSRC approval requirements, if and when procedures are established to obtain such a waiver. Any uncertainties and/or negative publicity regarding this CSRC approval requirement could have a material adverse effect on the trading price of our ADSs.

Regulations relating to offshore investment activities by PRC residents may limit our ability to inject capital into our PRC subsidiary, limit our subsidiary's ability to distribute profits to us, or otherwise adversely affect us.

In October 2005, SAFE issued a regulation entitled "Circular on several issues concerning foreign exchange regulation of corporate finance and roundtrip investments by PRC residents through special purpose companies incorporated overseas," or Circular No. 75. Circular No. 75 states that if PRC residents use assets or equity interests in their PRC entities as capital contributions to establish offshore companies or inject assets or equity interests of their PRC entities into offshore companies to raise capital overseas, they must register with local SAFE branches with respect to their overseas investments in offshore companies and must also file amendments to their registrations if their offshore companies experience material events involving capital variation, such as changes in share capital, share transfers, mergers and acquisitions, spin-off transactions, long-term equity or debt investments or uses of assets in China to guarantee offshore obligations. Under Circular No. 75, failure to comply with the registration procedures set forth in such regulation may result in restrictions being imposed on the foreign exchange activities of the relevant PRC entity, including the payment of dividends and other distributions to its offshore parent, as well as restrictions on the capital inflow from the offshore entity to the PRC entity. While we believe our shareholders have complied with existing SAFE registration procedures, any future failure by any of our shareholders who is a PRC resident or controlled by a PRC resident to comply with relevant requirements under Circular No. 75 could subject our company to fines or sanctions imposed by the PRC government, including restrictions on Sunergy Nanjing's ability to pay dividends or make distributions to us and our ability to increase our investment in or provide loans to Sunergy Nanjing.

Increase in labor costs and the new Labor Contract Law and other labor-related regulations in the PRC may adversely affect our business and our profitability.

On June 29, 2007, the National People's Congress of China enacted a new Labor Contract Law, which became effective on January 1, 2008. Compared to the PRC Labor Law effective as of January 1, 1995, the new Labor Contract Law imposes more restrictions and increases costs for the employers to terminate employment, including specific provisions related to fixed term employment contracts, temporary employment, probation, consultation with the labor union and employee assembly, employment without a contract, dismissal of employees, compensation upon termination and overtime work, and collective bargaining. According to the new Labor Contract Law, the employer is obliged to sign an unlimited term labor contract with an employee if the employer continues to hire the employee after two consecutive fixed term labor contracts or after the employee spends 10 consecutive years working for the employer. The employer also has to pay a compensation fee to the employee if the employer terminates an unlimited term labor contract. Unless an employee refuses to extend an expired labor contract, such compensation is also required when the labor contract expires. Further, under the Regulations on Paid Annual Leave for Employees, which became effective on January 1, 2008, employees who have served more than one year for an employer are entitled to a paid vacation ranging from 5 to 15 days, depending on their length of service. Employees who waive such vacation time at the request of employers shall be compensated for three times their normal salaries for each waived vacation day. As a result of these new protective labor measures, our labor costs are expected to increase, which may adversely affect our business and our 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, SARS or another epidemic or outbreak. China reported a number of cases of SARS in April 2004. Since 2005, there have been reports of occurrences of avian flu in various parts of China, including a few confirmed human cases and deaths. Any prolonged recurrence of avian flu, SARS or other adverse public health developments in China may have a material adverse effect on our business operations. These could include restrictions on 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, SARS or any other epidemic.

Risks Related to Our Shares and ADSs

The market price for our ADSs has been volatile since our ADSs began trading on NASDAQ, and may be subject to fluctuations in the future, which could result in substantial losses to investors.

The closing price of our ADSs has ranged from a high of \$17.88 to a low of \$1.51 since our ADSs began trading on NASDAQ on May 17, 2007. We cannot assure you that the market price of ADSs will not significantly fluctuate from its current level. The market price of our ADSs may be subject to wide fluctuations in response to factors including the following:

- announcements of technological or competitive developments;
- regulatory developments in our target markets affecting us, our customers or our competitors;
- announcements of studies and reports relating to the conversion efficiencies of our products or those of 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 technology 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 ordinary shares or ADSs; and
- sales or perceived sales of additional ADSs.

In addition, the securities markets have 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 ADSs. In particular, the performance and fluctuation of market prices of other companies with business operations located mainly in China that have listed their securities in the United States may affect the volatility in the price of and trading volumes for our ADSs. The trading performances of these China-based companies' securities at the time of or after their offerings may affect the overall sentiment toward China-based companies' securities listed in the United States and consequently may impact the trading performance of our ADSs. Volatility in global capital markets could also have an effect on the market price of our ADSs. For example, financial markets have experienced extreme disruption in recent months, including, among other things, extreme volatility in security prices. In the event of a continuing market downturn, the market price of our ADSs may further decline.

Substantial future sales of our ADSs or ordinary shares in the public market, or the perception that these sales could occur, could cause the price of our ADSs to decline.

Additional sales of our ADSs or ordinary shares in the public market, or the perception that these sales could occur, could cause the market price of our ADSs to decline. If our shareholders sell substantial amounts of our ADSs, including those issued upon the exercise of outstanding options, in the public market, the market price of our ADSs could fall. Such sales also might make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deem appropriate. If any existing shareholder or shareholders sell a substantial amount of ordinary shares, the prevailing market price for our ADSs could be adversely affected.

In addition, we may issue additional ordinary shares or ADSs for future acquisitions. If we pay for our future acquisitions in whole or in part with additionally issued ordinary shares or ADSs, your ownership interests in our company would be diluted and this, in turn, could have a material adverse effect on the price of our ADSs.

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 ADSs or ordinary shares.

Based on the market price of the ADSs, the value of our assets, and the composition of our income and assets, we do not believe we were a "passive foreign investment company," or PFIC, for U.S. federal income tax purposes for our taxable year ended December 31, 2008. A non-U.S. corporation will be a PFIC for any taxable year if either (1) at least 75% of its gross income for such year is passive income or (2) at least 50% of the value of its assets (based on an average of the quarterly values of the assets) during such year is attributable to assets that produce passive income or are held for the production of passive income. We must make a separate determination after the close of each taxable year as to whether we were a PFIC for that year. Accordingly, we cannot assure you that we will not be a PFIC for our current taxable year ending December 31, 2009 or any future taxable year. Because the value of our assets for purposes of the PFIC test will generally be determined by reference to the market price of our ADSs and ordinary shares, fluctuations in the market price of the ADSs and ordinary shares may cause us to become a PFIC. If we are a PFIC for any taxable year during which a U.S. Holder (as defined in Item 10, "Additional Information—Taxation—United States Federal Income Taxation") holds an ADS or an ordinary share, certain adverse U.S. federal income tax consequences could apply to such U.S. Holder. See Item 10, "Additional Information—Taxation—United States Federal Income Taxation—Passive Foreign Investment Company."

Your right to participate in any future rights offerings may be limited, which may cause dilution to your holdings and you may not receive cash dividends if it is impractical to make them available to you.

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. Also, under the deposit agreement, the depository bank will not make rights available to you unless the distribution to ADS holders of both the rights and any related securities are either registered under the Securities Act, or exempted from registration under the Securities Act. 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.

In addition, the depository of our ADSs has agreed to pay to you the cash dividends or other distributions it or the custodian receives on our ordinary shares or other deposited securities after deducting its fees and expenses. You will receive these distributions in proportion to the number of ordinary shares your ADSs represent. However, the depository may, at its discretion, decide that it is inequitable or impractical to make a distribution available to any holders of ADSs. For example, the depository may determine that it is not practicable to distribute certain property through the mail, or that the value of certain distributions may be less than the cost of mailing them. In these cases, the depository may decide not to distribute such property and you will not receive such distribution.

Anti-takeover provisions in our charter documents may discourage a third party from acquiring us, which could limit our shareholders' opportunities to sell their shares at a premium.

Our amended and restated memorandum and articles of association include provisions that could limit the ability of others to acquire control of us, modify our structure or cause us to engage in change-of-control transactions. These provisions could have the effect of depriving our shareholders of an opportunity to sell their shares at a premium over prevailing market prices by discouraging third parties from seeking to obtain control of us in a tender offer or similar transaction.

For example, our board of directors will have the authority, without further action by our shareholders, to issue preferred shares in one or more series and to fix the powers and rights of these shares, including dividend rights, conversion rights, voting rights, terms of redemption and liquidation preferences, any or all of which may be greater than the rights associated with our ordinary shares. Preferred shares could thus be issued quickly with terms calculated to delay or prevent a change in control or make removal of management more difficult. In addition, if our board of directors issues preferred shares, the market price of our ordinary shares may fall and the voting and other rights of the holders of our ordinary shares may be adversely affected.

Our amended and restated articles of association provide for a staggered board, which means that our directors are divided into three classes, with around one-third of our board standing for election every year. This means that, with our staggered board, at least two annual shareholders' meetings, instead of one, are generally required in order to effect a change in a majority of our directors. Our staggered board can discourage proxy contests for the election of our directors and purchases of substantial blocks of our shares by making it more difficult for a potential acquirer to take control of our board in a relatively short period of time.

We are a Cayman Islands company and, because judicial precedent regarding the rights of shareholders is more limited under Cayman Islands law than that under U.S. law, you may have less protection for your rights than you would under U.S. law.

Our corporate affairs are governed by our amended and restated memorandum and articles of association, the Cayman Islands Companies Law and the common law of the Cayman Islands. The rights of shareholders to take action against the directors, actions by minority shareholders and the fiduciary responsibilities of our directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as that from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The rights of our shareholders and the fiduciary responsibilities of our directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedent in some jurisdictions in the United States. In particular, the Cayman Islands has a less developed body of securities laws than the United States. In addition, some U.S. states, such as Delaware, have more fully developed and judicially interpreted bodies of corporate law than the Cayman Islands.

As a result of all of the above, public shareholders may have more difficulty in protecting their interests in the face of actions taken by management, members of the board of directors or controlling shareholders than they would as shareholders of a U.S. public company.

You will have limited ability to bring an action against us or against our directors and officers, or to enforce a judgment against us or them, because we are incorporated in the Cayman Islands, because we conduct a majority of our operations in China and because the majority of our directors and officers reside outside the U.S.

We are incorporated in the Cayman Islands, and conduct substantially all of our operations in China through Sunergy Nanjing, our wholly owned subsidiary established in China. Most of our directors and officers reside outside the United States and substantially all of the assets of those persons are located outside the United States. As a result, it may be difficult or impossible for you to bring an action against us or against these individuals in the Cayman Islands or in China in the event that you believe that your rights have been infringed under the applicable securities laws or otherwise. Even if you are successful in bringing an action of this kind, the laws of the Cayman Islands and of China may render you unable to enforce a judgment against our assets or the assets of our directors and officers.

The voting rights of holders of our ADSs are limited in several significant ways by the terms of the deposit agreement.

Holders of our ADSs may only exercise their voting rights with respect to the underlying ordinary shares in accordance with the provisions of the deposit agreement. Upon receipt of voting instructions from a holder of ADSs in the manner set forth in the deposit agreement, the depositary will endeavor to vote the underlying ordinary shares in accordance with these instructions. Under our amended and restated memorandum and articles of association and Cayman Islands law, the minimum notice period required for convening a general meeting is ten days. When a general meeting is convened, you may not receive sufficient notice of a shareholders' meeting to permit you to withdraw your ordinary shares to allow you to cast your vote with respect to any specific matter at the meeting. In addition, the depositary and its agents may not be able to send voting instructions to you or carry out your voting instructions in a timely manner. We will make all reasonable efforts to cause the depositary to extend voting rights to you in a timely manner, but we cannot assure you that you will receive the voting materials in time to ensure that you can instruct the depositary to vote your shares. Furthermore, the depositary and its agents will not be responsible for any failure to carry out any instructions to vote, for the manner in which any vote is cast or for the effect of any such vote. As a result, you may not be able to exercise your right to vote and you may lack recourse if your ordinary shares are not voted as you requested.

You may be subject to limitations on transfer of your ADSs.

Your ADSs, represented by American depositary receipts, are transferable on the books of the depositary. However, the depositary may close its books at any time or from time to time when it deems expedient in connection with the performance of its duties. The depositary may close its books from time to time for a number of reasons, including in connection with corporate events such as a rights offering, during which time the depositary needs to maintain an exact number of ADS holders on its books for a specified period. The depositary may also close its books in emergencies, and on weekends and public holidays. The depositary may refuse to deliver, transfer or register transfers of our ADSs generally when our books or the books of the depositary are closed, or at any time if we or the depositary thinks it is necessary or advisable to do so in connection with the performance of its duty under the deposit agreement, including due to any requirement of law or any government or governmental body, or under any provision of the deposit agreement.

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

Our operating subsidiary, Sunergy Nanjing, was incorporated in August 2004 in Nanjing, China. China Sunergy Co., Ltd., or Sunergy BVI, our holding company incorporated in the British Virgin Islands, acquired all of the equity interests in Sunergy Nanjing in April 2006 through a series of transactions that we have accounted for as a legal reorganization. As part of a restructuring in anticipation of our initial public offering, we incorporated China Sunergy Co., Ltd., or Sunergy, in the Cayman Islands on August 4, 2006. Sunergy became our ultimate holding company upon its issuance of shares to the existing shareholders of Sunergy BVI on August 30, 2006 in exchange for all shares of equivalent classes that these shareholders previously held in Sunergy BVI. In December 2007, Sunergy BVI incorporated China Sunergy (Hong Kong) Co., Ltd., or Sunergy Hong Kong, in Hong Kong. During the same month, Sunergy BVI transferred all of the equity interests in Sunergy Nanjing to Sunergy Hong Kong, which became the direct holding company of Sunergy Nanjing. We conduct substantially all of our operations through Sunergy Nanjing.

In May 2007, we completed our initial public offering, in which we issued and sold 9,775,000 ADSs, representing 58,650,000 of our ordinary shares, at a public offering price of \$11.00 per ADS. In July 2008, we completed our offering of \$54.5 million aggregate principal amount of 4.75% convertible senior notes due June 2013 and public offering of 4,431,000 ADSs, which were loaned to an affiliate of the initial purchaser of the notes, who in turn sold the borrowed ADSs in the offering. We did not receive any proceeds from the offering of the borrowed ADSs, but has received a nominal lending fee from the ADS borrower.

Our principal executive offices are located at No. 123 Focheng West Road, Jiangning Economic & Technical Development Zone, Nanjing, Jiangsu 211100, People's Republic of China. Our telephone number at this address is (86-25) 5276-6688 and our fax number is (86-25) 5276-6882.

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.chinasunenergy.com. The information contained on our website does not form part of this report. Our agent for service of process in the United States is CT Corporation System, located at 111 Eighth Avenue, New York, New York 10011.

B. Business Overview

We manufacture our solar cells from silicon wafers utilizing crystalline silicon solar cell technology to convert sunlight directly into electricity through a process known as the photovoltaic effect. We sell our solar cell products to Chinese and overseas module manufacturers and system integrators, who assemble our solar cells into solar modules and solar power systems for use in various markets.

We commenced business operations in August 2004. In 2005, we had only one solar cell manufacturing line. In 2006, we installed five additional solar cell manufacturing lines and expanded our annual manufacturing capacity by 160 MW, assuming the use of 156-millimeter monocrystalline silicon wafers. In December 2008, we installed four new solar cell lines for the production of selective emitter cells. As of the date of this annual report, our ten solar cell manufacturing lines have an aggregate annual production capacity of 320 MW, assuming the use of 156-millimeter monocrystalline silicon wafers.

Our research and development team is led by two solar power researchers, Dr. Jianhua Zhao and Dr. Aihua Wang, each with over 20 years of experience and established credentials in the solar power industry. Our research and development efforts focus on continually enhancing our solar cell conversion efficiencies, which measure the ability of solar power products to convert sunlight into electricity, and improving our manufacturing operations. In the fourth quarter of 2007, we commenced commercial mass production of selective emitter cells using monocrystalline silicon wafers, an improved version of the P-type solar cells that we and most other solar cell manufacturers produce. In the first quarter of 2009, we successfully tested multicrystalline silicon wafers on one of our selective emitter solar cells manufacturing lines, which enabled us to produce selective emitter multicrystalline solar cells using multicrystalline silicon wafers as raw materials. Selective emitter multicrystalline solar cells generally have a higher conversion efficiencies than P-type multicrystalline solar cells that we and most other solar cell manufacturers usually produce. We are also developing Matrix cells. In addition, we are focusing on the development of advanced process technology for manufacturing other new products, such as N-type solar cells, which generally have higher conversion efficiencies than those of P-type solar cells.

We sold 46.4 MW of solar cells in 2006. In 2007, the shipment of our solar power products amounted to 74.0 MW, including 70.0 MW of solar cells sold, 2.4 MW of solar cells processed under OEM arrangements, and 1.6 MW of modules sold. In 2008, the shipment of our solar power products amounted to 107.2 MW, including 100.4 MW of solar cells sold, 4.2 MW of solar cells processed under OEM arrangements and 2.6 MW of modules sold. We had net revenues of \$149.5 million, \$234.9 million and \$350.9 million in 2006, 2007 and 2008, respectively. We had net income of \$11.8 million in 2006 and incurred net losses of \$4.9 million and \$22.9 million in 2007 and 2008, respectively.

Products

We currently design, develop, manufacture and sell solar cells. A solar cell is a device made from a silicon wafer that converts sunlight directly into electricity by a process known as the photovoltaic effect. Currently, we produce both monocrystalline and multicrystalline silicon solar cells. In addition to standard P-type solar cells and HP solar cells, we also produce since the fourth quarter of 2007 selective emitter cells, an improved version of the P-type solar cells that we and most other solar cell manufacturers produce. In 2008, the quarterly average conversion efficiency of our selective emitter cells ranged from 17.2% to 17.3%.

The following table sets forth the types of solar cells we offered in 2008 with the specifications indicated.

Monocrystalline or Multicrystalline Solar Cell	Dimensions (mm×mm)	As a Percentage of Total Output in 2008 as Measured by MW (%)
Monocrystalline	125×125	70.7
silicon solar cell	156×156	5.1
Multicrystalline silicon	125×125	1.0
solar cell	156×156	23.2

We produce a test batch of solar cells from each shipment of silicon wafers that we receive, and return the wafers if the quality is below our standards. However, normal variation in the quality of silicon wafers in shipments that meet our standards will still result in the production of a certain proportion of solar cells that do not meet our customers' specifications. We refer to these solar cells as being off-specification. In 2007 we sold off-specification solar cells at a discount to recover some or all of the expense we incur in the production process. Off-specification solar cells can be difficult to sell and the market price for them is volatile.

In addition to solar cells, we also sell limited quantities of polysilicon and solar modules.

Manufacturing Process

The manufacturing process for our solar cells includes the following main steps:

- Chemical treatment of silicon wafers. We first fabricate a textured structure on the wafer surface through chemical treatment to reduce the reflection of sunlight. The chemical treatment process produces a surface structure, which traps sunlight into the silicon.
- Diffusion process. Diffusion is a thermal process through which we selectively incorporate impurities into the silicon wafer and form an electrical field within the surface region of the wafer.
- Edge isolation. We achieve electrical isolation between the front and back surfaces of the silicon wafer through a process known as edge isolation. We use both the conventional method of edge isolation, which is etching the edge with plasma, and chemical etching technology.
- Anti-reflection coating and surface passivation. We apply an anti-reflection coating to the front surface of the solar cell, which helps to significantly reduce the light reflection at the cell surface. Such coating also passivates the cell surface to reduce the carrier loss at the surface and hence increases the cell current density. Our surface coating technology ensures the appropriate thickness and refractive index of the coating to achieve high conversion efficiencies.
- Screen printing and firing. We screen print negative and positive metal contacts, or electrodes, on the solar cell. Silicon and metal electrodes are then connected through an electrode firing process in a furnace at a high temperature.

Manufacturing Capacity and Manufacturing Facilities

Since our inception in August 2004, we have significantly expanded our manufacturing capacity to capture a larger portion of the market opportunity for our solar cells. In June 2005, we completed construction on a green-field site and started trial production of our first manufacturing line with a production capacity of 32 MW per year, assuming the use of 156-millimeter monocrystalline silicon wafers. We sold 4.4 MW of solar cells in 2005.

We completed our second to sixth solar cell manufacturing lines and started generating revenues from these lines in 2006. We sold 46.4 MW of solar cells in 2006. In 2007, the shipment of our solar power products amounted to 74.0 MW, including 70.0 MW of solar cells sold, 2.4 MW of solar cells processed under OEM arrangements and 1.6 MW of modules sold. In 2008, the shipment of our solar power products amounted to 107.2 MW, including 100.4 MW of solar cells sold, 4.2 MW of solar cells processed under OEM arrangements and 2.6 MW of modules sold.

In 2008, we converted four of our standard P-type solar cell manufacturing lines into HP solar cell manufacturing lines, three of which are capable of producing HP solar cells using multicrystalline silicon wafers as raw materials. In December 2008, we installed four new solar cell lines for the production of selective emitter cells. As of the date of this annual report, we have ten solar cell manufacturing lines, five of which are capable of producing selective emitter solar cells, four of which are capable of producing HP solar cells and one of which is capable of producing standard P-type solar cells, with an aggregate annual production capacity of 320 MW, assuming the use of 156-millimeter monocrystalline silicon wafers. Our actual output of solar cells depends on the size of the silicon wafers that we use; historically we have used a mix of monocrystalline and multicrystalline silicon wafers, each in sizes of 125 millimeters or 156 millimeters. Our actual output does not match our production capacity because we cannot obtain sufficient supply of 156-millimeter wafers, as most of our suppliers and most of the suppliers in China sell the smaller size. To the extent we use smaller wafers or multicrystalline wafers, our actual production will be less than our production capacity.

The table below sets forth a summary of our current manufacturing lines for solar cells as of the date of this annual report:

Solar Cell Manufacturing Line	Time of Achieving Full-scale Manufacturing Capacity	Annualized Manufacturing Capacity⁽¹⁾ (in MW)
Line 1	August 2005	32
Line 2	May 2006	32
Line 3	June 2006	32
Line 4	November 2006	32
Line 5	November 2006 ⁽²⁾	32
Line 6	December 2006	32
Line 7	December 2008 ⁽²⁾	32
Line 8	December 2008 ⁽²⁾	32
Line 9	December 2008 ⁽²⁾	32
Line 10	December 2008 ⁽²⁾	32
Total		320

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- (1) Calculated by assuming the use of 156-millimeter monocrystalline silicon wafers, with assumptions regarding the number of cells per month and the conversion rates of those cells.
 - (2) Capable of producing selective emitter solar cells.

Raw Materials

Silicon wafers are the most important raw materials for producing solar cells, with monocrystalline and multicrystalline silicon wafers as the most commonly used materials. We can produce solar cells with either of these types of silicon wafers, and this dual capability provides us with flexibility in raw material procurement.

We seek to procure silicon wafers from various suppliers, including manufacturers and trading companies, most of which are located in China. In addition, we procure polysilicon, silicon ingots and other silicon-based raw materials throughout the various segments of the supply chain, and outsource the production of silicon wafers from these raw materials under toll manufacturing arrangements with third parties. Sometimes, we sell polysilicon raw materials to wafer manufacturers and purchase silicon wafers from them under buy-and-sell arrangements. In order to meet a portion of our raw material requirements, we also enter into buy-and-sell arrangements with some of our customers, under which we secure silicon wafers from some of our customers, and sell solar cells to them in return.

In 2008, our principal suppliers of silicon wafers and other silicon-based raw materials included Jinzhou Yangguang Energy Co., Ltd., Jiangxi LDK Solar Hi-Tech Co. Ltd., Ningbo Jingyuan Solar Power Co., Ltd., Jingsu Zhongneng Polysilicon Technology Development Co., Ltd. and Luoyang Zhonggui High-tech Co., Ltd. Our top five suppliers supplied approximately 37.4% of silicon wafers and other silicon raw material supplies that we procured in 2008. Due to the industry-wide shortage of silicon raw materials experienced during the past few years, we have purchased silicon raw materials using short-term and long-term contracts from a limited number of international and domestic suppliers. Some agreements provide for firm purchase commitments and fixed pricing or pricing adjustable within a relatively small range. From the fourth quarter of 2008, the price of silicon raw materials decreased rapidly due to the excess supply of silicon raw materials resulting from a slowed global solar power market growth. In light of such excess supply, we are seeking to re-negotiate with our long-term supply partner in regard to certain long-term supply contracts signed in 2008. Given the current wafer price environment, we also seek to exert greater control over incoming wafer quality while establishing stable and long-term relationships with high quality suppliers.

Our manufacturing process also involves metallic paste, chemicals and other materials. We secure these raw materials from multiple vendors who have demonstrated good quality control and reliability.

Quality Assurance and Customer Support and Service

Our quality control consists of three components: incoming inspection through which we ensure the quality of the raw materials that we source from third parties, in-process quality control of our manufacturing processes, and output quality control of finished products through inspection and testing. We have received the ISO 9001:2000 certification for our quality assurance programs, which we believe demonstrates our technological capabilities and instills customer confidence. We adhere to strict standards when testing the conversion efficiency of our products to ensure that our products perform to specified standards.

A team within our sales group works closely with our quality assurance group to provide customer support and service. We emphasize gathering customer feedback for our products and timely addressing customer concerns. Our customer support and service team also provides our customers with training and consultation with respect to the application of our products.

Customers and Markets

We sell our solar cells primarily to module manufacturers, who assemble our cells into solar modules and solar power systems for use in various markets, particularly the European markets. We also outsource to third parties the manufacturing of solar modules from our solar cells or purchase solar modules from third parties for sale of such solar modules to our customers. In 2008, solar module sales accounted for only 3.1% of our revenues and we do not plan to substantially increase our solar module sales in the near future. In 2008, our major customers included aleo solar AG, Wuxi Guofei Green Energy Source Co., Ltd., CEEG (Shanghai) Solar Science and Technology Co., Ltd., an entity controlled by our chairman, Mr. Tingxiu Lu, Solarwatt AG and asola Advanced and Automotive Solar Systems GmbH. In 2008, our top five customers contributed 60.0% of our net revenues, including CEEG (Shanghai) Solar Science and Technology Co., Ltd., which contributed over 13.2% of our net revenues in 2008. Sales to each of aleo solar AG and Wuxi Guofei Green Energy Source Co., Ltd. contributed over 10% of our net revenues for the year ended December 31, 2008.

We currently make a majority of our sales to customers located in China. We also sell our solar power products to customers located in Germany, Italy and other countries. The following table sets forth by region our net revenues derived from sales of our products for the periods indicated:

	Year Ended December 31,						
	2006		2007		2008		
(in thousands, except percentages)							
Europe:							
— Germany	\$	15	—	\$ 62,314	26.5%	\$ 126,860	36.2%
— Italy		12,235	8.2%	8,980	3.8	6,128	1.7
— Netherlands		8,957	6.0	—	—	—	—
— Spain		—	—	—	—	9,399	2.7
— Others		175	0.1	1,803	0.8	51	0
Europe Total		21,382	14.3	73,097	31.1	142,438	40.6
PRC		119,238	79.7	151,058	64.3	196,628	56.0
South Africa		3,712	2.5	83	—	—	—
India		1,054	0.7	2,332	1.0	1,154	0.3
South Korea		3,183	2.1	6,419	2.8	10,257	2.9
Others		952	0.6	1,919	0.8	444	0.1
Total net revenues		\$149,521	100.0%	234,908	100%	\$350,920	100%

In order to continue growing our sales and to reduce our reliance on any particular market segment, we intend to broaden our geographic presence and customer base. While we expect China to continue to be one of our most significant markets for the foreseeable future, we plan to expand into several overseas solar power markets, including European countries and those countries and regions with growing demand or market potential for solar power products, such as the United States, Korea and other Asian countries and regions.

We sell our products primarily under sales contracts, purchase orders and buy-and-sell arrangements, as follows:

- Sales contracts and purchase orders. Historically, we entered into sales contracts of various terms with our customers and were obligated to deliver solar cells according to a pre-agreed price and schedule during the term of the contract. Given the volatility in average selling prices of silicon raw materials and solar cells in recent periods, a substantial portion of our contracts now provide for re-negotiation of price terms based on regular pricing reviews every three or six months or provide for adjustment of pricing terms when the change in exchange rate reaches certain benchmarks. We typically require our customers to pay a certain percentage of the purchase price as advance payment within a short period after signing the sales contracts. The percentage of advance payments varies depending on the credit status of our customers, our relationship with the customers, market demand and the terms of a particular contract. We may grant our large customers credit terms, usually within one month, according to our current credit policy. With respect to the other customers, we typically request full payment before or upon shipment. We also sell our solar cells via purchase orders placed by our customers.
- Buy-and-sell arrangements. Under buy-and-sell arrangements, we obtain silicon wafer supplies from our customers, and are obligated to sell solar cells to them in return. The payment we make for the wafers and the payment our customers make for the solar cells are either settled separately or sometimes offset against each other.

We also process silicon wafers provided by our customers into solar cells under OEM arrangements, and we charge processing fees from these customers.

In February 2009, we entered into a sales agreement with asola Advanced and Automotive Solar System GmbH under which it agreed to purchase between 10MW and 30MW of solar cells in 2009. The prices of our solar cells under this agreement for the first half of 2009 are fixed. In March 2009, we also entered into a non-binding framework agreement with asola Advanced and Automotive Solar System GmbH for the potential delivery of up to 480MW of solar cells from 2009 to 2018. Specific terms and conditions of the supply will be set forth in definitive sales agreements to be further negotiated.

In December 2008, we entered into a sales agreement and its supplemental agreement with Ajit Solar Pvt Ltd., under which it agreed to purchase a total of 12 MW of our solar cells in 2009. The prices of our solar cells under this contract for the first quarter of 2009 are fixed, and the prices for subsequent deliveries are to be negotiated quarterly. During the same month, we also entered into a sales agreement with Solarwatt AG, under which it agreed to purchase a total of 22 MW of our solar cells in 2009 with a fixed price.

In 2008, particularly in the fourth quarter, partly due to the impact of global financial market disruption and economic slowdown, some of our customers cancelled or delayed orders for our products. Purchases of solar power products tend to decrease during the winter months because of adverse weather conditions in certain regions, which complicate the installation of solar power systems. Historically, our results of operations have been affected by such seasonality of industry-wide demand for solar power products.

Sales and Marketing

We market and sell our solar power products worldwide through our direct sales force, which is based in our facilities in Nanjing, China. Our marketing programs include industrial conferences, trade fairs, sales training, advertising and public relation events. Our sales and marketing groups work closely with our research and development and manufacturing groups to coordinate our product development activities, product launches and ongoing demand and supply planning. We plan to establish a global sales network and have expanded our sales network by establishing two regional offices, one in Shanghai, China and the other in Munich, Germany.

Historically, the identity of our customers has changed substantially from year to year. We aim to further develop long-term relationships with key customers who are market leaders or strong niche players in their respective industrial or geographic segments. We believe that these customers will provide consistent revenue streams to minimize business volatility, and we target to achieve a substantial portion of our total net revenues from sales to strategic customers. We believe that our focus on solar cell manufacturing minimizes our conflict of interest with module manufacturers and enables us to establish and maintain long-term partnerships with our customers. We only engage in sales of modules under limited circumstances, and sales of modules only account for a few percentage points of our net revenues each year. As many module manufacturers are based in China, our proximity to our customers gives us competitive advantages, such as rapid delivery, effective communication and efficient post-sale services. To further diversify our customer base, which currently consists primarily of module manufacturers, we will seek to increase our sales to system integrators and develop customers in the market for specialty applications, such as, solar power streetlights and traffic lights.

Intellectual Property

As of the date of this annual report, we have three patents in China, one of which relates to process technology for the manufacture of N-type solar cells, and the other two of which relate to utility models for N-type solar cells. In addition, we have five patent applications pending in China, one of which relates to manufacture of selective emitter solar cells, three of which relate to improvement on performance of solar cells, and the last one relates to rectification of bowed solar cells. We intend to continue to assess appropriate opportunities for patent protection of those aspects of our technology that we believe provide significant competitive advantage to us.

We also rely on a combination of trade secrets and employee contractual protections to establish and protect our proprietary rights. We believe that many elements of our solar power products and manufacturing processes involve proprietary know-how, technology or data that are not covered by patents or patent applications, including technical processes, equipment designs, algorithms and procedures. We have taken security measures to protect these elements. All of our research and development personnel have entered into confidentiality and proprietary information agreements with us. These agreements address intellectual property protection issues and require our employees to assign to us all of their inventions, designs and technologies that they develop primarily utilizing our resources or when performing their duties during their employment.

We filed trademark applications for “NPV,” “SUNERGY,” and “CSUN” as well as several logos with the PRC Trademark Office in 2006 and 2007. The registrations for these trademarks have not been completed and, under PRC law, we have not obtained proprietary rights to these trademarks yet. Further, CEEG and Sunergy Nanjing entered into two trademark license agreements effective as of February 9, 2006 and June 7, 2006, respectively, pursuant to which CEEG granted to Sunergy Nanjing the rights to use the trademarks of “CEEG” and its Chinese characters in Sunergy Nanjing’s ordinary business for ten years.

Competition

The market for solar cells is highly competitive and continually evolving. We expect to face increased competition, which may result in price reductions, reduced margins or loss of market share. We believe that the key competitive factors in the market for solar cells include:

- manufacturing efficiency;
- conversion efficiency and performance;
- price;
- strength of supplier relationships; and
- reputation.

Our competitors include solar power divisions of large conglomerates such as BP Solar, Kyocera, Sanyo and Sharp Corporation, as well as specialized cell manufacturers such as JA Solar Holdings Co., Ltd., Motech Industries Inc., Q-Cells AG, Suntech Power Holdings Co., Ltd. and Solarfun Power Holdings Co. Ltd. Some of our competitors have also become vertically integrated, from upstream polysilicon manufacturing to solar power system integration, such as Renewable Energy Corporation ASA.

Many of our competitors are developing or currently producing products based on alternative solar power technologies, such as thin-film technologies, which may ultimately have costs similar to, or lower than, our projected costs. We expect that we will also need to compete with new entrants to the solar power market. In addition, the entire solar power industry also faces competition from conventional and non-solar renewable energy technologies.

Many of our existing and potential competitors have substantially greater financial, technical, manufacturing and other resources than we do. Our competitors' greater size in some cases provides them with a competitive advantage with respect to manufacturing costs due to their economies of scale and their ability to purchase raw materials at lower prices. Many of our competitors also have more established distribution networks and larger customer bases. As a result, they may be able to devote greater resources to the research, development, promotion and sale of their products or respond more quickly to evolving industry standards and changes in market conditions than we can.

REGULATION

This section sets forth a summary of the most significant regulations or requirements that affect our business activities in China or our shareholders' rights 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 out 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 out the national policy to encourage the installation and use of solar energy water-heating systems, solar energy heating and cooling systems, solar photovoltaic systems and other solar energy utilization systems. It also provides the general principles regarding financial incentives for the development of renewable energy projects. The projects, as listed in the renewable energy industry development guidance catalogue, may obtain preferential loans from financial institutions and can enjoy tax preferences. The State Council is authorized to stipulate the specific tax preferential treatments. However, so far, no rule has been issued by the State Council pertaining to this matter. In January 2006, China's National Development and Reform Commission promulgated two implementation directives of the Renewable Energy Law. These directives set out specific measures in setting prices for electricity generated by solar and other renewable 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 July 2007, China's National Development and Reform Commission further promulgated an implementation directive of the Renewable Energy Law. The directive stipulates the responsibility of electricity grid companies to buy all electricity generated by renewable energy power generation systems.

China's Ministry of Construction also issued directives in September 2006 and February 2007, which seek 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, the State Council promulgated a directive in July 2005 which sets out specific measures to conserve energy resources.

On March 23, 2009, China's Ministry of Finance promulgated the Interim Measures for Administration of Government Subsidy Funds for Application of Solar Photovoltaic Technology in Building Construction, or the Interim Measures, to support the demonstration and the promotion of solar photovoltaic application in China. Local governments are encouraged to issue and implement supporting policies for the development of solar photovoltaic technology. Under these Interim Measures, the Ministry of Finance provides subsidies for projects with individual solar installations that are greater than 50 kilowatt-peak in size and have more than 16% conversion efficiency for monocrystalline solar power products, more than 14% conversion efficiency for multicrystalline solar power products and more than 6% conversion efficiency for amorphous silicon solar power products, and gives priority support to solar power technology integrated into building construction, grid-connected solar power building applications and some public solar power building applications such as schools, hospitals and offices. For 2009, the standard subsidy is set at RMB20 per watt in principle and the detailed standard is to be determined by factors including, but not limited to, the level of integration of buildings with solar power and the technology of solar power products. The Interim Measures do not apply to projects completed before March 23, 2009, the promulgation date of the Interim Measures.

On April 16, 2009, the General Offices of the PRC Ministry of Finance and the PRC Ministry of Housing and Urban-Rural Development jointly issued the Guidelines for Declaration of Demonstration Project of Solar Photovoltaic Building Applications. These guidelines set the subsidies given out in 2009 to qualified solar projects at no more than RMB20 per watt for projects involving the integration of solar power components into buildings' structural elements and at no more than RMB15 per watt for projects involving the installation of solar power components onto building rooftops and wall surfaces.

Environmental Regulations

We are subject to a variety of governmental regulations related to environmental protection. The major environmental regulations applicable to us include the Environmental Protection Law of the PRC, the Law of PRC on the Prevention and Control of Water Pollution, Implementation Rules of the Law of PRC on the Prevention and Control of Water Pollution, the Law of PRC on the Prevention and Control of Air Pollution, Implementation Rules of the Law of PRC on the Prevention and Control of Air Pollution, the Law of PRC on the Prevention and Control of Solid Waste Pollution, and the Law of PRC on the Prevention and Control of Noise Pollution.

We are in compliance with present environmental protection requirements in all material aspects and have all necessary environmental permits to conduct our business, except as disclosed herein, see "Item 3- Key Information—D. Risk Factors—Risks Related to Our Company and Our Industry—Noncompliance with present or future construction and environmental regulations may result in potentially significant monetary damages and fines". Our operations are subject to regulation and periodic monitoring by local environmental protection authorities.

Restriction on Foreign Ownership

The principal regulation governing foreign ownership of solar power businesses in the PRC is the Foreign Investment Industrial Guidance Catalogue, effective as of December 1, 2007, or the Catalogue. The Catalogue classifies the various industries into four categories: encouraged, permitted, restricted and prohibited. As confirmed by the government authorities, Sunergy Nanjing, our operating subsidiary, is engaged in an encouraged industry. Sunergy Nanjing is permitted under the PRC laws to be wholly owned by a foreign company. Sunergy Nanjing is, accordingly, also entitled to certain preferential treatments granted by the PRC government authorities, such as exemption from tariffs on equipment imported for its own use.

Tax

PRC enterprise income tax is calculated primarily on the basis of taxable income determined under PRC accounting principles. In accordance with Income Tax Law of China for Enterprises with Foreign Investment and Foreign Enterprises promulgated as of April 9, 1991 and effective as of July 1, 1991, or the Income Tax Law, and the related implementing rules, foreign-invested enterprises incorporated in the PRC were generally subject to an enterprise income tax rate of 33% (30% of state income tax plus 3% of local income tax). The Income Tax Law and the related implementing rules provided certain preferential tax treatments to foreign-invested enterprises which were established in certain areas in the PRC.

Sunergy Nanjing, a foreign-invested enterprise engaged in a manufacturing business and established in Nanjing, which is within a coastal economic zone, was entitled to a preferential enterprise income tax rate of 24%. As a wholly foreign owned enterprise engaged in a manufacturing business, Sunergy Nanjing was also entitled to a two-year exemption from the enterprise income tax for its first two profitable years of operation, which were 2006 and 2007, and to a 50% reduction of its applicable income tax rate for the succeeding three years, which would be 2008, 2009 and 2010. To enjoy the above preferential treatment, the operation duration of Sunergy Nanjing shall be no less than 10 years.

On March 16, 2007, the National People's Congress, enacted the New EIT Law. On December 6, 2007, the State Council adopted the Implementing Regulation for the New EIT Law. Both the New EIT Law and its Implementing Regulation became effective on January 1, 2008. Under the New EIT Law and its Implementing Regulation, foreign-invested enterprises and domestic companies would be subject to enterprise income tax at a uniform rate of 25%. On December 26, 2007, State Council of China promulgated the circular on implementation of enterprise tax transition preferential policy, or the Circular. Under the New EIT Law, the Implementing Regulation and the Circular, enterprises which were established and already enjoyed preferential enterprise income tax treatments before March 16, 2007 will continue to enjoy them (i) in the case of preferential tax rates, for a period of five years from January 1, 2008, and the enterprises which previously enjoyed the tax rate of 24% shall be subject to the tax rate of 25% in 2008, and (ii) in the case of preferential tax exemption or reduction for a specified term, until the expiration of such term. Therefore, Sunergy Nanjing is subject to an applicable income tax rate of 12.5% in 2008, 2009 and 2010.

On April 14, 2008, the Ministry of Finance, the Ministry of Science and Technology and the State Administration of Taxation jointly promulgated the Administration Measures for Recognition of High and New Technology Enterprises, or the Recognition Measures. Pursuant to the New EIT Law, the Implementing Regulation and the Recognition Measures, enterprises which have been granted the high and new technology enterprises status shall enjoy a preferential income tax rate of 15%. On October 21, 2008, Sunergy Nanjing obtained a high and new technology enterprise certificate with a three-year validity term, showing that Sunergy Nanjing has been granted the new and high technology enterprises status. Therefore, Sunergy Nanjing is entitled to enjoy a preferential income tax rate of 15%.

Pursuant to the Circular, if an enterprise enjoying the tax preference treatment under the income tax transition preference policy is also entitled to other tax preference treatment under the New EIT Law, the enterprise shall choose to adopt one of the tax preference treatments and may not simultaneously enjoy both preference treatments. Therefore, Sunergy Nanjing is subject to an applicable income tax rate of 12.5% in 2008, 2009 and 2010. From 2011, Sunergy Nanjing will be subject to an applicable income tax rate of 15%, if the high and new technology enterprise certificate is renewed.

Pursuant to the Provisional Regulation of China on Value Added Tax and its implementing rules, all entities and individuals that are engaged in the sale of goods, the provision of processing, repairs and replacement services and the importation of goods into China are generally required to pay value added tax, or VAT, at a rate of 17.0% of the gross sales proceeds received, less any deductible VAT already paid or borne by the taxpayer. Further, when exporting goods, the exporter is entitled to a portion or all of the refund of VAT that it has already paid or borne. Accordingly, Sunergy Nanjing is subject to the 17.0% VAT with respect to its sales of solar cells in China, while Sunergy Nanjing's export sales of solar cells is exempt from such VAT.

Foreign Currency Exchange

The principal regulations governing foreign currency exchange in China are the Foreign Exchange Administration Regulations (1996), as amended in 1997 and 2008 respectively. Under these regulations, the Renminbi is freely convertible for current account items, including the distribution of dividends, interest payments, trade and service-related foreign exchange transactions. However, for capital account items, such as direct investment, loan, repatriation of investment and investment in securities outside China, the conversion of foreign currencies into Renminbi is subject to the prior approval of SAFE, but the conversion of Renminbi into foreign currencies for the international payment and remittance under capital accounts is generally exempt from SAFE's prior approval unless otherwise required by Chinese laws and regulations.

Pursuant to the Administration Rules of the Settlement, Sale and Payment of Foreign Exchange (1996), enterprises may only buy, sell or remit foreign currencies at banks that are authorized to conduct foreign exchange business after the enterprise provides valid commercial documents and relevant supporting documents and, in the case of certain capital account transactions, after obtaining approval from SAFE or its competent local branches. Capital investments by enterprises outside of China are also subject to limitations, which include approvals by the Ministry of Commerce, SAFE and the National Development and Reform Commission, or their respective competent local branches.

Pursuant to the Notice of the General Affairs Department of the State Administration of Foreign Exchange on the Relevant Operating Issues concerning the Improvement of the Administration of Payment and Settlement of Foreign Currency Capital of Foreign-funded Enterprises (2008), the foreign currency capital of foreign invested enterprises, after being converted to Renminbi, can only be used for doing business within the business scope approved by relevant governmental authorities, and shall not be used for domestic equity investment unless otherwise provided for.

The business operations of Sunergy Nanjing, which are subject to the foreign currency exchange regulations, have all been in compliance with these regulations in all material aspects.

Dividend Distribution

The principal regulations governing distribution of dividends of wholly foreign-owned enterprises include the Wholly Foreign-owned Enterprise Law (1986), as amended by the Decision on Amending the Law of the PRC on Wholly Foreign-owned Enterprise (2000), and the Implementing Rules of the Wholly Foreign-owned Enterprise Law (1990), as amended by the Decision of the State Council on Amending the Implementing Rules of the Law of the PRC on Wholly Foreign-owned Enterprises (2001).

Under these regulations, foreign-invested enterprises in China may pay dividends only out of their accumulated profits, if any, determined in accordance with Chinese accounting standards and regulations. In addition, wholly foreign owned enterprises in China are required to set aside at least 10% of their respective after-tax profits based on PRC accounting standards each year, if any, to fund its general reserves fund, until the accumulative amount of such reserves reaches 50% of its registered capital. These reserves are not distributable as cash dividends. A wholly foreign owned enterprise is also required to allocate a portion of its after-tax profits, as determined by its board of directors, to its staff welfare and bonus funds.

Intellectual Property Rights

The Patent Law (1984), as amended by the Decision on Amending the Patent Law (2000), and the Implementing Rules of the Patent Law (2001), as amended by the Decision on Amending the Implementing Rules of the Patent Law (2002) provide for the application and protection of patents. An invention patent shall be valid for twenty years and an external design patent and a utility model patent shall be valid for ten years, commencing on their application dates, respectively. Any persons or entities using a patent without the consent of the patent owner, making counterfeits of patented products, or conducting other activities which infringe upon patent rights will be held liable for compensation to the patent owner, fines charged by the administrative authorities and even criminal punishment. Our operating subsidiary, Sunergy Nanjing, has three patents in China, one of which relates to process technology for the manufacture of N-type solar cells, and the other two of which relate to utility models for N-type solar cells.

The Trademark Law of the PRC (1986), as amended in 2002, and the Implementing Regulations of the Trademark Law (2002) provide for the application, protection and license of trademarks. A registered trademark shall be valid for ten years, commencing on the date of registration and can be renewed by an application made within six months before expiration. The renewed registration shall also be valid for ten years and can be renewed unlimitedly. We filed trademark applications for “NPV,” “SUNERGY,” “CSUN” as well as several logos with the PRC Trademark Office in 2006 and 2007, respectively. The registrations for these trademarks have not been completed and, under PRC law, we have not obtained proprietary rights to these trademarks yet.

Labor and Work Safety

The laws and regulations governing the labor relations for enterprises and institutions in the PRC include Labor Law of the PRC (1995), or the Labor Law. Contracts must be formed if labor relationships are established between entities and their laborers. The Labor Law sets limits on the maximum number of hours a laborer can work, and entities must establish and continuously develop its system for labor safety and sanitation, strictly abide by national rules and standards on labor safety and sanitation, provide laborers with safety and sanitation conditions and educate laborers on labor safety and sanitation. The government provides additional protection to female staff and workers and juvenile workers.

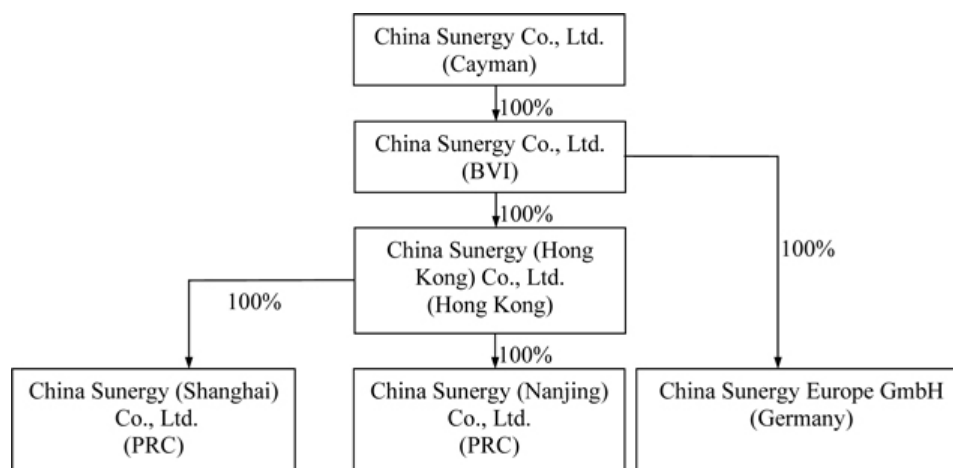
On June 29, 2007, the National People’s Congress enacted the Labor Contract Law of the PRC, or the Labor Contract Law, which came into effect as of January 1, 2008. The Labor Contract Law imposes stricter requirements in terms of signing labor contracts, paying remuneration, stipulating probation and penalties and dissolving labor contracts.

The laws and regulations governing the labor relations also include the Work Safety Law of the PRC (2002), the Regulation on Occupational Injury Insurance (2004), the Interim Measures Concerning the Maternity Insurance (1995), the Interim Regulations on the Collection and Payment of Social Insurance Premiums (1999) and its interim measures (1999), and the Regulation on the Administration of Housing Fund (2002).

Sunergy Nanjing is subject to the above laws and regulations.

C. Organizational Structure

The following diagram illustrates our company’s organizational structure, and the place of formation, ownership interest and affiliation of each of our subsidiaries as of the date hereof.



In November 2007, Sunergy BVI and CEEG jointly incorporated China Sunergy (Shanghai) Co., Ltd., or Sunergy Shanghai., in which we hold a 95% interest, and CEEG a 5% interest. In September 2008, Sunergy BVI transferred its 95% equity interest in Sunergy Shanghai to Sunergy Hong Kong. In September 2008, CEEG transferred its 5% equity interest in Sunergy Shanghai to Sunergy Hong Kong, as a result of which Sunergy Hong Kong became the 100% holding company of Sunergy Shanghai in April 2009.

According to our current plan, Sunergy Shanghai will engage in solar cells production, solar power research and development activities. We previously expected to build a research and development center in Shanghai and completed the construction in the first half of 2009. We decided to postpone such plan due to the impact of global financial market disruption and economic slowdown. We will proceed to build the research and development center when the market improves.

In December 2007, Sunergy BVI incorporated Sunergy Hong Kong in Hong Kong. During the same month, Sunergy BVI transferred all its equity interest in Sunergy Nanjing to Sunergy Hong Kong, as a result of which Sunergy Hong Kong became the direct holding company of our principal operating subsidiary, Sunergy Nanjing. In November 2007, Sunergy BVI incorporated China Sunergy Europe GmbH in Munich, Germany.

D. Property, Plant and Equipment

As of December 31, 2008, we conducted our research, development and manufacturing of solar cells at our facilities in Nanjing, China, where we occupied a site area of approximately 79,800 square meters. These facilities include office premises with a total floor space of approximately 9,600 square meters and manufacturing facilities with a total floor space of approximately 10,600 square meters that can accommodate up to six solar cell manufacturing lines. In 2008, we also constructed manufacturing facilities with a total floor space of approximately 10,000 square meters, where we installed additional four solar cell manufacturing lines. We are in the process of obtaining all of the construction approvals for these facilities. In addition, Sunergy Nanjing and CEEG, an entity controlled by Mr. Tingxiu Lu, entered into an agreement on December 20, 2006. Pursuant to the agreement, CEEG granted Sunergy Nanjing an option to purchase, prior to December 31, 2007, the right to use a parcel of land of approximately 26,000 square meters at a price of approximately \$0.5 million. On July 23, 2007, CEEG and Sunergy Nanjing entered into a land use right transfer agreement, under which Sunergy Nanjing purchased the use right to the foregoing parcel of land at a price of approximately \$1.2 million, which was equivalent to the valuation price. Sunergy Nanjing agreed to increase the purchase consideration to avoid that the land be compulsorily acquired by the government due to the price being significantly lower than the valuation price. As of December 31, 2008, we constructed facilities on this land and installed four additional solar cell manufacturing lines. We are currently in the process of securing land use rights to a plot of land in Shanghai for the business operation of Sunergy Shanghai.

In 2008, we pledged raw materials and inventories with a total value of approximately \$26.8 million to secure our repayment of short-term borrowings of approximately \$16.1 million due in the first quarter of 2009. We have repaid these short-term borrowings in first quarter of 2009. In March 2009, we pledged raw materials and inventories with a total value of approximately \$14.6 million to secure our repayment of short-term borrowings of approximately \$8.8 million that will become due in March 2010.

We maintain property insurance policies with reputable insurance companies for covering our equipment, facilities, buildings and their improvements, and office furniture. These insurance policies cover losses due to fire, earthquake, flood and a wide range of other natural disasters. We maintain director and officer liability insurance for our directors and executive officers. We also maintain business interruption insurance. Our insurance products contain various coverage limits and deductibles. We do not currently maintain product liability insurance. We have appointed an insurance broker to provide us with proposals for insurance coverage for our company, and we plan to enlarge our coverage during 2009.

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not Applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion of our financial condition and results of operations is based upon and should be read in conjunction with our consolidated financial statements and their related notes included in this annual report on Form 20-F. This report contains forward-looking statements. See “Introduction—Forward-Looking Information.” In evaluating our business, you should carefully consider the information provided under the caption “Risk Factors” in this annual report on Form 20-F. We caution you that our businesses and financial performance are subject to substantial risks and uncertainties.

A. Overview

Overview

We sell our solar cell products mostly to module manufacturers and, to a lesser extent, to system integrators, who assemble our cells into solar modules and solar power systems for use in various markets. Our management’s operational expertise and execution capability, coupled with our strong research and development capabilities, have allowed us to rapidly install our solar cell manufacturing lines and expand our manufacturing capacity. As of the date of this annual report, we have ten solar cell manufacturing lines with an aggregate production capacity of 320 MW per year, assuming the use of 156-millimeter monocrystalline silicon wafers. Our research and development efforts focus on continually enhancing our solar cell conversion efficiencies, which measure the ability of solar power products to convert sunlight into electricity, and improving our manufacturing operations. In the fourth quarter of 2007, we commenced commercial mass production of selective emitter cells using monocrystalline silicon wafers, an improved version of the P-type solar cells that we and most other solar cell manufacturers produce. We have successfully tested multicrystalline silicon wafers on one of our selective emitter solar cells manufacturing lines, which enabled us to produce selective emitter multicrystalline solar cells using multicrystalline silicon wafers as raw materials. Selective emitter multicrystalline solar cells generally have a higher conversion efficiencies than P-type multicrystalline solar cells that we and most other solar cell manufacturers usually produce. We are also developing Matrix cells. In addition, we are focusing on the development of advanced process technology for manufacturing other new products, such as N-type solar cells, which generally have higher conversion efficiencies than those of P-type solar cells.

We sold 46.4 MW of solar cells in 2006. In 2007, the shipment of our solar power products amounted to 74.0 MW, including 70.0 MW of solar cells sold, 2.4 MW of solar cells processed under OEM arrangements and 1.6 MW of modules sold. In 2008, the shipment of our solar power products amounted to 107.2 MW, including 100.4 MW of solar cells sold, 4.2 MW of solar cells processed under OEM arrangements and 2.6 MW of modules sold. We had net revenues of \$149.5 million, \$234.9 million and \$350.9 million in 2006, 2007 and 2008, respectively. We had a net income of \$11.8 million in 2006 and incurred net losses of \$4.9 million and \$22.9 million in 2007 and 2008, respectively.

We operate and manage our business as a single segment.

Industry Demand

The solar power market has grown rapidly in the past several years. During that period, our business and revenue growth have been primarily driven by industry demand and our ability to retain existing customers, attract new customers and expand our manufacturing capacity at the same time. According to Solarbuzz, the global solar power market, as measured by annual solar power system installed capacities, increased from 1,086 MW in 2004 to 5,948 MW in 2008, representing a CAGR of 53.0%. Under the lowest of three different projections, Solarbuzz expects the annual solar power system installed capacity may further increase to 8,311 MW in 2013, and solar power industry revenue may decrease from \$37.1 billion in 2008 to \$27.0 billion in 2013 as market demand growth is more than offset by the market price declines. According to a Solarbuzz forecast named "Green World," the moderate one of three possible scenarios, annual solar power system installed capacity may further increase to 14,792 MW in 2013, and solar power industry revenue may increase from \$37.1 billion in 2008 to \$53.6 billion in 2013.

We believe that the following factors have driven and may continue to drive the growth of the solar power industry in the long run as projected by the Solarbuzz "Green World" forecast:

- government incentives for solar power;
- growing demand for electricity, supply constraints and desire for energy security; and
- growing awareness of the advantages of solar power.

In the fourth quarter of 2008, the global solar power industry experienced a precipitous decline in demand. During the same period, the global supply of solar products exceeded the global demand because of excess production capacity and the global economic downturn. The demand for solar products is affected by macroeconomic factors such as the worldwide credit crisis, the supply and price of other energy products, such as oil, coal and natural gas, as well as government regulations and policies concerning the electric utility industry. We cannot assure you that demand for solar products in 2009 will exceed the demand for solar products in 2008 or that the oversupply of solar products will not continue through 2009. Please see "Item 3. Key Information – D. Risk Factors" for discussions of the risks related to declining industry demand for solar products.

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 solar power substantially exceeds the cost of power provided by the electric utility grid in many locations, when upfront system costs are factored into cost per kilowatt. As a result, governmental bodies in many countries, most notably Germany, Spain, Italy, the United States and China, have provided subsidies and economic incentives to reduce dependency on non-renewable sources of energy. These subsidies and economic incentives have come in the form of capital cost rebates, feed-in tariffs, tax credits and other incentives to end users, distributors, system integrators and manufacturers of solar power products.

The demand for our cells is determined by the demand for our customers' solar modules and other downstream solar power products, which in turn is affected significantly by government subsidies and economic incentives in their targeted or potential markets. According to Solarbuzz, Spain and Germany accounted for 41% and 31% of the global solar power market demand in 2008, respectively. Utilities in Germany are generally obligated to purchase electricity generated from grid-connected solar power systems at defined feed-in tariff rates, which decline over time according to a predetermined schedule. Specifically, German subsidies decline at a rate of 5.0% to 6.5% per year for systems installed after 2006 based on the type and size of the solar power systems. The rapid rise of the Spanish market in 2008 was due to a government policy that set feed-in tariff terms at attractive rates. However, in September 2008, the Spanish government introduced a cap of 500 MW for 2009 for the feed-in tariff, which is expected to limit the demand in the grid-connected market in Spain in 2009. Reductions in, or eliminations of, subsidies and economic incentives for on-grid solar energy applications could result in decreased demand for our products and cause our revenues to decline.

In March 2009, the Chinese government announced new rules to support solar power applications in rural and remote areas, which would allow for meaningful development of the solar power market in China. The Chinese government offers subsidies to assist construction of building integrated solar power applications in urban and remote areas, establishment of the technical standards on the installation of solar power products on buildings, as well as integration and promotion of key universal solar power building technologies. According to the rules, projects with more than 50 Kilowatts and a conversion efficiency of their monocrystalline solar panels of higher than 16% are eligible to receive the subsidies. Priority will be given to the usage of solar modules for building integrated solar power projects and grid-type projects, as well as projects for public buildings. We believe that some of our customers may be benefited by these incentives, which may in turn affect their demand for our products.

Availability, Price and Quality of Silicon Raw Materials

Silicon wafers are the most important raw material from which our solar cells are made. To manufacture silicon wafers, polysilicon is melted and processed into crystalline silicon ingots, which are then sliced into wafers. The procurement costs of silicon raw materials have accounted for more than half of our cost of revenues since we began our commercial production of solar cells in August 2005. Increases in the price of polysilicon have in the past increased our production costs and impacted our cost of revenues and net income. According to Solarbuzz, the average long-term supply contract price of polysilicon increased from \$60-\$65 per kilogram in 2007 to \$60-\$75 per kilogram in 2008. In addition, spot prices for polysilicon were in the range of \$230-\$375 per kilogram for most of the first half of 2008, rose to a peak of \$400-\$450 per kilogram by mid-2008 and decreased rapidly to \$150-300 per kilogram in the fourth quarter of 2008. We believe the average price of polysilicon will continue to decrease in 2009.

We purchase silicon wafers from wafer manufacturers and trading companies. We also procure polysilicon, silicon ingots and other silicon-based raw materials from various suppliers, and outsource the production of silicon wafers from these raw materials under toll manufacturing arrangements with third parties. Toll manufacturing is a type of contract manufacturing frequently used in the solar power industry, in which part of the manufacturing process is outsourced to qualified third parties, or toll manufacturers. We also secure silicon wafers from some of our customers, and sell solar cells to them in return. Due to the industry-wide shortage of silicon raw materials experienced during the past few years, we have purchased silicon raw materials using short-term and long-term contracts from a limited number of international and domestic suppliers. Some agreements provide for firm purchase commitments and fixed pricing or pricing adjustable in a relatively small range. From the fourth quarter of 2008, the price of silicon raw materials decreased precipitously due to the excess supply of silicon raw materials resulting from a slowed global solar power market growth. In light of such excess supply, we are seeking to re-negotiate with our long-term supply partner in regard to certain long-term supply contracts signed in 2008. Given the current wafer price environment, we also seek to exert greater control over incoming wafer quality while establishing stable and long-term relationships with high quality suppliers. In addition, partly as a result of the historical industry-wide shortage, from time to time, we faced a shortage of silicon raw materials and experienced late or non-delivery from suppliers and have purchased silicon raw materials of lower grade quality that have resulted in lower conversion efficiency and reduced average selling price and revenues.

Historically, given the state of the industry, suppliers of silicon raw materials typically required customers to make payments in advance of shipment. Our suppliers generally required us to make a prepayment at a certain percentage of the order value prior to shipping. Due to the relative oversupply of polysilicon, since the first quarter of 2009, prepayment as a percentage of the entire contract has been reducing. However, our purchases of silicon raw materials will continue to require us to make significant working capital commitments. We are required to manage our borrowings and equity contributions to support our raw material purchases.

The silicon wafers required for the manufacture of N-type solar cells are different from those used for the manufacture of P-type solar cells. We cannot assure you that, if we are successful in commencing large-scale commercial production of N-type solar cells, we will be able to obtain adequate supply of such wafers.

Manufacturing Capacity

In order to capture the market opportunity for our solar cell products, we have expanded our manufacturing capacity. When the market demand for solar cells exceeded supply, increased capacity had a significant effect on our results of operations, by allowing us to produce and sell more solar cell products generating higher revenues, and by lowering certain manufacturing costs resulting from economies of scale. In June 2005, we completed our first solar cell manufacturing line with a manufacturing capacity of 32 MW per year, and we started generating revenues from the first line in August 2005. We completed our second to sixth solar cell manufacturing lines and started generating revenues from these lines in 2006. We further installed our seventh to tenth solar cell manufacturing lines in December 2008. We sold 46.4 MW of solar cells in 2006, and in 2007 we shipped 74.0 MW of solar power products including 70.0 MW of solar cells sold, 2.4 MW of solar cells processed under OEM arrangements and 1.6 MW of modules sold. In 2008, the shipment of our solar power products amounted to 107.2 MW, including 100.4 MW of solar cells sold, 4.2 MW of solar cells processed under OEM arrangements and 2.6 MW of modules sold. Our net revenues in 2008 amounted to \$350.9 million, compared to \$234.9 million in 2007.

When the global supply of solar power products exceeds the global demand due to excess production capacity, global economic downturn or other reasons, we may not be able to fully utilize our manufacturing capacity due to declined demand for our products. As we incur fixed costs associated with our facilities and equipment whether they are being utilized, operating at less than full utilization will result in expenses without corresponding revenue, which will reduce our operating margins.

As of the date of this annual report, we have ten solar cell manufacturing lines with an aggregate manufacturing capacity of 320 MW per year, assuming the use of 156-millimeter monocrystalline silicon wafers. Our actual output of solar cells depends on the size of the silicon wafers that we use. Historically, we have used a mix of monocrystalline and multicrystalline silicon wafers, each in sizes of 125 millimeters and 156 millimeters. Our actual output does not match our production capacity because we cannot obtain sufficient supply of 156-millimeter wafers, as most of our suppliers and most of the suppliers in China sell the smaller wafers. To the extent we use smaller wafers or multicrystalline wafers, our actual production will be less than our production capacity.

Pricing of Our Solar Cells

Solar cells are priced based on the number of watts of electricity they can generate and on their conversion efficiency. Pricing per watt of solar cells is principally affected by manufacturing costs per watt, comprising of primarily the cost of silicon wafers, the overall market demand for solar cells, and some other factors, such as the exchange rate. Increased economies of scale and process technology advancements in the past resulted in a steady reduction in manufacturing costs and the price per watt of solar cells. However, since 2004, price per watt of solar cells began rising gradually due to rapid demand growth worldwide and the resulting shortages of silicon raw materials. Following several years of increases, prices of solar cells declined gradually in early 2007 mainly due to decreases in subsidies or feed-in tariffs in major end-markets of solar power products, such as Germany, as well as increased production output around the world. From the third quarter of 2007, average selling prices of our solar cells have increased due to increasing demand for solar power products and the appreciation of the Renminbi. In the fourth quarter of 2008, global solar power industry demand decreased precipitously due to the global economic downturn, and this decline in demand may continue in the first half or all of 2009. During the same period, the global supply of solar power products begun to exceed the global demand due to the excess production capacity and the global economic downturn, which contributed to the decline in the price of solar cells.

We determine the power output of our solar cells based on their size and measured conversion efficiencies. We determine the price per watt of our solar cells based on the prevailing market prices when we enter into sales contracts with our customers or when our customers place purchase orders with us, taking into account the size of the contract or the purchase order, the strength, history and prospects of our relationship with the customer and our costs. Most of our customers pay premiums over the price of cells with normal conversion efficiency, such as the standard P-type cells for our high conversion efficiency cells, such as the selective emitter solar cells due to their higher conversion efficiency rates. The average selling prices of our solar cells increased from \$2.92 per watt in 2007 to \$3.32 per watt in 2008, due to an increase in the average selling price of our solar cells in the first three quarters of 2008, which was offset by a decrease in the average selling price of our solar cells in the fourth quarter of 2008. If demand for solar products continues to decline and the oversupply of solar products continues to exist, the average selling price of our solar cells will be materially and adversely affected. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Company and Our Industry—Volatile market and industry trends, in particular, the decline in demand for solar products may cause the average selling price of our products to decline, and reduce our revenues and profitability.” for more details.

Pace of Advancement in Process Technologies

Our cell products are priced based on the number of watts of electricity they can generate. Process technologies advancement is important because it helps increase conversion efficiencies of solar cells and the resultant number of watts of electricity solar cells can generate, thereby generating higher revenues per solar cell, and helps reduce the manufacturing cost of solar cells per watt. As a result, solar cell manufacturers, ourselves included, are continuously developing advanced process technology for large-scale manufacturing.

In the fourth quarter of 2007, we commenced commercial production of selective emitter cells, an improved version of the P-type solar cells that most solar cell manufacturers produce. We began pilot production of HP solar cells during the same quarter. In the first quarter of 2009, we successfully tested multicrystalline silicon wafers on one of our selective emitter solar cells manufacturing lines, which enabled us to produce selective emitter multicrystalline solar cells using multicrystalline silicon wafers as raw materials. In addition, we are focusing on the development of advanced process technology for manufacturing new products, such as N-type solar cells, which generally have higher conversion efficiencies than those of P-type solar cells. Our N-type cell consistently achieved an average efficiency of over 19% at the laboratory level in the fourth quarter of 2008.

Seasonality of Our Operations

We believe that industry demand for solar power products may be affected by seasonality. Demand tends to be lower during the winter season from December to February, primarily because adverse weather conditions in certain regions make installations of solar power systems more difficult. Furthermore, as there are fewer working days for our China-based customers during Chinese New Year holidays, usually in January or February, our sales volumes and revenues tend to be lower during these periods. In addition, the prices of silicon raw materials also tend to decrease during such periods.

Overview of Financial Results

Net Revenues

Our net revenues are net of value-added tax. Factors affecting our net revenues include average selling price per watt, unit volume sold and product demand for our solar cells. In addition to sale of solar cells, in 2007 we derived revenues from selling silicon raw materials under our buy-and-sell arrangements with silicon wafer manufacturers and selling those raw materials that we could not use. We also outsource to third parties the manufacturing of solar modules from our solar cells or purchase solar modules from third parties, and sell these solar modules to our customers.

In 2006, 2007 and 2008, customers contributing 10% or more of our total net sales accounted for approximately 53.1%, 41.3% and 46.3% of our total net revenues, respectively. CEEG (Shanghai) Solar Science and Technology Co., Ltd., an entity controlled by our chairman, Mr. Tingxiu Lu, contributed over 13.2% of our net revenues in 2008. Each of also solar AG and Wuxi Guofei Green Energy Source Co., Ltd. contributed over 10% of net revenues for the year ended December 31, 2008.

The following table sets forth by region our total net revenues derived from sales of our products for the periods indicated:

	Year Ended December 31,					
	2006		2007		2008	
	(in thousands, except percentages)					
Europe:						
— Germany	\$ 15	—	\$ 62,314	26.5%	\$ 126,860	36.2%
— Italy	12,235	8.2%	8,980	3.8	6,128	1.7
— Netherlands	8,957	6.0	—	—	—	—
— Spain	—	—	—	—	9,399	2.7
— Others	175	0.1	1,803	0.8	51	0
Europe Total	21,382	14.3	73,097	31.1	142,438	40.6
PRC	119,238	79.7	151,058	64.3	196,628	56.0
South Africa	3,712	2.5	83	—	—	—
India	1,054	0.7	2,332	1.0	1,154	0.3
South Korea	3,183	2.1	6,419	2.8	10,257	2.9
Others	952	0.6	1,919	0.8	444	0.1
Total net revenues	\$ 149,521	100.0%	\$ 234,908	100%	\$ 350,920	100%

Cost of Revenues and Operating Expenses

The following table sets forth our cost of revenues and our operating expenses as a percentage of our total net revenues for the periods indicated.

	Year Ended December 31,		
	2006	2007	2008
Cost of revenues	82.2%	92.3%	95.6%
Operating expenses:			
Selling expenses	0.7	0.7	1.1
General and administrative expenses	6.6	5.8	4.8
Research and development expenses	0.4	1.1	0.5
Total operating expenses	7.7%	7.6%	6.4%

Our cost of revenues significantly increased as a percentage of our total net revenues in 2007, primarily due to the rising prices of silicon raw materials as a result of the industry-wide shortage of polysilicon and the decreases in the prices of off-specification solar cells. Our cost of revenues further increased in 2008 as a percentage of our total net revenues in 2008 primarily due to higher inventory provision we accrued.

Our operating expenses include general and administrative expenses, selling expenses and research and development expenses. In March 2006, two shareholders of Sunergy Nanjing transferred a 10% equity interest in Sunergy Nanjing to Sunergy Nanjing's other shareholders, who were also our directors and employees, and we accounted these transactions as a non-pro rata dividend distribution to the transferees. As a result, we recorded a non-cash compensation charge of approximately \$3.7 million, equal to the fair value of the interest a transferee, Dr. Jianhua Zhao, our then president, received in excess of what he would have received had the distribution been made on a pro rata basis. In March 2006, Sunergy Nanjing also amended its articles of association to effectively reduce the cash contribution requirements on certain of its shareholders, who were also our directors and executive officers. We accounted for this as forgiveness of shareholder receivables from certain shareholders of Sunergy Nanjing and recorded a non-cash compensation charge of approximately \$0.5 million. In the fourth quarter of 2006, we also recorded share-based compensation expenses of \$0.1 million in connection with the grants of share options to certain employees.

Our total operating expenses as a percentage of our total net revenues was 7.7%, 7.6% and 6.4% in 2006, 2007 and 2008, respectively.

Cost of Revenues

Our cost of revenues consists primarily of:

- Direct raw materials cost. Silicon raw materials, primarily in the form of silicon wafers, comprise a substantial majority of our cost of revenues. In addition to silicon raw materials, direct raw materials involved in our production also include metallic paste and chemicals.
- Direct labor cost. Direct labor costs include salaries and benefits for manufacturing personnel. We expect direct labor costs to increase as we hire additional manufacturing personnel as we expand our production.
- Overhead. Overhead costs include maintenance, utilities such as electricity and water used in manufacturing, and other support expenses associated with the manufacturing.
- Depreciation and amortization of manufacturing facilities and equipment. Due to our capacity expansion, our depreciation and amortization expenses have increased. We expect depreciation to increase in absolute terms in the near future following the expansion of our manufacturing capacity.
- Warranty costs. With respect to solar cell sales made with contractual warranty provisions, we accrue 0.5% of our net revenues as warranty costs at the time revenue is recognized. Our sales contracts concluded after December 2006 do not contain warranty provisions, which we believe is in line with the practice of other solar cell manufacturers in China. We do not expect to enter into solar cell sales contracts with warranty provisions in the future. We still accrue warranty costs for deliveries of solar cells under the contracts concluded before December 2006. With respect to solar modules, which are typically sold with a two-year warranty for defects in material and workmanship and a minimum power output warranty of up to 25 years following the date of purchase, we accrue 1.0% of our net revenues generated from module sales based on our competitors' accrual history and industry practice.
- Shipping and handling costs. Cost of revenues also includes shipping and handling costs of products bought from suppliers or sold to customers.

General and Administrative Expenses

General and administrative expenses consist primarily of salaries and benefits for our administrative and finance and human resources personnel, expenses associated with our administrative offices, professional advisory fees and other compliance-related costs, bad debt provision as well as depreciation of equipment used for administrative purposes. Pursuant to PRC law, our board of directors has the discretion to allocate a portion of our after-tax profit to staff welfare and bonus funds, which may not be distributed to equity owners.

General and administrative expenses account for the largest part of our operating expenses. In 2006, 2007 and 2008, we also recorded share-based compensation expenses of \$0.1 million \$0.5 million and \$3.2 million, respectively, in connection with the grants of share options to certain employees. Since 2006, our general and administrative expenses increased due to higher salaries, benefits, depreciation and other administrative costs we have incurred as a result of the expansion of our manufacturing capacity and sales volume.

Selling Expenses

Selling expenses consist primarily of post-sale service expenses, sales employee salaries, travel and entertainment expenses, freight expenses, and other sales and marketing expenses.

We expect that our selling expenses will increase in absolute terms in the near term as we increase our sales efforts, hire additional sales personnel, develop new markets and initiate additional marketing programs to establish our brand name.

Research and Development Expenses

Research and development expenses consist primarily of cost of raw materials used in our research and development activities, salaries and benefits for research and development personnel, and prototype costs and depreciation of equipment related to the design, development, testing and enhancement of our products and manufacturing processes. We expect our research and development expenses to increase as we purchase more raw materials to be used in our research and development activities, and plan to hire additional personnel for the research and development of our process technology.

Share-based Compensation Expenses

In 2006, 2007 and 2008, we entered into option award agreements pursuant to our first share incentive plan. Under these option award agreements, we had outstanding options to purchase 1,280,126 ordinary shares as of December 31, 2008. We also entered into two restricted share award agreements pursuant to our second share incentive plan. Under these restricted share award agreements, we had an aggregate of 2,317,391 outstanding restricted shares as of December 31, 2008. See Item 6, "Directors, Senior Management and Employees—Compensation of Directors and Executive Officers—Share Incentive Plan." Changes in the amount of share-based compensation will primarily affect our general and administrative expenses, reported net income and earnings per share.

Under Statement of Financial Accounting Standard No. 123R, "Share-Based Payment," or SFAS No. 123R, which became effective on January 1, 2006, 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 grant date, with the compensation expense recognized over the period in which the recipient is required to provide service in exchange for the award (usually the vesting period). This statement also requires us to adopt a fair value-based method of measuring the compensation expense related to share-based compensation. We record share-based compensation expenses for the fair value of the options and restricted shares at the grant date. We recognize such share-based compensation expenses over the grant recipient's requisite service periods.

As of December 31, 2008, there was \$2.5 million in total unrecognized compensation expense related to unvested share-based compensation arrangements granted under the plan, which is expected to be recognized over a weighted-average period of 1.92 years.

Beneficial Conversion Feature

To be consistent with our audited financial statements, all historical share information, per-share and conversion price information contained in the following two paragraphs has been retroactively adjusted to reflect a 100-for-one share split that became effective on April 24, 2007.

In 2006, we issued Series A, Series B and Series C preferred shares, all of which have been automatically converted upon the completion of our initial public offering into the number of ordinary shares equal to the quotient of (a) the original subscription price plus all accrued and unpaid dividends, divided by (b) the conversion price, which initially equaled the original subscription price, subject to adjustments in the case of certain dilution events. The conversion prices were subject to certain earnings-based adjustments in the event our 2006 and 2007 net earnings, as defined in our then amended and restated memorandum of association, should be less than a predefined amount. For each of the preferred shares, we recognized an initial beneficial conversion feature, or BCF, based on the conversion price that would be in effect assuming we would not generate any additional income or issue any additional ordinary shares or other dilutive securities after the date of issuance. As of the Series A, Series B and Series C issuance dates, our earnings were below the pre-defined amounts. As such, we assumed that if there are no changes to the current circumstances other than the passage of time, the conversion price would be (a) approximately \$0.0001 per share for both the Series A and Series B shares as there was no floor on the conversion price adjustment, and (b) \$1.76 for the Series C shares, representing the adjustment floor (collectively the "Effective Conversion Price"). Based on this, we recorded a BCF, limited to proceeds received upon issuance, for the Series A, Series B and Series C preferred shares of \$13,110,400, \$27,999,948 and \$6,941,170, respectively, during the year ended December 31, 2006. This amount was amortized immediately as a dividend to holders of the preferred shares as the preferred shares were convertible upon issuance.

As our 2006 net earnings were less than the pre-defined earnings target, the conversion prices of the Series A and Series B preferred shares were adjusted to \$0.39 and \$0.44, respectively (collectively the "Adjusted Conversion Price"), effective December 31, 2006. The Adjusted Conversion Price was greater than the Effective Conversion Price, resulting in an adjusted BCF (intrinsic value) that is lower than the BCF (intrinsic value) recognized at issuance of the Series A and Series B preferred shares. As the BCF had been fully amortized and there was no incremental BCF to recognize based on the Adjusted Conversion Price, no further adjustments were required.

Taxation

Under the current laws of the Cayman Islands and the British Virgin Islands, we and Sunergy BVI are not subject to income or capital gains tax. Additionally, dividend payments made by us and Sunergy BVI are not subject to withholding tax in those jurisdictions.

Under the current Hong Kong Inland Revenue Ordinance, Sunergy Hong Kong is subject to 17.5% income tax on its taxable income generated from operations in Hong Kong. Additionally, payments of dividends by Sunergy Hong Kong to us are not subject to any Hong Kong withholding tax.

Pursuant to the New EIT Law and the Implementing Regulation, both of which became effective on January 1, 2008, dividends generated after January 1, 2008 and payable by a foreign-invested enterprise to its foreign investors will be subject to a 10% withholding tax if the foreign investors are considered as non-resident enterprises without any establishment or place of business within China or if the dividends payable have no connection with the establishment or place of business of the foreign investors within China, unless any such foreign investor's jurisdiction of incorporation has a tax treaty with China that provides for a reduced withholding arrangement. The Cayman Islands, where we are incorporated, does not have such a tax treaty with China. Sunergy Hong Kong, our wholly owned subsidiary and the direct holder of 100% equity interest in Sunergy Nanjing, is incorporated in Hong Kong. According to the Mainland and Hong Kong Special Administrative Region Arrangement on Avoiding Double Taxation or Evasion of Taxation on Income agreed between China and Hong Kong, dividends paid by a foreign-invested enterprise in China to its direct holding company in Hong Kong will be subject to withholding tax at a rate of no more than 5% (if the foreign investor owns directly at least 25% of the shares of the foreign-invested enterprise). Under the New EIT Law and the Implementing Regulation, if we and Sunergy Hong Kong were regarded as a resident enterprise, the dividends payable to Sunergy Hong Kong from Sunergy Nanjing would be exempt from the PRC income tax. If Sunergy Hong Kong is regarded as a non-resident enterprise, and therefore would be subject to a 5% withholding tax for any dividends payable to it from Sunergy Nanjing, the amount of funds available to us to meet our cash requirements, including the payment of dividends to our shareholders and debt service on any debt we may incur through our Cayman holding company, could be materially reduced.

In addition, because there remains uncertainty regarding the interpretation and implementation of the concept of "place of effective management," if we are regarded as a PRC resident enterprise, under the New EIT Law any dividends to be distributed by us to our non-PRC shareholders or holders of ADSs may be subject to a withholding tax. Unless there are further rules announced by the Chinese tax authorities, we are required under the New EIT Law to withhold PRC income tax on our dividends payable to our non-PRC shareholders or holders of ADSs, or any gain realized by our non-PRC shareholders or holders of ADSs from transfer of the shares or ADSs.

PRC Enterprise Income Tax

Up through December 31, 2007, a foreign-invested enterprise in China was typically subject to enterprise income tax at the statutory rate of 30% on taxable income and local income tax at the rate of 3% on taxable income. Sunergy Nanjing, a foreign-invested enterprise engaged in a manufacturing business and established in Nanjing, which is within a coastal economic zone, was entitled to a preferential enterprise income tax rate of 24%. As a wholly foreign owned enterprise engaged in a manufacturing business, Sunergy Nanjing was also entitled to a two-year exemption from enterprise income tax for its first two profitable years of operation, which were 2006 and 2007, and to a 50% reduction of its applicable income tax rate for the succeeding three years, which would be 2008, 2009 and 2010. On March 16, 2007, the National People's Congress issued the New EIT Law, under which foreign-invested enterprises and domestic companies would be subject to enterprise income tax at a uniform rate of 25%. Both the New EIT Law and its Implementing Regulation have become effective on January 1, 2008. On December 6, 2007, the Congress also adopted its Implementing Regulation. On December 26, 2007, State Council of China promulgated the circular on implementation of enterprise tax transition preferential policy, or the Circular. Under the New EIT Law, the Implementing Regulation and the Circular, enterprises which were established and already enjoyed preferential income tax treatments before March 16, 2007 will continue to enjoy them (i) in the case of preferential tax rates, for a period of five years from January 1, 2008, and the enterprises which previously enjoy the tax rate of 24% shall be subject to the tax rate of 25% in 2008, and (ii) in the case of preferential tax exemption or reduction for a specified term, until the expiration of such term. The New EIT Law and its Implementing Regulation have become effective on January 1, 2008. Therefore, we are subject to an applicable income tax rate of 12.5% in 2008, 2009 and 2010.

On April 14, 2008, the Ministry of Finance, the Ministry of Science and Technology and the State Administration of Taxation jointly promulgated the Administration Measures for Recognition of High and New Technology Enterprises, or the Recognition Measures. Pursuant to the New EIT Law, the Implementing Regulation and the Recognition Measures, enterprises which have been granted the high and new technology enterprises status shall enjoy a preferential income tax rate of 15%. On October 21, 2008, Sunergy Nanjing obtained a high and new technology enterprise certificate with a three-year validity term, showing that Sunergy Nanjing has been granted the new and high technology enterprises status. Therefore, Sunergy Nanjing is entitled to enjoy a preferential income tax rate of 15%.

Pursuant to the Circular, if an enterprise enjoying the tax preference treatment under the income tax transition preference policy is also entitled to other tax preference treatment under the New EIT Law, the enterprise shall choose to adopt one of the tax preference treatments and may not simultaneously enjoy both preference treatments. Therefore, Sunergy Nanjing is subject to an applicable income tax rate of 12.5% in 2008, 2009 and 2010. From 2011, Sunergy Nanjing will be subject to an applicable income tax rate of 15%, if the high and new technology certificate is renewed.

We were in a tax loss position under PRC tax law in 2004, 2005, 2007 and 2008, and thus were not subject to any enterprise income tax during these periods.

Critical Accounting Policies

We prepare financial statements in accordance with U.S. GAAP, which requires us to make judgments, estimates and assumptions that affect (a) the reported amounts of our assets and liabilities, (b) the disclosure of our contingent assets and liabilities at the end of each fiscal period and (c) 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 (a) our selection of critical accounting policies, (b) the judgment and other uncertainties affecting the application of such policies and (c) 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.

Revenue Recognition

We recognize revenue for product sales when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectibility is reasonably assured. A portion of our sales to customers require the customers to prepay before delivery has occurred. Such prepayments are recorded as advances from customers, in the consolidated balance sheets, until delivery has occurred. Processing fees we receive under OEM arrangements are subject to the same policy. A majority of our contracts with overseas customers are written such that the customer takes title and assumes the risks and rewards of ownership of the products upon shipment. Accordingly, with respect to our overseas sales, we recognize revenue upon documentary evidence of shipment, assuming all other criteria have been met.

Warranty Costs

Historically, some of our sales contracts with overseas customers provided for a 10- or 20-year warranty for the performance of our solar cells against declines in certain technical specifications, primarily the minimum power generation capacity specified at the time of delivery. We also sell our module products to customers along with a warranty on the performance of solar module products at certain levels of conversion efficiency for an extended period. Our solar modules are typically sold with a 25-year warranty against specified declines in the initial minimum power generation capacity at the time of sale. In addition, we provided warranty for our solar modules against defects in materials and workmanship for a period two years from the date of sale. We, therefore, maintain warranty reserves (recorded as accrued warranty costs) to cover potential liabilities that could arise from these warranties. We accrue the estimated costs of warranties at 0.5% of our solar cell sales made with warranty provisions and 1.0% of our solar module sales, respectively, and include that amount in our selling expenses. Due to limited warranty claims to date, we accrue the estimated costs of warranties based primarily on an assessment of our competitors' accrual history and industry practice. Although we conduct quality testing and inspection of our solar cell products, our solar cell products have not been tested in an environment simulating the up to 20-year warranty periods. We have not experienced any material warranty claims to date in connection with declines of the power generation capacity or other technical specifications of our solar cells or solar modules. We will prospectively revise our actual rate to the extent that actual warranty costs differ from the estimates.

Valuation of Share-based Compensation

We account for share-based compensation to our employees based on SFAS No. 123R and record compensation expense based on the fair value of the options and other awards on the date of grant.

In 2006, 2007 and 2008, we granted share options and restricted shares to certain of our employees. We incurred share-based compensation expenses of \$0.1 million, \$0.5 million and 3.2 \$million for the years ended December 31, 2006, 2007 and 2008, respectively. We used the binomial option-pricing method to determine the amount of employee share-based compensation expenses. This approach requires us to make assumptions on such variables as share price volatility, expected lives of awards and discount rates. Changes in these assumptions could significantly affect the amount of employee share-based compensation expenses we recognize in our consolidated financial statements. See Item 5, “—Overview of Financial Results—Share-based Compensation Expenses.”

In November 2007, we modified the exercise price of all the options granted in 2006 from \$1.988 to \$1.283 per ordinary share. The total incremental compensation expense resulting from the modification was \$139,600, which will be amortized over the remaining requisite service period of 2.95 years.

Allowance for Doubtful Accounts

We conduct credit evaluations of customers and generally do not require collateral or other security from them. We establish an allowance for doubtful accounts primarily based upon the age of the receivables and factors surrounding the credit risk of specific customers. We generally do not require collateral or other security interests from our customers when we grant them credit. However, we maintain a reserve for potential credit losses and such losses have historically been within our expectations. We raise an allowance for doubtful accounts primarily based on the age of the receivables or prepayments and other factors like the length of time receivables are passing due, previous loss history and the counterparty’s current ability to fulfill its obligation.

With respect to advances to suppliers, our suppliers are primarily suppliers of 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.

Inventories

Our inventories are stated at the lower of cost or net realizable value. The valuation of inventory requires us to estimate excess and slow moving inventory. The determination of the value of excess and slow moving inventory is based upon assumptions of future demands and market conditions. If actual market conditions are less favorable than those projected by management, inventory write-downs may be required. We routinely evaluate quantities and value of our inventories in light of current market conditions and market trends, and record write-down against the cost of inventories for a decline in net realizable value. Inventory write-down charges establish a new cost basis for inventory. In estimating obsolescence, we utilize our backlog information and project future demand. Market conditions are subject to change and actual consumption of inventories could differ from forecasted demand. Furthermore, the price of polysilicon, our primary raw material, is subject to fluctuations based on global supply and demand. If actual market conditions are less favorable or other factors arise that are significantly different from those anticipated by management, additional inventory write-downs or increases in obsolescence reserves may be required. Our management continually monitors the changes in the purchase price paid for polysilicon, including prepayments to suppliers. Our products have a long life cycle and obsolescence has not historically been a significant factor in the valuation of inventories.

In the fourth quarter of 2008, in connection with rapidly declining spot prices of polysilicon, we recorded a \$10.6 million non-cash reserve charge on inventory. If actual future demand or market conditions are less favorable than those projected by our management, additional inventory write-downs may be required.

Income Taxes

As required by Statement of Financial Accounting Standards, or SFAS, No. 109, "Accounting for Income Taxes," we periodically evaluate the likelihood of the realization of deferred tax assets, and reduce the carrying amount of these deferred tax assets by a valuation allowance to the extent we believe a portion will not be realized. We consider many factors when assessing the likelihood of future realization of our deferred tax assets, including our recent cumulative earnings experience by taxing jurisdiction, expectations of future taxable income, the carry-forward periods available to us for tax reporting purposes, and other relevant factors. 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 the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. 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, or the expected timing of their use when they do not relate to a specific asset or liability.

Impairment of Long-lived Assets

We evaluate our long-lived assets and definite life intangibles 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 recognize an impairment loss based on the fair value of the assets. The determination of fair value of the intangible and long lived assets acquired involves certain judgments and estimates. These judgments can include, but are not limited to, the cash flows that an asset is expected to generate in the future. This analysis also relies on a number of factors, including changes in strategic direction, business plans, regulatory developments, economic and budget projections, technological improvements, and operating results. Any write-downs would be treated as permanent reductions in the carrying amounts of the assets and an operating loss would be recognized.

Derivative Financial Instruments

Derivative Liabilities Related to Foreign Currency Forward Contracts

During the fourth quarter of 2008, we entered into certain foreign exchange forward contracts with several commercial banks in China to protect against volatility of future cash flows caused by the changes in foreign exchange rates associated with sales contracts denominated in Euro or U.S. dollar. We account for the forward contracts pursuant to SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), as amended and interpreted, and recognizes all derivative instruments as either assets or liabilities at fair value in the consolidated balance sheets. The foreign exchange hedge contracts do not qualify for hedge accounting and, as a result, the changes in fair value of the foreign currency hedge contracts are recognized in the statement of operations. We do not offset the carrying amounts of derivatives with the same counterparty in accordance with FASB Interpretation ("FIN") No. 39, "Offsetting of Amounts Related to Certain Contracts — an interpretation of APB Opinion No. 10 and FASB Statement No. 105" ("FIN 39") as amended. As of December 31, 2008, we had outstanding foreign exchange hedge contracts with contract value of \$46.6 million, and recorded a change in fair value of derivative assets related to the forward foreign currency exchange contracts of \$2.3 million in the line item "Gain (loss) on change in fair value of derivative" in the consolidated statements of operations for the year ended December 31, 2008. We did not enter into any foreign exchange hedge contracts before 2008.

Foreign Currency Embedded Derivative in Supply Agreement

One of our long-term supply contracts provided that the purchase price of the wafer to be acquired was denominated in U.S. dollars, which was not the functional currency of either of the contracting parties. Accordingly, the contract contained an embedded foreign currency forward contract, which was required to be bifurcated and accounted for at fair value in accordance with the provisions of SFAS 133. Changes in fair value are recorded in the consolidated statements of operations.

Because of the monetary controls imposed by the PRC, the determination of the fair value of a long-term foreign currency derivative requires the input of highly subjective assumptions, including estimates of forward foreign exchange rates between the U.S. dollar and Renminbi.

In calculating the fair value of the embedded derivatives, we (i) estimated the monthly purchases and the corresponding payments, based on historical usage rates, (ii) applied the estimated exchange forward rates between the U.S. dollar and Renminbi associated with each of the estimated monthly payment dates from (i) above, and (iii) applied an appropriate discount rate to the amounts obtained in (ii) above. We estimate the on-shore U.S. dollar / Renminbi forward exchange rates based on the Tokyo Composite rates. The adopted discount rates represent the yields of Renminbi PRC government bonds with comparable terms as of December 31, 2008.

In 2008, we recorded a loss on the change in fair value of the embedded derivatives related to the supply agreement of \$7.6 million which was included in the line item “Gain (loss) on change in fair value of derivative” in the consolidated statements of operations.

Results of Operations

The following table sets forth a summary, for the periods indicated, of our consolidated results of operations, with each item expressed as a percentage of our total net revenues. Our limited operating history makes the prediction of future operating results very difficult. Period-to-period comparisons of our operating results should not be relied upon as indicative of future performance. Item 3 “Key Information—Risk Factors—Risks Related to Our Company and Our Industry—Our limited operating history may not serve as an adequate measure of our future prospects and results of operations.”

	Year Ended December 31,					
	2006		2007		2008	
	(in thousands, except percentages)					
Net revenues	\$ 149,521	100.0%	\$ 234,908	100.0%	\$ 350,920	100.0%
Cost of revenues	<u>(122,889)</u>	<u>(82.2)</u>	<u>(216,881)</u>	<u>(92.3)</u>	<u>(335,454)</u>	<u>(95.6)</u>
Gross profit	26,632	17.8	18,027	7.7	15,466	4.4
Operating expenses						
Selling expenses	(1,014)	(0.7)	(1,644)	(0.7)	(3,866)	(1.1)
General and administrative expenses	(9,901)	(6.6)	(13,664)	(5.8)	(16,779)	(4.8)
Research and development expenses	<u>(546)</u>	<u>(0.4)</u>	<u>(2,555)</u>	<u>(1.1)</u>	<u>(1,871)</u>	<u>(0.5)</u>
Total operating expenses	(11,461)	(7.7)	(17,863)	(7.6)	(22,516)	(6.4)
Income from operations	15,171	10.1	164	0.1	(7,050)	(2.0)
Interest expense	(3,002)	(2.0)	(7,394)	(3.2)	(8,069)	(2.3)
Interest income	420	0.3	1,577	0.7	1,665	0.5
Changes in fair value of derivatives	—	—	—	—	(9,864)	(2.8)
Other (expense) income	(845)	(0.5)	93	0.0	(2,268)	(0.6)
(Loss) income before income taxes	11,744	7.9	(5,560)	(2.4)	(25,586)	(7.3)
Tax benefit	<u>70</u>	<u>—</u>	<u>705</u>	<u>0.3</u>	<u>2,648</u>	<u>0.8</u>
Net (loss) income	\$ 11,814	7.9	\$ (4,855)	(2.1)	(22,938)	(6.5)
Dividend on Series A redeemable convertible preferred shares	(13,377)	(8.9)	(155)	(0.1)	—	—
Dividend on Series B redeemable convertible preferred shares	(28,552)	(19.1)	(330)	(0.1)	—	—
Dividend on Series C redeemable convertible preferred shares	<u>(7,097)</u>	<u>(4.7)</u>	<u>(233)</u>	<u>(0.1)</u>	<u>—</u>	<u>—</u>
Net loss attributable to holders of ordinary shares	\$ (37,212)	(24.9)%	\$ (5,573)	(2.4)%	\$ 22,938	(6.5) %

Year Ended December 31, 2008 Compared to Year Ended December 31, 2007

Net Revenues. Our total net revenues increased by 49.4%, from \$234.9 million in 2007 to \$350.9 million in 2008. Our net revenues increased primarily due to an increase in the volume of the solar power products we sold.

In 2008, we shipped 107.2 MW of solar power products, including 4.2 MW of solar cells processed under OEM arrangements and 2.6 MW of solar modules, compared to sales of 74.0 MW of solar power products, including 2.4 MW of solar cells processed under OEM arrangements and 1.6 MW of solar modules in 2007. The increase in our sales of solar power products was due to the expansion of our manufacturing capacity and production output. Our average selling price increased from \$2.92 per watt in 2007 to \$3.32 per watt in 2008 due primarily to an increase in the average selling price of our solar cells in the first three quarters of 2008, which was offset by a decrease in the average selling price of our solar cells in the fourth quarter of 2008 as a result of weakened demand caused by global economic downturn and credit market crisis.

Cost of Revenues. Our cost of revenues increased by \$118.6 million, from \$216.9 million in 2007 to \$335.5 million in 2008. Our cost of revenues increased primarily due to increases in expenditures in silicon raw materials as a result of the rapid expansion of production. The increase in our cost of revenues was also impacted by the rising prices of silicon raw materials in the first eight months of 2008 due to the industry-wide shortage of polysilicon, partially offset by reduction in silicon raw material costs as a result of improved market supply conditions in the fourth quarter of 2008. In the last quarter of 2008, our cost of revenues decreased primarily due to significant reduction in silicon raw material costs as a result of improved market supply conditions, offset by a non-cash inventory provision of \$10.6 million based on a revaluation of our silicon inventory as a result of market price declines.

Silicon raw materials, primarily silicon wafers, accounted for 90.2% of our cost of revenue in 2008 compared to 89.9% in 2007. As a percentage of our total net revenues, our cost of revenues increased from 92.3% in 2007 to 95.6% in 2008.

Gross Profit. As a result of the foregoing, our gross profit in 2008 decreased by \$2.5 million to \$15.5 million, from \$18.0 million in 2007. Our gross margin decreased from 7.7% in 2007 to 4.4% in 2008.

Operating Expenses. Our operating expenses increased by \$4.6 million, from \$17.9 million in 2007 to \$22.5 million in 2008. The increase in operating expenses was due to increases in general and administrative expenses and selling expenses. As a percentage of our total net revenues, operating expenses decreased from 7.6% in 2007 to 6.4% in 2008.

General and administrative expenses. Our general and administrative expenses increased by \$3.1 million, from \$13.7 million in 2007 to \$16.8 million in 2008. The increase in our general and administrative expenses was due primarily to increases in share-based compensation expenses in connection with the grants of share options and restricted shares to certain employees, and compliance related consulting and professional fees, offset in part by a decrease in bad debt provision in 2008.

Selling expenses. Our selling expenses increased by \$2.3 million from \$1.6 million in 2007 to \$3.9 million in 2008, due primarily to compensation we made to certain customer in connection with the quality deficiencies of our solar cells, as well as increases in sales services expenses and advertising expenses associated with growing our solar module business and increased marketing efforts and overseas expansion. With the growth of our net revenues, selling expenses as a percentage of net revenues increased from 0.7% in 2007 to 1.1% in 2008.

Research and development expenses. Research and development expenses decreased by \$0.7 million from \$2.6 million in 2007 to \$1.9 million in 2008. The decrease in research and development expenses was due primarily to a decrease in costs of raw materials used in our research and development activities.

Interest Expense. Our interest expenses increased from \$7.4 million in 2007 to \$8.1 million in 2008. The increase was due to the interests accrued on the convertible senior notes offered in July 2008, the offering expenses of the convertible senior notes offerings amortized in 2008, and the expenses associated with the open market repurchases of the convertible senior notes during the fourth quarter of 2008, offset in part by the interest cost capitalized in respect of construction of new facilities in 2008.

Interest Income. Our interest income slightly increased from \$1.6 million in 2007 to \$1.7 million in 2008, due primarily to an increase in our cash balances after the completion of our convertible senior notes offerings in July 2008.

Change in Fair Value of Derivative. In 2008, we had a loss on the change in fair value of derivative of \$9.9 million, compared to nil in 2007. The loss reflects the change in the fair value of an embedded foreign currency derivative in one of our long-term raw material supply contracts, and the change in fair value of our forward foreign currency exchange contract entered into in the fourth quarter of 2008. See “Critical Accounting Policies—Derivative Financial Instruments” for more details.

Net Other Income (Expense). During the fourth quarter of 2008, we conducted open market repurchases of the convertible senior notes, and through December 31, 2008, we repurchased \$6.5 million aggregate principal amount of the convertible senior notes for a total cash consideration of \$2.0 million. We recorded the gain of \$4.5 million from the repurchases as other income in our consolidated income statement.

In 2008, we recorded net other expense of \$2.3 million, due primarily to the gain of \$4.5 million from the repurchases of the convertible senior notes, which was offset by the foreign exchange loss of \$6.9 million in the same year as a result of devaluation of Euro against Renminbi during 2008.

Net Income (Loss). As a result of the foregoing, we incurred a net loss of \$22.9 million in 2008, compared to net loss of \$4.9 million in 2007.

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

Net Revenues. Our total net revenues increased by \$85.4 million, from \$149.5 million in 2006 to \$234.9 million in 2007. Our net revenues increased primarily due to an increase in the volume of the solar power products we sold.

In 2007, we shipped 74.0 MW of solar power products, including 2.4 MW of solar cells processed under OEM arrangements and 1.6 MW of solar modules, compared to our 46.4 MW of solar cell sales in 2006. The increase in our sales of solar power products was due to the expansion of our manufacturing capacity and production output. Our average selling price decreased from \$3.22 per watt in 2006 to \$2.92 per watt in 2007 due primarily to lower selling prices for off-specification cells and to decreases in subsidies or feed-in tariffs in major end-markets of solar power products, such as Germany, as well as increased production around the world.

Cost of Revenues. Our cost of revenues increased by \$94.0 million, from \$122.9 million in 2006 to \$216.9 million in 2007. Our cost of revenues increased primarily due to the rapid expansion of our manufacturing capacity and output and the rising prices of silicon raw materials due to the industry-wide shortage of polysilicon.

Silicon raw materials, primarily silicon wafers, accounted for 89.9% of our cost of revenue in 2007 compared to 91.9% in 2006. As a percentage of our total net revenues, our cost of revenues increased from 82.2% in 2006 to 92.3% in 2007.

Gross Profit. Our gross profit in 2007 decreased by \$8.6 million to \$18.0 million, from \$26.6 million in 2006. Our gross margin decreased from 17.8% in 2006 to 7.7% in 2007. The decrease was primarily attributable to a decrease in our average selling prices of solar cells, partly as a result of lower selling prices for off-specification cells, and the rising prices of silicon raw materials.

Operating Expenses. Our operating expenses increased by \$6.4 million, from \$11.5 million in 2006 to \$17.9 million in 2007. The increase in operating expenses was due to increases in general and administrative expenses, selling expenses and research and development expenses. As a percentage of our total net revenues, operating expenses stayed relatively flat at 7.6% in 2007, compared to 7.7% in 2006.

General and administrative expenses. Our general and administrative expenses increased by \$3.8 million, from \$9.9 million in 2006 to \$13.7 million in 2007. The increase in our general and administrative expenses was due primarily to increases in salaries and benefits for our administrative, finance and human resources personnel as we hired more personnel to manage our growing business, and also due to an increase in bad debt provision.

Selling expenses. Our selling expenses increased by \$0.6 million from \$1.0 in 2006 to \$1.6 million in 2007, due primarily to increases in sales employee salaries, travel expenses and freight expenses. With the growth of our net revenues, selling expenses as a percentage of net revenues stayed relatively flat in 2007 compared to 2006.

Research and development expenses. Research and development expenses increased by \$2.0 million from \$0.5 million in 2006 to \$2.5 million in 2007. The increase in research and development expenses was due primarily to an increase in costs of raw materials used in our research and development activities, our payment of service fees to New South Innovations Pty Limited under a collaborative research agreement, an increase in salaries and benefits for research and development personnel and depreciation of equipment related to the design, development, testing and enhancement of our products and manufacturing processes.

Interest Expense and Interest Income. Our interest expenses increased from \$3.0 million in 2006 to \$7.4 million in 2007. The increase in our interest expenses was due to an increase in our bank borrowings. Our interest income increased from \$0.4 million in 2006 to \$1.6 million in 2007, due primarily to an increase in our cash balances after the completion of our initial public offering.

Net Income (Loss). As a result of the foregoing, we incurred a net loss of \$4.9 million in 2007, compared to net income of \$11.8 million in 2006.

B. Liquidity and Capital Resources

Cash Flows and Working Capital

To date, we have financed our operations primarily through cash flows from equity contributions by our shareholders, operations, short-term borrowings, and proceeds from our convertible senior notes offering in July 2008.

In July 2008, we completed an offering of \$54.5 million aggregate principal amount of 4.75% convertible senior notes. The notes are convertible at any time prior to the close of business on the third business day immediately preceding the maturity date, unless previously redeemed, at the option of the holders into our ADSs at a conversion price of \$12.30 per ADS, subject to certain adjustments. In connection with the convertible senior notes offering, we also offered 4,431,000 ADSs in an ADS borrow facility. During the fourth quarter of 2008, we conducted open market repurchases of the convertible senior notes, and through December 31, 2008, we repurchased \$6.5 million aggregate principal amount of the convertible senior notes for a total cash consideration of \$2.0 million.

As of December 31, 2006, 2007 and 2008, we had \$14.7 million, \$60.5 million and \$94.8 million, respectively, in cash and cash equivalents, \$77.9 million, \$121.8 million and \$97.3 million, respectively, in outstanding borrowings. Our cash and cash equivalents primarily consist of cash on hand and demand deposits placed with banks. As of December 31, 2006, 2007 and 2008, \$77.9 million, \$121.8 million and \$97.3 million, respectively, of our outstanding borrowings were due within one year. These borrowings expire at various times throughout the year. Our short-term borrowings outstanding as of December 31, 2006, 2007 and 2008 bore an average interest rate of 5.93%, 6.27% and 7.42%, respectively. We did not have any long-term borrowings as of December 31, 2006, 2007 and 2008. We have historically been able to repay our borrowings as they became due from capital contributions from our shareholders, proceeds from short-term and long-term borrowings and note offering, and our operating cash flows. See Item 3, “Key Information—Risk Factors—Risks Related to Our Company and Our Industry—We have significant outstanding bank borrowings, and we may not be able to arrange adequate financing when they mature or may encounter other difficulties in maintaining liquidity.”

As of December 31, 2008, approximately \$16.1 million and \$8.8 million of the short-term bank borrowings have been secured by the pledge of our raw materials and the guarantee by Mr. Tingxiu Lu, and an off-shore standby letters of credit, respectively. The remaining short-term borrowings have been guaranteed by CEEG and Jiangsu CEEG Electrical Equipment Manufacturing Co., Ltd., both controlled by Mr. Tingxiu Lu, our chairman. In an agreement between Sunergy Nanjing and CEEG dated December 18, 2006, CEEG had undertaken to guarantee the bank borrowings of Sunergy Nanjing for up to RMB1 billion, subject to adjustment in the event of the material change of CEEG’s credit or operation status, for one year after our initial public offering. In May 2008, Sunergy Nanjing and CEEG signed an agreement to further extend the term of the above agreement to May 16, 2010.

We historically used cash advances from related parties to meet some of our temporary liquidity needs. We have fully repaid such cash advances as of September 30, 2006, and we do not expect to borrow cash advances from related parties in the future.

Historically, we have significant working capital commitments because suppliers of silicon wafers and other silicon-based raw materials require us to make prepayments in advance of shipment. Due to the industry-wide shortage of silicon raw materials in the past several years, working capital and access to financings for the purchase of silicon raw materials were critical to growing our business. Our advances to suppliers increased significantly from \$26.3 million as of December 31, 2006 to \$79.9 million as of December 31, 2007. However, due to the dramatic change of the availability of polysilicon since the fourth quarter of 2008, the prepayment as a percentage of the entire contract has been reducing. Our advances to suppliers decreased significantly to \$7.3 million as of December 31, 2008. Depending on the supply and demand situation, going forward, our purchases of silicon raw materials may continue to require us to make significant working capital commitments from time to time as we expand our production.

Inventories, one of the principal components of our current assets, increased from \$44.3 million as of December 31, 2006 to \$56.1 million as of December 31, 2007 and further increased to \$59.1 million as of December 31, 2008, due to increased production volume, partially offset by an inventory provision of \$11.8 million based on a revaluation of our silicon inventory as a result of market price declines.

We generally require customers to make prepayment before delivery. However, depending on their credit history with us, we historically granted our large customers credit terms of one month. Our accounts receivable significantly decreased from \$26.8 million as of December 31, 2007 to \$8.9 million as of December 31, 2008. The decrease in our accounts receivable was primarily due to payment we received for deliveries previously made. Our accounts receivable decreased from \$43.0 million as of December 31, 2006 to \$26.8 million as of December 31, 2007, primarily due to payment we received for deliveries previously made and the shorter credit term we granted to our customers in 2007 as compared to 2006.

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

	Year Ended December 31,		
	2006	2007	2008
	(in thousands)		
Net cash used in or generated from operating activities	\$ (76,147)	\$ (62,768)	\$ 91,954
Net cash used in investing activities	(6,757)	(35,272)	(88,244)
Net cash provided by financing activities	92,123	135,033	15,899
Net increase in cash and cash equivalents	11,984	45,708	34,342
Cash and cash equivalents at the beginning of the year	2,765	14,750	60,458
Cash and cash equivalents at the end of the year	\$ 14,750	\$ 60,458	\$ 94, 800

Operating Activities

Operating activities during the year ended December 31, 2008 provided \$92.0 million of cash flow in 2008. Operating cash inflows are largely attributable to revenues derived from the sales of our solar power products. Operating cash outflows are largely attributable to recurring expenditures for raw materials, labor, administration, marketing, and other activities. Changes in the components of our working capital also impact cash flow from operating activities. For the year ended December 31, 2008, our growing business generated substantial cash inflow as we increased net revenues by 49.4% from \$234.9 million in 2007 to \$350.9 million in 2008. Our cost of revenues and operating expenses, after deducting non-cash operating items which included inventory write-down of \$11.8 million, increased by 48.5% from \$227.1 million in 2007 to \$337.2 million in 2008. We had a net cash inflow in working capital of \$88.0 million for the year ended December 31, 2008. The cash inflow in working capital was primarily due to a significant decrease in advances to suppliers as a result of improved silicon raw material supply conditions, a decrease in accounts receivable as we received payment for deliveries previously made, an increase in accounts payable due to increased payment periods in connection with the purchases of silicon raw materials, partially offset by an increase in inventories as a result of increased requirement for more silicon raw materials in line with the expansion of production capacity, and a decrease in advances from customers as we lowered the prepayment ratio and not requesting prepayment under several sales contracts.

Net cash used in operating activities amounted to \$62.8 million in 2007. Net cash used in operating activities in 2007 was mainly attributable to a significant increase in advances to suppliers, an increase in prepaid value-added-tax expenses and an increase in inventories primarily due to our expanded manufacturing capacity and the resultant requirement for more silicon raw materials. However, our net cash used in operating activities in 2007 was partly offset by a decrease in accounts receivable due to payment we received for deliveries previously made and the shorter credit term we granted to our customers in 2007 as compared to 2006. Net cash used in operating activities in 2006 was mainly attributable to a significant increase in accounts receivable primarily due to our granting favorable credit terms for sales to our large customers, particularly our top three customers, a significant increase in inventories and an increase in advances to suppliers primarily due to our expanded manufacturing capacity and the resultant requirement for more silicon raw materials, and a decrease in advances from customers after we changed our prepayment requirement by lowering the prepayment ratio and not requesting prepayment under several sales contracts.

Investing Activities

Net cash used in investing activities in 2008 amounted to \$88.2 million, as compared to \$35.3 million and \$6.8 million in 2007 and 2006, respectively. Net cash used in investing activities in 2008 was primarily attributable to our purchases of property, plant and equipment in the amount of \$44.1 million in connection with the expansion of our solar cell manufacturing lines, as well as an increase in restricted cash of \$38.9 million in connection with deposit with banks for securing letter of credit and promissory note facilities for procurement of silicon raw materials. Net cash used in investing activities in 2007 was primarily due to our purchases of property, plant and equipment in the amount of \$15.6 million in connection with the expansion of our solar cell manufacturing lines, as well as an increase in restricted cash of \$18.5 million in connection with deposit of US dollars as security for our RMB loans. Net cash used in investing activities in 2006 was primarily due to our purchases of property, plant and equipment in the amount of \$23.1 million in connection with the expansion of our solar cell manufacturing lines, partly offset by a decrease in restricted cash of \$17.0 million due to decreases in our bank deposits for securing letter of credit facilities for our imports of equipment and for securing notes payable used in setting related party transactions.

Financing Activities

Net cash provided by financing activities was \$15.9 million in 2008, primarily attributable to proceeds from short-term borrowings in the amount of \$142.5 million and proceeds from our issuance of convertible bond in the amount of \$54.5 million, partly offset by repayment of bank borrowing in the amount of \$175.1 million. Net cash provided by financing activities was \$135.0 million in 2007, primarily attributable to proceeds from short-term borrowings in the amount of \$168.0 million and net proceeds of \$95.9 million received from our initial public offering. Net cash provided by financing activities was \$92.1 million in 2006, consisting primarily of proceeds received from issuance of our Series A, Series B and Series C preferred shares, short-term borrowings and financing provided by related parties, partly offset by repayment of bank borrowings and financing provided by related parties.

We believe that our current cash, cash equivalents, short-term borrowings, proceeds from our convertible senior notes offering in July 2008 and anticipated cash flow from operations will be sufficient to meet our anticipated cash needs, including our cash needs for working capital and capital expenditures for at least the next 12 months. 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. If our existing cash is insufficient to meet our requirements, we may seek to sell additional equity securities, debt securities or borrow from banks. However, the current financial downturn affecting the financial markets and banking system may significantly restrict our ability to obtain financing in the capital markets or from financial institutions. Furthermore, 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 earnings per share. 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.

Capital Expenditures

We incurred capital expenditures of \$24.9 million, \$16.8 million and \$49.3 million, in 2006, 2007 and 2008, respectively. Our capital expenditures have been used primarily to build our plant, and purchase equipment and land use right for our solar cell manufacturing lines. We estimate that our capital expenditures will be approximately \$20 million to \$25 million in 2009, and will be used primarily to pay the outstanding balance of the expenses in connection with the expansion of our solar cell manufacturing lines, modify our existing solar cell manufacturing lines and fund the operation of Sunergy Shanghai.

C. Research and Development

Our senior management team heads our research and development efforts and sets strategic directions for the advancement of our products and manufacturing processes. Dr. Jianhua Zhao, our vice chairman and chief technology officer, and Dr. Aihua Wang, our vice president are all experienced solar power researchers. Under their guidance, our research and development plans include the following areas:

- Development of solar cell structures. We commenced commercial mass production of selective emitter cells, an improved version of P-type solar cells that most solar cell manufacturers produce, by using monocrystalline wafers in the fourth quarter of 2007. In December 2008, we installed four new solar cell lines for the production of selective emitter cells. In the first quarter of 2009, we successfully tested multicrystalline silicon wafers on one of our selective emitter solar cells manufacturing lines, which enabled us to produce selective emitter multicrystalline solar cells using multicrystalline silicon wafers as raw materials. Selective emitter multicrystalline solar cells generally have a higher conversion efficiencies than P-type multicrystalline solar cells that we and most other solar cell manufacturers produce. In addition, we are developing Matrix cells, for mass production in the future.

- Development of the manufacturing process for N-type solar cells. We also focus our research and development efforts on the process technology of N-type solar cells. The conversion efficiencies of N-type cells may generally be higher than those of P-type solar cells. Based on Dr. Zhao and Dr. Wang's previous experience working with N-type solar cells, including developing what were the most efficient N-type solar cells in the world, we have successfully conducted research and a large number of experiments on solving the technical problems associated with manufacturing N-type solar cells.
- Increase our solar cell manufacturing efficiency and reduce the manufacturing costs. We continuously strive for optimizing the processing parameters and conditions for each manufacturing step to improve the overall performance of our solar cells, streamline our manufacturing process and reduce the manufacturing costs. In the first quarter of 2009, three of the four HP solar cell manufacturing lines were refurbished, enabling multicrystalline wafers to be used in these lines. This provides us with more flexibility in both the procurement of raw materials and product offerings. We are also working collaboratively with metallic paste manufacturers to reduce the paste used for our manufacturing without affecting solar cell performance.

We believe that the continual improvement of our technology is vital to maintaining our long-term competitiveness. Therefore, we have established our own solar power research center and have installed an experimental manufacturing line dedicated to our research and development.

To further leverage our internal advanced research and development capability, we have established cooperative relationships with several universities and institutions in China, including Nanjing University and Southeast University, each a leading science and engineering university in China. We have also entered into cooperation agreement with CEEG (Nanjing) Semiconductor Co., Ltd., an entity controlled by our chairman, and Nanjing University of Aeronautics and Astronautics, one of the leading science and engineering universities in China, to jointly develop solar wafer cutting and texture technology. We believe our collaborative efforts with these institutions have kept us apprised of the latest industry trends and developments, helped implement our own innovation initiatives and will continue to contribute to our technological advancement.

In addition, several government authorities in China, including State Development and Reform Commission, Ministry of Science and Technology and Jiangsu Science and Technology Department, have provided us or committed to provide us with grants for our research in solar power technologies. Jiangsu Science and Technology Department also recognized our research and development capability by establishing the photovoltaic engineering technology research center in our company. We have invited solar power experts from external research institutes to form the expert commission for such research center.

Our gross expenditures on research and development were \$0.5 million, \$2.6 million and \$1.9 million in 2006, 2007 and 2008, respectively.

D. Trend Information

Other than as disclosed elsewhere in this annual report, we are not aware of any trends, uncertainties, demands, commitments or events since January 1, 2008 that are reasonably likely to have a material 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 Commitments and 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. Contractual Obligations and Commercial Commitments

The following table sets forth our contractual obligations and commercial commitments as of December 31, 2008:

	Payment Due by Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
	(in thousands)				
Operating lease obligations	\$ 479	\$ 162	\$ 74	\$ 57	\$ 186
Purchase obligations ⁽¹⁾	\$838,731	\$ 197,922	\$ 433,309	\$ 111,800	\$ 95,700
Convertible senior notes ⁽²⁾	\$ 58,165	\$ 2,280	\$ 4,560	\$ 51,325	-
Total	\$897,375	\$ 200,364	\$ 437,943	\$ 163,182	\$ 95,886

(1) Includes commitments to purchase production equipment in the amount of \$10.0 million and commitments to purchase silicon raw materials in the amount of \$828.7 million. Other than the contractual obligations and commercial commitments set forth above, we did not have any other material long-term debt obligations, operating lease obligations, purchase obligations or other material long-term liabilities as of December 31, 2008. This table does not reflect our short-term debt obligations, which as of December 31, 2008 totaled \$97.3 million.

(2) Assumes redemption of \$48.0 million aggregate principal amount of 4.75% convertible senior notes due June 2013. Assumes none of the convertible senior notes have been converted into ordinary shares. This figure also includes interest payable until June 15, 2013.

In June 2009, we repurchased \$4.0 million aggregate principal amount of the convertible senior notes in the open market, for a total cash consideration of \$1.8 million. We recorded a gain of \$2.2 million from the repurchase.

G. Safe Harbor

This annual report on Form 20-F contains statements of a forward-looking nature. These statements relate to events involving known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from those expressed or implied by the forward-looking statements. These statements are made under the “safe harbor” provisions of the Section 27A of the Exchange Act. Whenever you read a statement that is not simply a statement of historical fact (such as when we describe what we “believe,” “expect” or “anticipate” will occur, and other similar statements), you must remember that our expectations may not materialize, even though we believe that they are reasonable.

Whether actual results will conform with our expectations and predictions is subject to a number of risks and uncertainties, many of which are beyond our control, and reflect future business decisions that are subject to change. Some of the assumptions, future results and levels of performance expressed or implied in the forward-looking statements we make inevitably will not materialize, and unanticipated events affecting our results may occur.

We caution you not to place undue reliance on forward-looking statements. You should read these statements in conjunction with the risk factors disclosed in Item 3 of this annual report, “Key Information—Risk Factors.” We do not undertake any obligation to update or revise the forward-looking statements except as required under applicable law.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management

Directors and Executive Officers

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

<u>Directors and Executive Officers</u>	<u>Age</u>	<u>Position</u>
Tingxiu Lu	47	Chairman
Jianhua Zhao	53	Vice Chairman and Chief Technology Officer
Ruennsheng Allen Wang	54	Director, Chief Executive Officer
Shiliang Guo	45	Director, Acting Chief Financial Officer
Merry Tang	49	Independent Director
Xiaoqian Zhou	68	Independent Director
Jian Li	55	Independent Director
Steve Morgan	58	Independent Director
Wenze Wang	67	Independent Director
Aihua Wang	55	Vice President and General Manager of Research and Development Division
Richard Yumin Gu	45	Vice President and General Manager of Sales & Marketing Division
Fang Yang	37	Vice President and General Manager of Operation Division

Directors

Mr. Tingxiu Lu is chairman of our board of directors and has been with our company since 2004. Since 2003, Mr. Lu has served as the chairman of the board of directors of CEEG, a Chinese company that mainly manufactures power transformers. He has been chairman and general manager of Jiangsu CEEG Transformer Manufacturing Co., Ltd. since 2002, and has been a member of the supervisory board of Jiangsu CEEG Electrical Transmission and Distribution Equipment Co., Ltd. since 2003. Mr. Lu has been chairman of Jiangsu Xinde Assets Management Co., Ltd. and Nanjing Xinde Assets Management Co., Ltd., two investment management and investment holding companies, since 2006. From 1991 to 2003, Mr. Lu was the general manager of Jiangsu CEEG Electrical Equipment Manufacturing Co, Ltd, the predecessor of CEEG. Mr. Lu was awarded the China Excellent Entrepreneur award by the China Entrepreneur Confederation in 2005. He was also named as a 2005 Top Ten Distinguished Youth Entrepreneur of Jiangsu Province in 2005 by Jiangsu Province Development and Reform Commission and other government bodies. Mr. Lu graduated from an executive business management program at Tsinghua University in 2006.

Dr. Jianhua Zhao is vice chairman of our board of directors and chief technology officer of our company and has been with our company since 2004. From 2002 to June 2006, he was an associate professor of the Centre of Excellence for Advanced Silicon Photovoltaics and Photonics, formerly known as the Photovoltaics Special Research Centre, at the University of New South Wales in Australia, and also served as its deputy director from 1999 to June 2006. At the Photovoltaics Special Research Centre, he was a senior lecturer (senior research fellow) from 1991 to 2001. Dr. Zhao is a senior member of IEEE Electron Device Society, a member of Australia and New Zealand Solar Energy Society and a member of Chinese Renewable Energy Society. Dr. Zhao graduated from Nanjing Institute of Technology in 1978 and received his master's degree from the same university in 1982, and received a Ph.D. degree in electrical engineering from the University of New South Wales in Australia in 1989. Dr. Zhao started solar research in 1979 and has published 111 papers in scientific journals, including one published in Nature magazine, 107 papers in international scientific conferences, and 32 research reports. Dr. Zhao is the husband of Dr. Aihua Wang.

Mr. Ruennsheng Allen Wang has been our chief executive officer since July 2007. Prior to joining us, Mr. Wang served as a senior vice president and the general manager of Operation Division, NEC Telecommunications (China) Co., Ltd. from 2004 to 2007. From 1996 to 2004, he held various management positions with Motorola, first as the general manager of Hangzhou Motorola Cellular Equipment Co., Ltd. from 1996 to 2001, subsequently as a vice president of Motorola International Inc. in 2000, then as the general manager of CPAD Asia, Motorola PCS from 2001 to 2003 and finally as general manager of Motorola PCS ODM Taiwan Operations from 2003 to 2004. From 1993 to 1996, Mr. Wang served as a vice president of AT&T (China) Co., Ltd. Mr. Wang graduated with a bachelor degree in mechanical engineering from Taiwan University in 1977 and received his master's degree in the same major from Yale University in 1981. He also received his master's degree in computer science from Northwestern University in 1983. Mr. Wang received a Ph.D. degree from Northwestern University and an MBA from the University of Chicago in 1985 and 1992, respectively.

Mr. Shiliang Guo has been a director and acting chief financial officer of our company after Kenneth Luk's resignation in 2009. Mr. Guo once served as a director of our company from May 2006 to July 2007. Mr. Guo has been the chief financial officer of China Electronic Equipment Group Co., Ltd. since October 2004. From 1993 to 2004, Mr. Guo served as chief accountant with Yangzhou Zhengxin Certified Public Accountant Co., Ltd., Yangzhou Xingda Certified Public Accountant Co., Ltd. and Yangzhong Certified Public Accountant Co., Ltd., respectively. Mr. Guo received a bachelor's degree in finance from Suzhou University in 1984. He obtained the qualification of PRC Certified Public Accountant in 1993.

Independent Directors

Ms Merry Tang has been an independent director of our company since June 2008. She is currently a principal and managing partner of Merry Tang CPA, LLC. Ms. Tang served a managing director at GTA International, LLC and Partner at Tang & Company, PC – both U.S.-based CPA firms offering services in risk assessment, audit engagements and Sarbanes-Oxley-related documentation to leading banks, financial service providers and telecommunications firms from 2006 to 2008. Prior to that, Ms. Tang gained “Big 4” experience at PricewaterhouseCoopers LLP where she served as senior auditor and engaged in various high profile clients' financial and IT audits from 2004 to 2006. Ms. Tang also worked at Lucent Technologies, Inc. as a finance manager from 1996 to 2004. Ms. Tang graduated from the Central University of Finance & Banking, Beijing, China with a bachelor degree in banking in 1983 and a master degree in Finance in 1986, before going on to receive her master degree in accounting from the State University of New York at Albany in 1993.

Mr. Xiaoqian Zhou has been an independent director of our company since May 2007. Mr. Zhou is an independent director of Xuji Electric Stock Co., Ltd. and Tebian Electric Appliance Stock Co., Ltd. He is a vice director of Chinese Energy Research Society and chairman of the Chinese Society for the Development of Power. Mr. Zhou has over 40 years of experience in the power industry in China. He was a consultant to the State Grid Corporation of China from 2001 to 2004, and was an assistant general manager of the same company from 1998 to 2001. From 1996 to 1999, Mr. Zhou was the general manager of China Grid Construction Co., Ltd. Mr. Zhou graduated from Zhejiang University with a major in thermal power equipment in 1964.

Ms. Jian Li has been an independent director of our company since May 2008. Ms. Li has worked in education with the Central University of Finance and Economics since 1983. Ms. Li is a professor, the head of department of finance, a doctoral supervisor and a supervisor of postdoctoral research station of Central University of Finance and Economics. She is also an independent director of Citic Securities Co., Ltd., a company listed on the Shanghai Stock Exchange. Ms. Li has been involved in the publishing of a number of academic papers both in China and overseas during the past ten years, mainly on finance and the capital markets. Ms. Li received her bachelor's degree in finance and doctor's degree in economics from the Central University of Finance and Economics and Xi'an Communication University in 1983 and 1997, respectively.

Mr. Steve Morgan has been an independent director of our company since May 2008. Mr. Morgan has been a senior partner and foreign legal advisor for Zhonglun W&D Law Firm in Beijing since 2007. Mr. Morgan was a special advisor on a number of projects for the Carlyle Group, Mitsubishi Corporation and Finmeccanica SpA. from 2004 to 2006, and was appointed as a Visiting Professor of the Graduate Business School of Seoul National University in 2007. From 2000 to 2004, he served as senior executive vice president for Hyundai Motor Company in Seoul and served in other executive positions in Hyundai group companies since 1998. Mr. Morgan graduated from Fordham College, New York, with a bachelor degree in political science in 1973 and received his juris doctorate from Northwestern University School of Law in 1976.

Mr. Wenzhe Wang has been our independent director since May 2008. Mr. Wang has been a executive vice chairman of China Investment Association since 2000. Mr. Wang was the Commissioner of the Finance and Economics Committee of the National People's Congress from 2003 and resigned from this role in March 2008. From 1994 to 2003, Mr. Wang served as general manager of the State Development and Investment Corporation. Mr. Wang graduated from Shandong Technical College with a bachelor's degree in thermal power in 1965.

Executive Officers

Dr. Aihua Wang is a vice president and general manager of our company in charge of research and development and has been with our company since 2004. From 2000 to June 2006, she was a research fellow at the Centre of Excellence for Advanced Silicon Photovoltaics and Photonics, formerly known as the Photovoltaics Special Research Centre, at the University of New South Wales in Australia. At the Photovoltaics Special Research Centre, she was a project scientist from 1991 to 2000. She was an engineer at Applied Solar Energy, Inc. in California from 1990 to 1991. Dr. Wang published a number of research articles and papers on solar cells. Dr. Wang graduated from Nanjing Institute of Technology in China in 1978 and received a Ph.D. degree in electronic engineering from the University of New South Wales in Australia in 1992.

Mr. Richard Yumin Gu is a vice president and general manager of our company in charge of sales and marketing and has been with our company since January 2007. From 2001 to 2006, Mr. Gu was the general manager of Shanghai Ever-rich Electric Equipment Co. Ltd., a company engaging in the electric equipment business. From 1992 to 2001, Mr. Gu worked with various subsidiaries and a joint venture of DuPont, a multinational chemicals and health care conglomerate. From 1999 to 2001, he was a regional business manager of DuPont China Limited, serving for its department in charge of electrical insulation and advance fiber system business. From 1996 to 1999, he served as a technical consultant and marketing manager of DuPont Teijin Paper Asia Limited. From 1992 to 1996, he served as an account manager of DuPont China Holding Company Limited. Mr. Gu received his bachelor's degree in electrical engineering from Xi'an Jiao Tong University in China and completed MBA correspondence courses with Auckland University of New Zealand in 1999.

Mr. Fang Yang has been our vice president in charge of strategy and planning and special assistant to the chief executive officer since August 2007 and later served as a general manager of operation division since December 2008. Prior to joining us, Mr. Yang served as a director of the business management department and operation division with NEC Telecommunications (China) Co., Ltd. from 2004 to 2007. From 1995 to 2004, Mr. Yang worked as a director of sales and business management with Lucent Technologies (China) Co., Ltd., a communication equipment manufacturing company in China. Mr. Yang received his bachelor's degree in engineering, his master in system engineering and MBA from Northwest Polytechnic University in Xi'an, China in 1992, 1995 and 1995, respectively.

The address of our directors and executive officers is c/o China Sunergy Co., Ltd., No. 123 Focheng West Road, Nanjing Jiangning Economic & Technical Development Zone, Nanjing, Jiangsu Province 211100, People's Republic of China.

B. Compensation of Directors and Executive Officers

For the year ended December 31, 2008, the aggregate cash compensation that we paid to our executive officers was approximately \$1.2 million. There are no service contracts between us and our directors, except for those directors who are also our executive officers. For the year ended December 31, 2008, we paid an aggregate of approximately \$40,000 for pension and other social insurance contribution for our senior executive officers. For option grants to our officers and directors, see Item 6, "Directors, Senior Management and Employees—Compensation of Directors and Executive Officers—Share Incentive Plan."

Employment Agreements

We have entered into employment agreements with each of our executive officers. Under these agreements, each of our executive officers is employed for a specified time period. We may terminate the employment for cause, at any time, without remuneration, for certain acts of the employee, including but not limited to a conviction or plea of guilty to a felony, willful dishonesty to us and willful and continued failure to perform substantially all his agreed-to duties after a reasonable opportunity to cure the failure. An executive officer may terminate his employment at any time without penalty if there is any failure by us to comply with any material provisions of the employment agreement, any change in his duties or responsibilities in any material and adverse respect. Furthermore, either party may terminate the employment at any time without cause upon advance written notice to the other party. If we terminate the employment of an executive officer without cause, the executive officer will be entitled to a severance payment equal to a certain specified number of months of his or her then base salary.

Each executive officer has agreed to hold in confidence and not to use, except as required in the performance of his duties in connection with the employment, any confidential information relating to the business of our company, affiliates or customers. The executive officers have also agreed to disclose to us all inventions, designs and trade secrets which they conceive, develop or reduce to practice during the employment and to assign all right, title and interest in them to us.

Share Incentive Plan

In October 2006, our board of directors adopted a share incentive plan, or the First Plan, later amended in April 2007 and May 2009, respectively, to link the personal interests of our board members, employees and consultants to those of our shareholders by providing them with an incentive to generate superior returns for our shareholders, as well as to provide us with the flexibility to motivate, attract and retain the services of these individuals upon whose judgment, interest and special effort the successful conduct of our operations is dependent. The First Plan provides for the grant of options, referred to as "awards," and we have reserved 2,500,000 shares for issuance under the First Plan. We adopted a second share incentive plan, or the Second Plan, after obtaining the approval by shareholders in February 2008. We have reserved 4,190,748 shares for issuance under the Second Plan. As of the date of this annual report, our board of directors has granted certain of our officers, employees and consultants an aggregate of 2,092,350 options and 2,996,896 restricted shares, excluding options and restricted shares forfeited pursuant to the above plans.

Administration. Our share incentive plans are administered by our compensation committee or, in its absence, by our board of directors. Our compensation committee will determine the provisions, terms and conditions of our awards.

Awards. Awards granted are evidenced by an award agreement that sets forth the terms, conditions and limitations for each award. Our First Plan only provides for awards in the form of options. Options provide for the right to purchase our ordinary shares at a specified price, and usually will become exercisable in installments after the grant date. The option exercise price may be paid in cash, by check, by our ordinary shares which have been held by the option holder for such time as may be required to avoid adverse accounting treatment, by other property with value equal to the exercise price, through a broker assisted cash-less exercise or by such other methods as our compensation committee or board of directors may approve from time to time.

The following paragraphs briefly describe the principal features of the various awards that may be granted under the Second Plan.

- *Options.* Options provide for the right to purchase our ordinary shares at a price and period determined by our compensation committee in one or more installments after the grant date.
- *Restricted Shares.* A restricted share award is the grant of our ordinary shares determined by our compensation committee. A restricted share is nontransferable, unless otherwise determined by our compensation committee at the time of award, and may be repurchased by us upon termination of employment or service during a restricted period. Our compensation committee shall also determine in the award agreement whether the participant will be entitled to vote the restricted shares or receive dividends on such shares.
- *Restricted Share Units.* Restricted share units represent the right to receive our ordinary shares at a specified date in the future, subject to forfeiture of such right. If the restricted share unit has not been forfeited, then on the date specified in the award agreement, we shall deliver to the holder unrestricted ordinary shares which will be freely transferable.

Termination of Plan. Unless terminated earlier, our First Plan and Second Plan will expire in 2016 and 2018, respectively. Our board of directors has the authority to amend or terminate our share incentive plans subject to shareholder approval to the extent necessary to comply with applicable law. However, no such action may impair the rights of any recipient of the awards unless agreed by the recipient and the share incentive plan administrator.

The following table summarizes, as of March 31, 2009, the outstanding options and restricted shares granted under our plans to several of our directors and executive officers and to other individuals. We have two types of vesting schedules for options. A substantial portion of options vest over a four-year period beginning in October 2006, November 2006, April 2007 or January 2008. Other options vest on the first anniversary of the grant date. These restricted shares vest over a three-year period beginning July 2007 or December 2007. Up to two thirds of the restricted shares granted to Mr. Ruennsheng Allen Wang will immediately vest in case of termination within his first two years of employment other than for cause.

Name	Ordinary Shares Underlying Options Granted	Restricted Shares	Exercise Price	Grant Date	Date of Expiration
Ruennsheng Allen Wang		1,598,201**	N/A	February 2008	February 2018
Kenneth Luk (1)		* ₁	N/A	February 2008	February 2018
Richard Yumin Gu	*		\$1.283	January 2008	January 2018
Fang Yang	*		\$1.283	January 2008	January 2018
Xiaoqian Zhou	*		\$1.283	April 2007	April 2017
Other individuals as a group	1,540,128		\$1.283	October 2006, November 2006, April 2007 or January 2008	October 2016, November 2016, April 2017 or January 2018
	180,642		\$0.70	January 2009	January 2019

1 Restricted shares purchased at \$0.001 per share.

(1) Mr. Kenneth Luk resigned from the position of our chief financial officer in March 2009.

* Less than 1% of our outstanding ordinary shares.

** In addition to the above unvested restricted shares, 799,100 of restricted shares granted to Mr. Ruennsheng Allen Wang were vested in July 2008.

C. Board Practices

Board of Directors

Our board of directors currently has nine directors, all designated by the holders of our ordinary shares. As of the date of this annual report, a majority of our directors meet the “independence” definition under The Nasdaq Stock Market Marketplace Rules, or the Nasdaq Rules.

Under our amended and restated articles of association, which became effective in May 2007, our board of directors consists of at least two directors. Our directors are elected by the holders of our ordinary shares.

A director is not required to hold any shares in the company by way of qualification. A director may vote with respect to any contract, proposed contract or arrangement in which he is materially interested. A director may exercise all the powers of the company to borrow money, mortgage its undertakings, property and uncalled capital, and issue debentures or other securities whenever money is borrowed or pledged as security for any obligation of the company or of any third party. Upon the completion of our initial public offering in May 2007, we established three committees under the board of directors: the audit committee, the compensation committee and the nominating committee. We have adopted a charter for each committee.

Committees of the Board of Directors

We have established three committees under the board of directors: the audit committee, the compensation committee and the corporate governance and nominating committee. We have adopted a charter for each of the three committees. Each committee’s members and functions are described below.

Audit Committee. Our audit committee consists of Ms. Merry Tang, Mr. Steve Morgan and Ms. Jian Li and is chaired by Ms. Merry Tang. Ms. Tang, Mr. Morgan and Ms. Li satisfy the independence requirements of Rule 10A-3 under the Exchange Act, as amended, and Rule 5605 of the Nasdaq Rules. The audit committee oversees our accounting and financial reporting processes and audits of the financial statements of our company. The audit committee is responsible for, among other things:

- selecting the independent auditors and pre-approving all auditing and non-auditing services permitted to be performed by the independent auditors;
- reviewing with the independent auditors any audit problems or difficulties and management’s response;
- reviewing and approving all proposed related party transactions, as defined in Item 404 of Regulation S-K under the Securities Act;
- discussing the annual audited financial statements with management and the independent auditors;
- reviewing major issues as to the adequacy of our internal controls and any special audit steps adopted in light of material control deficiencies; and
- meeting separately and periodically with management and the independent auditors.

Compensation Committee. Our compensation committee consists of Ms. Jian Li, Mr. Wenzhe Wang and Mr. Xiaoqian Zhou. Ms. Li, Mr. Wang and Mr. Zhou satisfy the independence requirements of Rule 5605 of the Nasdaq Rules. The compensation committee assists the board in reviewing and approving the compensation structure, including all forms of compensation, relating to our directors and executive officers. Our chief executive officer may not be present at any committee meeting during which his compensation is deliberated. The compensation committee is responsible for, among other things:

- reviewing and approving the total compensation package for our senior executives; and
- reviewing periodically and approving any long-term incentive compensation or equity plans, programs or similar arrangements, annual bonuses, employee pension and welfare benefit plans.

Corporate Governance and Nominating Committee. Our corporate governance and nominating committee consists of Mr. Wenzhe Wang, Ms. Jian Li and Mr. Xiaoqian Zhou. Mr. Wang, Ms. Li and Mr. Zhou satisfy the independence requirements of Rule 5605 of the Nasdaq Rules. The corporate governance and nominating committee assists the board of directors in selecting individuals qualified to become our directors and in determining the composition of the board and its committees. The corporate governance and nominating committee is responsible for, among other things:

- identifying and recommending qualified candidates to the board for selection of directors nominees for election or re- election to the board of directors and committees of the board of directors, or for appointment to fill any vacancy;
- reviewing annually with the board of directors the current composition of the board of directors with regards to characteristics such as independence, age, skills, experience and availability of service to us; and
- advising the board of directors periodically with regard to significant developments in the law and practice of corporate governance as well as our compliance with applicable laws and regulations, and making recommendations to the board of directors on all matters of corporate governance and on any remedial actions to be taken.

Duties of Directors

Under Cayman Islands law, our directors have a statutory duty of loyalty to act honestly in good faith with a view to our best interests. Our directors also have a duty to exercise the skill they actually possess with the care and diligence that a reasonably prudent person would exercise in comparable circumstances. In fulfilling their duty of care to us, our directors must ensure compliance with our amended and restate memorandum and articles of association. A shareholder has the right to seek damages if a duty owed by our directors is breached.

Terms of Directors and Officers

Our shareholders have designated our directors into three classes, namely Class A directors, Class B directors and Class C directors, who shall retire from office and be eligible for re-election at the first, second and third annual general meeting after our initial public offering, respectively. Mr. Tingxiu Lu, Mr. Ruennsheng Allen Wang and Ms. Jian Li have been designated as Class A directors. Mr. Jianhua Zhao, Mr. Steve Morgan and Ms. Merry Tang have been designated as Class B directors. Mr. Xiaoqian Zhou, Mr. Wenzhe Wang and Mr. Shiliang Guo have been designated as Class C directors. At each subsequent annual general meeting after the third annual general meeting, the directors of the class who have been longest in office shall retire and shall be eligible for re-election. A director may only be removed by the shareholders. Officers are elected by and serve at the discretion of the board of directors.

D. Employees

We had 1,193 and 1,607 employees as of December 31, 2006 and 2007, respectively. As of December 31, 2008, we had 1,799 full-time employees, consisting of 1,222 in manufacturing, 74 in equipment maintenance, 147 in quality assurance, 25 in purchasing, 63 in research and development, 26 in sales and marketing and 242 in general and administrative. All of these employees are located in our facilities in Nanjing, except for eight employees located in our offices in Shanghai and Germany. Our employees are not covered by any collective bargaining agreement. We consider our relations with our employees to be good.

From time to time, we also employ part-time employees and independent contractors to support our manufacturing, research and development and sales and marketing activities. We plan to hire additional employees as we expand.

E. Share Ownership

The following table sets forth information, some of which has been obtained from public filings, with respect to the beneficial ownership of our ordinary shares as of May 28, 2009, by:

- each of our directors and executive officers who are also our shareholders; and
- each person known to us to own beneficially more than 5.0% of our ordinary shares.

	Ordinary Shares Beneficially Owned	
	Number (1)	% (2)
Directors and Executive Officers:		
Tingxiu Lu (3)	39,184,200	14.6
Jianhua Zhao (4)	19,224,000	7.2
Aihua Wang (4)	19,224,000	7.2
Ruennsheng Allen Wang (5)	*	*
Xiaoqian Zhou (6)	*	*
Richard Yumin Gu (7)	*	*
Fang Yang (8)	*	*
All Directors and Executive Officers as a Group	60,824,581	22.6
Principal Shareholders:		
Elite Shine Group Limited (9)	39,184,200	14.6
Credit Suisse (10)	37,733,667	15.9
Exuberance Investment Limited (11)	32,678,274	12.2
Smooth King Investments Limited (12)	21,295,800	8.0
Brightest Power Holdings Limited (13)	19,224,000	7.2
PraxCapital Fund II, L.P (14)	16,043,934	6.0

*Less than 1%.

- (1) Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission, or SEC, and includes voting or investment power with respect to the securities.
- (2) For each person and group included in this table, percentage ownership is calculated by dividing the number of shares beneficially owned by such person or group the number of ordinary shares outstanding as of as of the date of this annual report plus the number of ordinary shares underlying share options held by such person or group that are exercisable within 60 days after the date of this annual report.
- (3) Includes 39,184,200 ordinary shares ,beneficially owned by Elite Shine Group Limited, a British Virgin Islands company, which is 100% owned by Mr. Lu. The business address for Mr. Lu is No. 123 Focheng West Road, Nanjing Jiangning Economic & Technical Development Zone, Nanjing, Jiangsu Province 211100, People's Republic of China.

- (4) Includes 19,224,000 ordinary shares, beneficially owned by Brightest Power Holdings Limited, a British Virgin Islands company, which is 100% owned by Dr. Zhao and Dr. Wang. Dr. Zhao and Dr. Wang are husband and wife, and their business address is No. 123 Focheng West Road, Nanjing Jiangning Economic & Technical Development Zone, Nanjing, Jiangsu Province 211100, People's Republic of China.
- (5) Represents ordinary shares and restricted shares held by Mr. Wang. Mr. Wang's address is No. 123 Focheng West Road, Nanjing Jiangning Economic & Technical Development Zone, Nanjing, Jiangsu Province 211100, People's Republic of China.
- (6) Represents ordinary shares issued and issuable upon exercise of options held by Mr. Zhou. Mr. Zhou's address is No. 123 Focheng West Road, Nanjing Jiangning Economic & Technical Development Zone, Nanjing, Jiangsu Province 211100, People's Republic of China.
- (7) Represents ordinary shares underlying ADSs held by Ms. Jian Yue Xue, the wife of Mr. Gu and ordinary shares issuable upon exercise of options held by Mr. Gu. Mr. Gu's address is No. 123 Focheng West Road, Nanjing Jiangning Economic & Technical Development Zone, Nanjing, Jiangsu Province 211100, People's Republic of China.
- (8) Represents ordinary shares issuable upon exercise of options held by Mr. Yang. Mr. Yang's address is No. 123 Focheng West Road, Nanjing Jiangning Economic & Technical Development Zone, Nanjing, Jiangsu Province 211100, People's Republic of China.
- (9) Elite Shine Group Limited is 100% owned by Mr. Lu. The address of Elite Shine Group Limited is P.O. Box 957, Offshore Incorporation Centre, Road Town, Tortola, British Virgin Islands.
- (10) Based on a Schedule 13G Amendment No. 1 filed by Credit Suisse on February 18, 2009, this represents the shares that may be deemed to be beneficially owned by Credit Suisse and includes 32,678,274 shares that China Harvest Fund, L.P. beneficially owns because of Credit Suisse's relationship to China Harvest Fund, L.P.. Credit Suisse disclaims beneficial ownership of these 32,678,274 shares. The ultimate parent company of Credit Suisse is Credit Suisse Group, a corporation formed under the laws of Switzerland. Credit Suisse Group disclaims beneficial ownership of shares beneficially owned by its direct or indirect subsidiaries, including Credit Suisse. Credit Suisse's business address is Uetlibergstrasse 231, P.O. Box 900, CH 8070 Zurich, Switzerland. See footnote 11 for additional discussion of these shares.
- (11) Based on a Schedule 13G filed by Exuberance Investment Limited on February 14, 2008, this represents 32,678,274 ordinary shares held by Exuberance Investment Limited, a British Virgin Islands company, with the registered address at P.O. Box 173, Kingston Chambers, Road Town, Tortola, British Virgin Islands. Exuberance Investment Limited is 97.83% owned by China Harvest Fund, L.P., a Cayman Islands exempted limited partnership, and 2.17% owned by China Harvest Parallel Fund I, L.P., a Cayman Islands exempted limited partnership, each with the registered address at the offices of M&C Corporate Services Limited, P.O. Box 309GT, Ugland House, South Church Street, George Town, Grand Cayman, Cayman Islands. The general partner of China Harvest Fund, L.P. and China Harvest Parallel Fund I, L.P. is China Renaissance Capital Investment, L.P., a Cayman Islands exempted limited partnership. Voting and investment power of shares beneficially held by China Harvest Fund, L.P. is exercised by the investment committee of China Renaissance Capital Investment, L.P. which consists of Mark Qiu, Hung Shih, Li Zhenzhi, Charles Pieper and Nicole Arnaboldi. The address for these committee members is c/o China Renaissance Capital Investment, L.P., M&C Corporate Services Limited, P.O. Box 309GT, Ugland House, South Church Street, George Town, Grand Cayman, Cayman Islands.
- (12) Smooth King Investments Limited is 100% owned by Ms. Yingchun Huang. The address of Smooth King Investments Limited is P.O. Box 957, Offshore Incorporation Centre, Road Town, Tortola, British Virgin Islands.
- (13) Brightest Power Holdings Limited is 100% owned by Dr. Zhao and Dr. Wang. The address of Brightest Power Holdings Limited is P.O. Box 957, Offshore Incorporation Centre, Road Town, Tortola, British Virgin Islands.

- (14) Based on a Schedule 13G Amendment No. 1 filed by PraxCapital Fund II, L.P. on February 13, 2009, this represents 16,043,934 ordinary shares held by PraxCapital Fund II, L.P., a Cayman Islands limited partnership, with the registered address at P.O. Box 309GT, Ugland House, South Church St., George Town, Grand Cayman. The general partner of PraxCapital Fund II, L.P. is Prax Capital GP II, a Cayman Islands company. Prax Capital GP II is controlled by its board of directors, consisting of Jose Luis Artiga, Fernando R. Vila, Jeff Jie-Ping Yao and Lei Xu. The address of Jose Luis Artiga is Chalet Augusta No. 2, 3963 Crains-Sur-Sierre, Switzerland. The address of Fernando R. Vila is 1001 Brickell Bay Drive, Suite 2402, Miami, Florida, 33131. The address of each of Jeff Jie-Ping Yao and Xu Lei is 333 Huai Hai Middle Road, Suite 1701, Shanghai, People's Republic of China, 200021.

None of our shareholders has different voting rights from other shareholders. We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our company.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

See Item 6, "Directors, Senior Management and Employees $\frac{3}{4}$ Share Ownership."

B. Related Party Transactions

Restructuring

As Sunergy Nanjing is a company incorporated in China, PraxCapital Fund II, L.P., or PraxCapital, incorporated Sunergy BVI in the British Virgin Islands in January 2006 to facilitate its investment in our company offshore. PraxCapital contributed \$13.1 million to Sunergy BVI in January 2006 to facilitate the subsequent restructuring steps, and Sunergy BVI issued one ordinary share to PraxCapital in January 2006 to complete Sunergy BVI's incorporation procedures. Of the above \$13.1 million contributed by PraxCapital, \$10 million was further lent to Sunergy Nanjing to finance its operations, and the remaining \$3.1 million was lent to the foreign shareholders of Sunergy Nanjing, namely Dr. Jianhua Zhao, Dr. Aihua Wang and Dr. Fengming Zhang, our former director and our former vice president in charge of manufacturing technology, in March 2006.

Due to PRC legal restrictions on the direct exchange of onshore equity interests for offshore shares, Sunergy BVI, PraxCapital, Sunergy Nanjing and the shareholders of Sunergy Nanjing entered into a warrant purchase agreement in March 2006 to achieve the following goals: (a) Sunergy BVI would acquire all equity interests in Sunergy Nanjing for nominal consideration; (b) the shareholders of Sunergy Nanjing or their assignees would acquire ordinary shares of Sunergy BVI according to such shareholders' proportionate ownership in Sunergy Nanjing, but the percentage of ordinary shares of Sunergy BVI to be owned by the foreign shareholders, namely Dr. Jianhua Zhao, Dr. Aihua Wang and Dr. Fengming Zhang, or their assignees, would be less than their original proportionate ownership in Sunergy Nanjing, because these foreign shareholders intended to effectively exchange a portion of the ordinary shares that they or their assignees would be entitled to, representing 3.2% of their original equity interests in Sunergy Nanjing, for the above \$3.1 million lent to them, and (c) Sunergy BVI would issue Series A preferred shares to PraxCapital in consideration of its above contribution of \$13.1 million.

As agreed under the warrant purchase agreement, in April 2006, Sunergy BVI purchased all of the outstanding equity interests in Sunergy Nanjing from the shareholders of Sunergy Nanjing. The foreign shareholders of Sunergy Nanjing, namely Dr. Jianhua Zhao, Dr. Aihua Wang and Dr. Fengming Zhang, have released Sunergy BVI from its obligation to pay the purchase price of approximately \$6.3 million. In accordance with the common practice in China, the PRC shareholder, Nanjing Xinde Assets Management Co., Ltd., or Xinde, an entity controlled by our chairman, Mr. Tingxiu Lu, was paid not less than its investment cost in Sunergy Nanjing, approximately \$4.0 million. Under the above warrant purchase agreement, such amount was then contributed back to Sunergy Nanjing by Xinde as a cash advance to finance Sunergy Nanjing's operations, and subsequently gifted to Sunergy Nanjing by Xinde in September 2006.

In April 2006, after Sunergy BVI acquired all of the outstanding equity interests in Sunergy Nanjing, pursuant to the above warrant purchase agreement, Sunergy BVI issued warrants to purchase an aggregate of 1,045,440 ordinary shares at the exercise price of \$0.01 per share to the assignees of the original shareholders of Sunergy Nanjing as follows:

Shareholders of Sunergy Nanjing	Relationship	Assignees Who Received the Warrant	Number of Shares Underlying the Warrants	Relationship
Dr. Jianhua Zhao	our vice chairman and chief technology officer	Brightest Power Holdings Limited	203,040	controlled by Dr. Jianhua Zhao and his wife, Dr. Aihua Wang
Dr. Aihua Wang	our vice president in charge of research and development	Brightest Power Holdings Limited	203,040	controlled by Dr. Aihua Wang and her husband, Dr. Jianhua Zhao
Dr. Fengming Zhang	one of our former directors, and our former vice president in charge of manufacturing technology	Luck Great Investments Limited	97,200	controlled by Dr. Fengming Zhang
		Deutsche Bank AG acting through its London Branch	54,000	assignee
		Talent Day Investments Limited	86,400	controlled by Mr. Chengrong Xu, our then vice president in charge of administration and human resources
Xinde	jointly owned by Mr. Tingxiu Lu, and Ms. Yingchun Huang	Elite Shine Group Limited	391,842	controlled by Mr. Tingxiu Lu
		Smooth King Investments Limited	212,958	controlled by Ms. Yingchun Huang

In April 2006, with the exception of Deutsche Bank AG acting through its London Branch, or Deutsche Bank, the other assignees of the original shareholders of Sunergy Nanjing, whose relationship with our company or our affiliates are listed in the above table, requested Sunergy BVI to issue the ordinary shares underlying all the warrants that they held. As a result, 991,440 ordinary shares were issued to these assignees in April 2006, including 391,842 ordinary shares to Elite Shine Group Limited, 212,958 ordinary shares to Smooth King Investments Limited, 203,040 ordinary shares to Brightest Power Holdings Limited, 97,200 ordinary shares to Luck Great Investments Limited and 86,400 ordinary shares to Talent Day Investments Limited. According to the terms of the warrants, each of the above warrant holders should have paid the exercise price when the ordinary shares were issued to them. These warrant holders actually paid the exercise price of \$0.01 per share in September 2006. In August 2006, 54,000 ordinary shares were issued upon Deutsche Bank's exercise of the warrant that it held by paying Sunergy BVI the exercise price of \$0.01 per share. These 1,045,440 ordinary shares in the aggregate issued upon the exercise of the warrants are just the same shares exchanged for China Sunergy's 1,045,440 ordinary shares in August 2006, as discussed below.

After the above transactions, the foreign shareholders of Sunergy Nanjing effectively relinquished 3.2% of their equity interests in Sunergy Nanjing in consideration of Sunergy BVI's above loan of \$3.1 million. If these foreign shareholders had not relinquished such 3.2% equity interests, Sunergy BVI would have issued an aggregate of 1,080,000 ordinary shares to the assignees of the original shareholders of Sunergy Nanjing. The following table presents the number and percentage of ordinary shares that the assignees of the original shareholders of Sunergy Nanjing would be entitled to assuming there had not been the relinquishment of the 3.2% equity interests in Sunergy Nanjing, and the number of ordinary shares that these assignees actually received:

Shareholders of Sunergy Nanjing	Percentage of Equity Interest in Sunergy Nanjing (%)	Number of Ordinary Shares the Relevant Assignees Entitled to Assuming No Relinquishment	Percentage of Ordinary Shares the Relevant Assignees Entitled to Assuming No Relinquishment (%)	Number of Ordinary Shares the Relevant Assignees Actually Received
Dr. Jianhua Zhao and Dr. Aihua Wang	20*	216,000	20	203,040
Dr. Fengming Zhang	24	259,200	24	237,600
Xinde	56	604,800	56	604,800

* Representing 15% equity interest in Sunergy Nanjing originally held by Dr. Jianhua Zhao, and 5% equity interest originally held by Dr. Aihua Wang.

As shown above, due to the relinquishment of the 3.2% equity interests, the numbers of ordinary shares that the assignee of Dr. Jianhua Zhao and Dr. Aihua Wang and the assignees of Dr. Zhang actually received were reduced by 12,960 and 21,600, respectively, or 1.2% and 2.0%, respectively, of the 1,080,000 ordinary share that would have been issued assuming there had not been such relinquishment.

Immediately prior to the issuance of the above warrants, in April 2006, Sunergy BVI issued 128,473 Series A preferred shares to PraxCapital according to the above warrant purchase agreement and the one ordinary share previously issued to PraxCapital was cancelled.

Compensation Charges

In March 2006, two shareholders of Sunergy Nanjing, namely Mr. Huaijin Yang and Mr. Ted Szpitalak, transferred 10% equity interests in Sunergy Nanjing to two other shareholders of Sunergy Nanjing, namely Dr. Jianhua Zhao and Xinde. The above transfers were effected largely because Sunergy Nanjing's joint venture contract prohibited the transferor shareholders from investing in enterprises engaging in business competitive with that of Sunergy Nanjing, and the transferor shareholders intended to focus on the solar power business of another company that they invested in. Except for Xinde's contribution, to Sunergy Nanjing, of Mr. Huaijin Yang's unfunded capital subscription of \$540,000, there was no other consideration paid for the above equity transfers. We accounted for these transfers as contributions of capital by the transferors, followed by a non-pro rata dividend distribution to Sunergy Nanjing's remaining shareholders. After the equity transfers, Dr. Jianhua Zhao, our then president, received more ownership interest than he would have received had the distribution been made on a pro rata basis, partly to compensate him for his services to Sunergy Nanjing. We recorded a compensation charge of approximately \$3.7 million equal to the fair value of the excess ownership interest he received.

According to Sunergy Nanjing's original articles of association, certain crystalline silicon solar cell technology was to be contributed for \$1.4 million of Sunergy Nanjing's capital. In November 2004, all the shareholders of Sunergy Nanjing agreed that the above technology to be contributed by its foreign shareholders, namely Dr. Jianhua Zhao, Dr. Aihua Wang, Dr. Fengming Zhang, Mr. Huaijin Yang and Mr. Ted Szpitalak, who were then also our executive officers, was more valuable than the originally subscribed capital. Therefore, all the shareholders amended the articles of association of Sunergy Nanjing, and the contribution method of \$810,000 of Sunergy Nanjing's capital subscribed by these foreign shareholders was changed from cash or equipment to technology. In March 2006, Sunergy Nanjing decided that it would need the thin-film solar cell technology owned by its then foreign shareholders, namely Dr. Jianhua Zhao, Dr. Aihua Wang and Dr. Fengming Zhang, who were then also our executive officers. Therefore, all the shareholders amended the articles of association of Sunergy Nanjing, and the contribution method of \$540,000 of Sunergy Nanjing's capital subscribed by these foreign shareholders was changed from cash to technology. As the above technologies contributed were developed by individuals and there was no historic cost for such technologies, according to U.S. GAAP, we accounted for the above amendments to change the contribution method as forgiveness of shareholder loans. As the shareholders involved were also our executive officers, we recorded compensation charges of \$810,000 and \$540,000, respectively.

Issuance and Sale of Preferred Shares

In May 2006, Sunergy BVI sold 239,051 Series B preferred shares in a private placement for an aggregate consideration of \$28.0 million. The investors in the Series B preferred shares were Exuberance Investment Limited, which purchased 192,095 shares, Gersec Trust Reg., which purchased 21,344 shares, and China Environmental Fund 2004, LP, which purchased 25,612 shares. This transaction was approved by Sunergy BVI's board of directors and shareholders.

In September 2006, Sunergy sold 69,010 Series C preferred shares in a private placement for an aggregate consideration of \$20.0 million. The investors in the Series C preferred shares were OZ Master Fund, Ltd., which purchased 18,517 shares, OZ Asia Master Fund, Ltd., which purchased 20,094 shares, OZ Global Special Investments Master Fund, L.P., which purchased 2,795 shares, and Credit Suisse Private Equity Partners Asia, L.P., which purchased 27,604 shares. This transaction was approved by Sunergy's board of directors and shareholders.

The holders of Series A, Series B and Series C preferred shares were entitled to received dividends at an annual rate of 3%, which would accrue on a daily basis from the date of issuance, whether or not declared. Accrued and unpaid dividends would compound on a quarterly basis and be included in the calculation of the conversion ratio when the preferred shares converted into ordinary shares. All these preferred shares were convertible into our ordinary shares at any time and automatically converted into our ordinary shares upon completion of our initial public offering into the number of ordinary shares equal to the number of preferred shares multiplied by the quotient of (a) the original subscription price plus all accrued and unpaid dividends, divided by (b) the conversion price, subject to adjustments in the case of certain dilution events. The conversion prices previously equaled the original subscription prices, subject to certain earnings-based adjustments, in the event our 2006 and 2007 net earnings, as defined in our then amended and restated memorandum of association, were less than a predefined amount.

In March 2007, our shareholders adopted a third amended and restated memorandum and articles of association to (a) modify the conversion prices of our Series A, Series B and Series C preferred shares, which were revised to \$38.66, \$44.37 and \$175.59, respectively, subject to adjustments in the case of certain dilution events, and (b) replace the definition of "qualified IPO" or "QIPO" with the definition of "IPO." The purposes of these modifications were to (a) ensure that there would be no preferred share outstanding after the completion of our initial public offering, (b) fix the conversion prices of our Series A and Series B preferred shares according to the earnings-based adjustments based on our 2006 net earnings as provided in our previous memorandum and articles of association, and (c) re-set the conversion price of our Series C preferred shares and delete the provision on the adjustment of such conversion price based on our 2007 net earnings, in order to avoid any dilution caused by the possible earnings-based adjustment.

In March 2007, the conversion prices of our Series A and Series B preferred shares were reduced according to the provision in our then effective memorandum and articles of association on the conversion price adjustment based on our 2006 net income of \$11.8 million. As our 2006 net income was reduced by non-cash compensation charges of \$4.7 million and the conversion prices of our Series A and Series B preferred shares were thus reduced, the ownership interests of our shareholders other than holders of our Series A and Series B preferred shares were diluted, which was previously not anticipated by our shareholders. Therefore, our shareholders mutually agreed for holders of our Series A and Series B preferred shares to sell a portion of their preferred shares to us for nominal consideration. The number of Series A and Series B shares sold was determined based on a calculation to offset the dilution impact of the adjustment of conversion prices caused by the non-cash compensation charges of \$4.7 million. Accordingly, we purchased 48,238 Series A preferred Shares, 72,079 Series B preferred shares, 8,009 Series B preferred shares and 9,610 Series B preferred shares from PraxCapital, Exuberance Investment Limited, Gersec Trust Reg., and China Environmental Fund 2004, LP, respectively, with nominal consideration. According to Cayman Islands law, these Series A and Series B preferred shares were automatically cancelled upon our purchase.

All of our Series A, Series B and Series C preferred shares were converted into ordinary shares upon completion of our initial public offering. Holders of ordinary shares issued upon conversion of our Series A, Series B and Series C preferred shares are also entitled to certain registration rights, including demand registration, piggyback registration and Form F-3 or Form S-3 registration.

Share Swap

As part of our restructuring in anticipation of our initial public offering, in August 2006, we issued a total of 1,045,440 ordinary shares, 128,473 Series A preferred shares and 239,051 Series B preferred shares to certain existing shareholders of Sunergy BVI in exchange for all shares of equivalent classes that these shareholders previously held in Sunergy BVI.

Share Split

In April 2007, in anticipation of our initial offering, we effected a 100-for-one share split, as a result of which each of our ordinary share, Series A preferred share, Series B preferred share and Series C preferred share was subdivided into 100 ordinary shares, 100 Series A preferred shares, 100 Series B preferred shares and 100 Series C preferred shares, respectively. The conversion prices of our Series A, Series B and Series C preferred shares were correspondingly modified to one-hundredth of the previous conversion prices.

Transactions with Certain Directors, Shareholders and Affiliates

During the year ended December 31, 2006, we made non-trade cash advances to related parties with common ultimate investors to meet the temporary liquidity needs of these related parties. As of December 31, 2006, non-trade amounts due from these related parties were \$0.4 million, including (a) cash advances to several entities controlled by Mr. Tingxiu Lu, our chairman, namely Jiangsu CEEG Transformer Manufacturing Co., Ltd., CEEG, Jiangsu CEEG Electrical Transmission and Distribution Equipment Co., Ltd., CEEG Nanjing International Trade Co., Ltd., Jiangsu CEEG Electrical Equipment Manufacturing Co, Ltd and CEEG Nanjing Electronic Technology Co., Ltd., and (b) cash advances to Jiangsu Tianhua Photo-electronic Technology Co., Ltd., an entity controlled by Dr. Jianhua Zhao, our vice chairman and chief technology officer.

Historically, we received non-trade cash advances from related parties with common ultimate investors for our temporary liquidity needs or for our bank deposits to secure notes payable used for our related parties' settlement purposes according to the local banking practice. As of December 31, 2006, 2007 and 2008, amounts due to these related parties were nil, nil and nil, respectively.

In August 2006, Sunergy Nanjing entered into an agreement to lease warehouse premises of 3,000 square meters from CEEG (Nanjing) Special Transformer Manufacturing Co., Ltd., an entity controlled by our chairman, for a term until September 2011. The tenancy agreement provides for annual rental payments of \$8,000. The rental expense in the year ended December 31, 2006, 2007 and 2008 was approximately \$2,000, \$8,000 and \$8,000, respectively. As of December 31, 2008, we had a rental payable balance of approximately \$18,000 to CEEG (Nanjing) Special Transformer Manufacturing Co., Ltd..

In 2006 and 2007, we purchased raw materials from CEEG Nanjing International Trade Co., Ltd. in the amount of \$6.5 million and \$1.2 million, respectively, and we also sold solar cells to CEEG Nanjing International Trade Co., Ltd. in the amount of \$4.8 million and \$3.2 million, respectively. In 2006, we also sold solar cells to Jiangsu East China Micro-ware Equipment Co., Ltd., an entity controlled by our chairman in the amounts of approximately \$56,000.

In 2007 and 2008, we purchased raw materials from CEEG (Nanjing) Solar Research Institute, an entity controlled by our chairman, in the amount of \$0.2 million and \$11,000, respectively, and sold solar cells and solar modules to CEEG (Nanjing) Solar Research Institute in the amount of \$1.5 million and \$1.3 million.

In 2007 and 2008, we purchased raw materials from CEEG (Nanjing) Semiconductor Co., Ltd., an entity controlled by our chairman, in the amount of \$1.4 million and \$7.1 million, respectively, and sold off-specification wafers to CEEG (Nanjing) Semiconductor Co., Ltd. in the amount of \$0.6 million in 2007. In July 2008, we issued a bank accepted note in the amount of approximately \$14.7 million to CEEG (Nanjing) Semiconductor Co., Ltd. in connection with a raw material purchase contract entered into with this company in May 2008. As of December 31, 2008, we recorded a receivable balance from CEEG (Nanjing) Semiconductor Co., Ltd. in the amount of \$11.5 million, which related to the prepayment we made (as evidenced by the bank accepted note issued in July 2008) in respect of the raw materials to be delivered by CEEG (Nanjing) Semiconductor Co., Ltd. In January 2009, we terminated this raw material purchase contract with CEEG (Nanjing) Semiconductor Co., Ltd. which subsequently returned our prepayment of \$11.5 million.

In 2007, we sold solar cells to CEEG (Shanghai) Solar Science and Technology Co., Ltd., an entity controlled by our chairman, in the amount of \$5.2 million. In 2008, we sold solar cells and solar wafers to CEEG (Shanghai) Solar Science and Technology Co., Ltd. in the aggregate amount of \$46.6 million. As of December 31, 2008, we had a receivable balance from CEEG (Shanghai) Solar Science and Technology Co., Ltd. in the amount of \$6.7 million, which related to the amounts payable to us in respect of sales of solar cells. We also outsourced the production of solar modules from our solar cells under processing arrangements with CEEG (Shanghai) Solar Science and Technology Co., Ltd. and procured the solar modules from it. CEEG (Shanghai) Solar Science and Technology Co., Ltd. charged us processing fees in the amount of \$0.7 million and \$0.3 million in 2007 and 2008, respectively.

In 2007, we sold solar cells to CEEG (Nanjing) New Energy Co., Ltd., another entity controlled by our chairman, in the amount of approximately \$42,000. We sold solar cells and solar wafers to CEEG (Nanjing) New Energy Co., Ltd. in the aggregate amount of approximately \$7.2 million in 2008. As of December 31, 2008, we had a payable balance to CEEG (Nanjing) New Energy Co., Ltd. in the amount of approximately \$2,000, which related to prepayment we received in respect of sales of solar cells.

In 2008, we purchased raw materials from China Electric Equipment Group (Hong Kong) Limited, another entity controlled by our chairman, in the amount of approximately \$77,000. As of December 31, 2008, we had a payable balance to China Electric Equipment Group (Hong Kong) Limited in the amount of approximately \$77,000 in respect of purchase of raw materials.

In January 2009, we entered into a purchase contract with Jiangxi Jingde Semiconductor New Material Co., Ltd., an entity controlled by our chairman, under which Jiangxi Jingde Semiconductor New Material Co., Ltd. agreed to supply an aggregate of 220 tons of polysilicon to us from March 2009 to December 2009. The contract provided a fixed price for the delivery in March 2009, and for the subsequent monthly delivery, the prices shall be negotiated between the parties before shipment and the prices shall be lower than the market price within certain percentage. In connection with this contract, we issued a bank accepted note in the amount of approximately \$14.7 million to Jiangxi Jingde Semiconductor New Material Co., Ltd.

We made cash advances to directors in respect of travel expenses, amounting to approximately \$1,000, nil and nil as of December 31, 2006, 2007 and 2008, respectively. Expense reimbursements payable to directors amounted to approximately \$4,000, nil and nil, respectively, as of December 31, 2006, 2007 and 2008, respectively. In 2008, we withheld the individual income tax on behalf of our chief executive officer and director in the amount of approximately \$0.4 million in connection with vested restricted shares granted to him, approximately \$97,000 of which was forgiven by us in June 2009 with the remainder of the amount withheld being repaid by our chief executive officer in June 2009.

CEEG has guaranteed most of our bank borrowings. As of December 31, 2006, we had \$76.1 million in outstanding borrowings guaranteed by CEEG and Jiangsu CEEG Electrical Transmission and Distribution Equipment Co., Ltd. As of December 31, 2007 and 2008, we had \$63.0 million and \$72.4 million, respectively, in outstanding borrowing guaranteed by CEEG. In February 2008, Mr. Tingxiu Lu entered into an agreement to guarantee approximately \$4.4 million of our bank borrowings, which was repaid in August 2008. As of December 31, 2008, approximately \$16.1 million of the short-term bank borrowings were jointly secured by the pledge of our raw materials and the guarantee of Mr. Tingxiu Lu. In November 2008, Jiangsu CEEG Equipment Co., Ltd. entered into agreements to jointly guarantee with CEEG a total of approximately \$14.6 million of our bank borrowings, which will become due in November 2009.

CEEG and Sunergy Nanjing entered into an agreement on December 18, 2006, pursuant to which CEEG has undertaken to guarantee bank borrowings of Sunergy Nanjing for up to RMB1 billion, subject to adjustment in the event of the material change of CEEG's credit or operation status, for one year after our initial public offering. CEEG agreed to provide such guarantee free of charge, or at a fee according to the market standard for similar transactions, but not exceeding 0.1% of the principal borrowing amount. This agreement has expired, and the two parties entered into another agreement under which CEEG agreed to guarantee free of charge bank borrowings by Sunergy Nanjing of up to RMB1 billion. The new agreement has a term of two years from May 17, 2008 to May 16, 2010.

CEEG and Sunergy Nanjing also entered into an agreement on December 20, 2006, pursuant to which CEEG granted Sunergy Nanjing an option to purchase, prior to December 31, 2007, the right to use a parcel of land of approximately 26,000 square meters at a price of approximately \$0.5 million, equivalent to the original cost for CEEG to acquire such right. On July 23, 2007, CEEG and Sunergy Nanjing entered into an land use right transfer agreement to purchase the land use right to the forgoing parcel of land at a price of approximately \$1.2 million, which was equivalent to the valuation price. Sunergy Nanjing agreed to enhance the purchase consideration to avoid that the land be compulsorily acquired by the government due to the price being significantly lower than the valuation price.

In November 2007, Sunergy BVI and CEEG jointly incorporated China Sunergy (Shanghai) Co., Ltd., or Sunergy Shanghai, in which we hold 95% interest, while CEEG holds 5% interest. According to our current plan, Sunergy Shanghai will primarily engage in solar power research and development activities. In September 2008, CEEG transferred its 5% equity interest in Sunergy Shanghai to Sunergy Hong Kong in consideration of approximately \$0.3 million.

In November 2007, we entered into a cooperation construction agreement with CEEG to construct a transformer station located in CEEG Nanjing Science and Technology Park in order to meet the increased electricity requirement resulting from our expanded manufacturing capacity. The estimated expenses under the agreement are approximately \$4.8 million, 50% of which will be shared by the two parties according to the proportion of electricity capacity they use, while the remaining 50% of which will be borne by the Administrative Commission of Nanjing Jiangning Economic & Technical Development Zone. In 2008, we purchased from CEEG some accessories, including electric transformers, high-voltage switch cabinet, power distribution boxes, switch cabinets and frequency converter cabinet in the total amount of approximately \$1.4 million. As of December 31, 2008, we had a payable balance to CEEG in the amount of approximately \$150,000, which related to amount payable in respect of purchase of the above accessories.

In October 2008, we entered into cooperation agreement with CEEG (Nanjing) Semiconductor Co., Ltd. and Nanjing University of Aeronautics and Astronautics to jointly develop cutting and texture technology. In October 2008, we assigned to CEEG Nanjing International Trade Co., Ltd. our creditor's rights towards one of our suppliers in the amount of approximately \$6.4 million. On December 30, 2008, CEEG and CEEG Nanjing International Trade Co., Ltd. assigned to CEEG (Nanjing) New Energy Co., Ltd. their credit's rights towards us in the amount of approximately \$1.4 million and \$0.3 million, respectively. The creditor's rights of CEEG (Nanjing) New Energy Co., Ltd. towards us in the amount of approximately \$1.7 million was subsequently offset by the corresponding amount that CEEG (Nanjing) New Energy Co., Ltd. owed to us. In April 2008, we also entered into an agreement to lease the land use right over a plot of land of 360 square meters from CEEG (Nanjing) Special Transformer Co., Ltd. for a term until March 2013 to construct a nitrogen station. The tenancy agreement provides for annual rental payments of approximately \$3,000.

Employment Agreements

See "Item 6. Directors, Senior Management and Employees—Management—Employment Agreements."

Share Incentive Plan

See "Item 6. Directors, Senior Management and Employees—Management—Share Incentive Plan."

Related Party Transaction Policy

We adopted an audit committee charter and a related party transaction policy, which require that the audit committee review all related party transactions on an ongoing basis and all such transactions be approved or ratified by the committee.

C. Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Information

We have appended consolidated financial statements filed as part of this annual report.

Legal Proceedings

We are a named defendant in three purported class actions currently pending in the United States District Court for the Southern District of New York—Brown v. China Sunergy Co., Ltd. et al., Case No. 07-CV-07895 (DAB), Sheshtawy v. China Sunergy Co., Ltd. et al., Case No. 07-CV-08656 (DAB), and Giombetti v. China Sunergy Co., Ltd. et al., Case No. 07-CV-09689 (DAB). On September 29, 2008, the District Court appointed a lead plaintiff and consolidated the three cases. The lead plaintiff filed a consolidated amended complaint on December 8, 2008.

The consolidated amended complaint purports to state class action claims against us in connection with our initial public offering and seeks unspecified damages. Specifically, the lead plaintiff alleges that we made false and misleading statements in our initial public offering registration statement and prospectus regarding, among other things, the procurement of polysilicon.

Several of our directors and officers, along with the investment banks that underwrote our initial public offering, are also named defendants in the cases. On January 1, 2009, the defendants filed a motion to dismiss the consolidated amended complaint. Briefing on the motion was completed on May 1, 2009, the court had not yet ruled on the motion to dismiss. We believe the case is without merit and intend to defend the actions vigorously.

In April 2008, the Nanjing Intermediate People's Court issued a judgment in our favor for the first instance trial of our claim against Wuxi Zhuriyi International Trade Co., Ltd. Wuxi Zhuriyi International Trade Co., Ltd. was required to return our prepayment, pay us two times of the deposit and liquidated damages for its failure to perform its contractual obligations to deliver us silicon raw materials. In addition, we filed civil litigation with the Nanjing Intermediate People's Court against Suzhou Shenlong PV Technology Co., Ltd. for its failure to perform its contractual obligations to deliver us silicon wafers. We also filed civil litigation with the Nanjing Intermediate People's Court against Changzhou Meijing Solar Material Co., Ltd. for its failure to perform its contractual obligations to deliver us silicon wafers. These lawsuits were subsequently settled.

Dividend Policy

We have never declared or paid any dividends, nor do we have any present plan to pay any cash dividends on our ordinary shares in the foreseeable future. We currently intend to retain most, if not all, of our available funds and any future earnings to operate and expand our business.

We are a holding company incorporated in the Cayman Islands. We rely on dividends paid by our direct and indirect subsidiaries, Sunergy BVI, Sunergy Hong Kong and Sunergy Nanjing, for our cash needs, including the payment of dividends to the holders of our ADSs and debt service on any debt we may incur through our Cayman holding company. 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 PRC accounting standards and regulations. Sunergy Nanjing is also required to set aside at least 10% of its after-tax profit based on PRC accounting standards each year to its general reserves until the cumulative amount of such reserves reaches 50% of its registered capital. These reserves are not distributable as cash dividends. Sunergy Nanjing is also required to allocate a portion of its after-tax profits, as determined by its board of directors, to its staff welfare and bonus funds, which may not be distributed to equity owners. In addition, if Sunergy Nanjing or Sunergy BVI 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.

Our board of directors has complete discretion on whether to pay dividends, subject to the approval of our shareholders. Even if our board of directors decides to pay dividends, the form, frequency and amount will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that the board of directors may deem relevant. Any dividend we declare will be paid to the holders of ADSs, subject to the terms of the deposit agreement, to the same extent as holders of our ordinary shares, subject to the terms of the deposit agreement, including the fees and expenses payable under. Cash dividends on our ordinary shares, if any, will be paid in U.S. dollars.

B. Significant Changes

We have not experienced any significant changes since the date of our audited consolidated financial statements included in this annual report.

ITEM 9. THE OFFER AND LISTING

A. Offering and Listing Details.

Our ADSs, each representing six of our ordinary shares, have been listed on the Nasdaq Global Market since May 17, 2007. Our ADSs trade under the symbol “CSUN.”

Since May 17, 2007, the closing price of our ADSs on the Nasdaq Global Market has ranged from \$1.38 to \$17.88 per ADS. For the year ended December 31, 2008, the closing price ranged from \$1.51 to \$17.71 per ADS.

The following table provides the high and low closing prices for our ADSs on the Nasdaq Global Market for the period indicated.

	Trading Price	
	High	Low
	\$	\$
Annual High and Low		
2007 (from May 17, 2007)	17.88	5.05
2008	17.71	1.51
Quarterly High and Low		
Second Quarter 2007 (from May 17, 2007)	16.56	10.89
Third Quarter 2007	13.97	5.05
Fourth Quarter 2007	17.88	6.81
First Quarter 2008	17.71	6.49
Second Quarter 2008	14.29	7.49
Third Quarter 2008	12.03	6.80
Fourth Quarter 2008	7.54	1.51
First Quarter 2009	5.40	1.38
Monthly Highs and Lows		
November 2008	5.40	1.51
December 2008	4.17	3.08
January 2009	4.36	3.00
February 2009	2.97	1.69
March 2009	3.35	1.38
April 2009	3.32	2.51
May 2009	3.99	3.01
June 2009 (through June 23)	6.08	3.80

B. Plan of Distribution

Not applicable.

C. Markets

Our ADSs, each representing six of ordinary shares, have been listed on the Nasdaq Global Market since May 17, 2007 and have been trading under the symbol “CSUN.”

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

We incorporate by reference into this annual report the description of our amended and restated memorandum of association contained in our F-1 registration statement (File No. 333-142367) originally filed with the SEC on April 25, 2007, as amended. Our shareholders adopted our amended and restated memorandum and articles of association by a special resolution on April 24, 2007.

The following are summaries of material provisions of our currently effective amended and restated memorandum and articles of association, as well as the Companies Law (2007 Revision) insofar as they relate to the material terms of our ordinary shares.

Registered Office and Objects

The Registered Office of our company is at the offices of the offices of Codan Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The objects for which our company is established are unrestricted and we have full power and authority to carry out any object not prohibited by the Companies Law (2007 Revision), as amended from time to time, or any other law of the Cayman Islands.

Board of Directors

See “Item 6.C. Board Practices — Board of Directors”

Ordinary Shares

General. All of our outstanding ordinary shares are fully paid and non-assessable. Certificates representing the ordinary shares are issued in registered form. Our shareholders who are non-residents of the Cayman Islands may freely hold and vote their shares.

Dividends. The holders of our ordinary shares are entitled to such dividends as may be declared by our shareholders or board of directors subject to the Companies Law.

Voting Rights. Each ordinary share is entitled to one vote on all matters upon which the ordinary shares are entitled to vote. Voting at any meeting of shareholders is by show of hands unless a poll is demanded or required by the rules of the designated stock exchange as described in our amended and restate articles of association. A poll may be demanded by (a) the chairman of the meeting, (b) at least three shareholders present in person or, in the case of a shareholder being a corporation, by its duly authorized representative or by proxy for the time being entitled to vote at the meeting, (c) any shareholder or shareholders present in person or, in the case of a shareholder being a corporation, by its duly authorized representative or by proxy and representing not less than one-tenth of the total voting rights of all the shareholders having the right to vote at the meeting, (d) a shareholder or shareholders present in person or, in the case of a shareholder being a corporation, by its duly authorized representative or by proxy and holding not less than one-tenth of the issued share capital of our voting shares or (e) if required by the rules of the designated stock exchange, by any director or directors who, individually or collectively, hold proxies in respect of shares representing 5% or more of the total voting rights at such meeting.

A quorum required for a meeting of shareholders consists of at least two shareholders present in person or by proxy or, if a corporation or other non-natural person, by its duly authorized representative. Shareholders' meetings are held annually and may be convened by our board of directors on its own initiative. Advance notice of at least ten days is required for the convening of our annual general meeting and other shareholders' meetings.

An ordinary resolution to be passed by the shareholders requires the affirmative vote of a simple majority of the votes attaching to the ordinary shares cast in a general meeting, while a special resolution requires the affirmative vote of no less than two-thirds of the votes cast attaching to the ordinary shares. A special resolution is required for important matters such as a change of name or an amendment to our memorandum or articles of association. Holders of the ordinary shares may effect certain changes by ordinary resolution, including alter the amount of our authorized share capital, consolidate and divide all or any of our share capital into shares of larger amount than our existing share capital, and cancel any unissued shares.

Transfer of Shares. Subject to the restrictions of our amended and restated articles of association, as applicable, any of our shareholders may transfer all or any of his or her ordinary shares by an instrument of transfer in the usual or common form or a form prescribed by the designated stock exchange or any other form approved by our board.

Our board of directors may, in its absolute discretion, decline to register any transfer of any ordinary share which is not fully paid up or on which we have a lien. Our directors may also decline to register any transfer of any ordinary share unless (a) the instrument of transfer is lodged with us, accompanied by the certificate for the ordinary shares to which it relates and such other evidence as our board of directors may reasonably require to show the right of the transferor to make the transfer; (b) the instrument of transfer is in respect of only one class of ordinary shares; (c) the instrument of transfer is properly stamped, if required; (d) in the case of a transfer to joint holders, the number of joint holders to whom the ordinary share is to be transferred does not exceed four; or (e) a fee of such maximum sum as the Nasdaq Global Market may determine to be payable, or such lesser sum as our board of directors may from time to time require, is paid to us in respect thereof.

If our directors refuse to register a transfer they shall, within two months after the date on which the instrument of transfer was lodged, send to each of the transferor and the transferee notice of such refusal. The registration of transfers may, on prior notice being given by advertisement in one or more newspapers or by electronic means, be suspended and the register closed at such times and for such periods as our board of directors may from time to time determine, provided, however, that the registration of transfers shall not be suspended nor the register closed for more than 30 days in any year.

Liquidation. On a return of capital on winding up or otherwise (other than on conversion, redemption or purchase of shares), assets available for distribution among the holders of ordinary shares shall be distributed among the holders of the ordinary shares on a pro rata basis. If our assets available for distribution are insufficient to repay all of the paid-up capital, the assets will be distributed so that the losses are borne by our shareholders proportionately.

Calls on Shares and Forfeiture of Shares. Our board of directors may from time to time make calls upon shareholders for any amounts unpaid on their shares in a notice served to such shareholders at least 14 days prior to the specified time and place of payment. The shares that have been called upon and remain unpaid are subject to forfeiture.

Redemption of Shares. Subject to the provisions of the Companies Law, the rules of the designated stock exchange, our amended and restated memorandum and articles of association and to any special rights conferred on the holders of any shares or class of shares, we may issue shares on terms that they are subject to redemption at our option or at the option of the holders, on such terms and in such manner as may be determined by our board of directors.

Variations of Rights of Shares. All or any of the special rights attached to any class of shares may, subject to the provisions of the Companies Law, be varied with the sanction of a special resolution passed at a general meeting of the holders of the shares of that class.

Inspection of Register of Members. Pursuant to our amended and restated articles of association, our register of members and branch register of members shall be open for inspection by shareholders for such times and on such days as our board of directors shall determine, without charge, or by any other person upon a maximum payment of \$2.50 or such other sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of \$1.00 or such other sum specified by the board, at our registration office, unless the register is closed in accordance with our amended and restated articles of association.

Inspection of Books and Records. No holders of our ordinary shares who is not a director shall have any right of inspecting any of our accounts, books or documents except as conferred by the Companies Law or authorized by the directors or by us in general meeting. However, we will make this annual report, which contains our audited financial statements, available to shareholders and ADS holders. See “Item 10.H. Documents on Display.”

C. Material Contracts

We have not entered into any material contracts other than in the ordinary course of business and other than those described in Item 4, “Information on the Company” or elsewhere in this annual report on Form 20-F.

D. Exchange Controls

China’s government imposes control over the convertibility of RMB into foreign currencies. The conversion of RMB into foreign currencies, including U.S. dollars, has been based on rates announced by the People’s Bank of China. 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 17.4 % appreciation of the RMB against the U.S. dollar between July 21, 2005 and March 31, 2009. While the international reaction to the RMB 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 RMB against the U.S. dollar.

Pursuant to the Foreign Exchange Administration Regulations issued by the State Council on January 29, 1996, and effective as of April 1, 1996 (and amended on January 14, 1997 and August 5, 2008, respectively) and the the Administration Rules of the Settlement, Sale and Payment of Foreign Exchange which came into effect on July 1, 1996, or the Rules, conversion of RMB into foreign exchange by foreign investment enterprises for current account items, including the distribution of dividends and profits to foreign investors of joint ventures, is permissible. Foreign investment enterprises are permitted to remit foreign exchange from their foreign exchange bank account in China on the basis of, inter alia, the terms of the relevant joint venture contracts and the board resolutions declaring the distribution of the dividend and payment of profits. The State Council amended the Foreign Exchange Administration Rules on January 14, 1997 and August 5, 2009, respectively, providing that, among other things, the State Council amended the Foreign Exchange Control Regulations and added, among other things, an important provision, as Article 5 provides that the State shall not impose restrictions on recurring international current account payments and transfers. Renminbi can be freely converted into foreign currencies for international payment under capital accounts unless Chinese laws and regulations require obtaining prior approval from SAFE. However, for the international income under capital accounts, the conversion of foreign currencies into Renminbi is still subject to the prior approval of SAFE.

Under the Rules, foreign investment enterprises are required to open and maintain separate foreign exchange accounts for capital account items (but not for other items). In addition, foreign investment enterprises may only buy, sell and/or remit foreign currencies at those banks authorized to conduct foreign exchange business upon the production of valid commercial documents and, in the case of certain capital account item transactions, document approval from SAFE.

Currently, foreign investment enterprises are required to apply to SAFE for “foreign exchange registration certificates for foreign investment enterprises” (which are granted to foreign investment enterprises, upon fulfilling specified conditions and which are subject to review and renewal by SAFE on an annual basis). With such foreign exchange registration certificates and required underlying transaction documents, or with approval documents from the SAFE if the transactions are under capital account (which are obtained on a transaction-by-transaction basis), foreign-invested enterprises may enter into foreign exchange transactions at banks authorized to conduct foreign exchange business to obtain foreign exchange for their needs.

E. Taxation

The following summary of the material Cayman Islands, PRC and United States federal income tax consequences of an investment in our ADSs or ordinary shares is based upon laws and relevant interpretations thereof in effect as of the date of this annual report on Form 20-F, all of which are subject to change. This summary does not deal with all possible tax consequences relating to an investment in our ADSs or ordinary shares, such as the tax consequences under state, local, and other tax laws not addressed herein.

Cayman Islands Taxation

The Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands except for stamp duties which may be applicable on instruments executed in, or brought within the jurisdiction of the Cayman Islands. The Cayman Islands is not party to any double tax treaties. There are no exchange control regulations or currency restrictions in the Cayman Islands.

We have received an undertaking from the Governor in Cabinet of the Cayman Islands that, in accordance with section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, for a period of 20 years from August 22, 2006, no law which is enacted thereafter in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to us or our operations and, in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable (i) on or in respect of the shares, debentures or other obligations of us or (ii) by way of the withholding in whole or in part of a payment of dividend or other distribution of income or capital by us to its members or a payment of principal or interest or other sums due under a debenture or other obligation of us.

People’s Republic of China Taxation

Pursuant to the New EIT Law and the Implementing Regulation, both of which became effective on January 1, 2008, dividends generated after January 1, 2008 and payable by a foreign-invested enterprise to its foreign investors will be subject to a 10% withholding tax if the foreign investors are considered as non-resident enterprises without any establishment or place of business within China or if the dividends payable have no connection with the establishment or place of business of the foreign investors within China, unless any such foreign investor’s jurisdiction of incorporation has a tax treaty with China that provides for a reduced withholding arrangement. The Cayman Islands, where we are incorporated, does not have such a tax treaty with China. Sunergy Hong Kong, our wholly owned subsidiary and the direct holder of 100% equity interest in Sunergy Nanjing, is incorporated in Hong Kong. According to the Mainland and Hong Kong Special Administrative Region Arrangement on Avoiding Double Taxation or Evasion of Taxation on Income agreed between China and Hong Kong, dividends paid by a foreign-invested enterprise in China to its direct holding company in Hong Kong will be subject to withholding tax at a rate of no more than 5% (if the foreign investor owns directly at least 25% of the shares of the foreign-invested enterprise). Under the New EIT Law and the Implementing Regulation, if we and Sunergy Hong Kong were regarded as a resident enterprise, the dividends payable to Sunergy Hong Kong from Sunergy Nanjing would be exempt from the PRC income tax. If Sunergy Hong Kong is regarded as a non-resident enterprise, and therefore would be subject to a 5% withholding tax for any dividends payable to it from Sunergy Nanjing, the amount of funds available to us to meet our cash requirements, including the payment of dividends to our shareholders and debt service on any debt we may incur through our Cayman holding company, could be materially reduced.

In addition, because there remains uncertainty regarding the interpretation and implementation of the concept of “de facto management bodies” if we are regarded as a PRC resident enterprise under the New EIT Law, any dividends to be distributed by us to our non-PRC shareholders or holders of ADSs will be subject to a withholding tax. Unless there are further rules announced by the Chinese tax authorities, we may be required under the New EIT Law to withhold PRC income tax on our dividends payable to our non-PRC shareholders or holders of ADSs, or any gain realized by our non-PRC shareholders or holders of ADSs from transfer of the shares or ADSs.

United States Federal Income Taxation

The following discussion describes the material U.S. federal income tax consequences to U.S. Holders (defined below) under present law of an investment in the ADSs or ordinary shares. This summary applies only to U.S. Holders that hold the ADSs or ordinary shares as capital assets and that have the U.S. dollar as their functional currency. This discussion is based on the tax laws of the United States as in effect on the date of this report and on U.S. Treasury regulations in effect or, in some cases, proposed, as of the date of this report, as well as judicial and administrative interpretations thereof available on or before such date. All of the foregoing authorities are subject to change, which change could apply retroactively and could affect the tax consequences described below.

The following discussion does not deal with the tax consequences to any particular investor or to persons in special tax situations such as:

- banks;
- insurance companies;
- broker-dealers;
- traders that elect to mark to market;
- tax-exempt entities;
- persons liable for alternative minimum tax;
- U.S. expatriates;
- regulated investment companies or real estate investment trusts;
- persons holding an ADS or ordinary share as part of a straddle, hedging, conversion or integrated transaction;
- persons who acquired ADSs or ordinary shares pursuant to the exercise of any employee stock options or otherwise as compensation;
- persons that actually or constructively own 10% or more of the total combined voting power of all classes of our voting stock; or
- partnerships or other pass-through entities, or persons holding ADSs or ordinary shares through such entities.

INVESTORS ARE URGED TO CONSULT THEIR TAX ADVISORS ABOUT THE APPLICATION OF THE U.S. FEDERAL TAX RULES TO THEIR PARTICULAR CIRCUMSTANCES AS WELL AS THE STATE, LOCAL, FOREIGN AND OTHER TAX CONSEQUENCES TO THEM OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF ADSs OR ORDINARY SHARES.

The discussion below of the U.S. federal income tax consequences to “U.S. Holders” will apply if you are a beneficial owner of ADSs or ordinary shares and you are, for U.S. federal income tax purposes,

- an individual who is a citizen or resident of the United States;
- a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) organized under the laws of the United States, any state thereof or the District of Columbia;

- an estate, the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust that (1) is subject to the primary supervision of a court within the United States and the control of one or more U.S. persons for all substantial decisions or (2) has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

If you are a partner in a partnership (or other entity taxable as a partnership) that holds ADSs or ordinary shares, your tax treatment generally will depend on your status and the activities of the partnership.

The discussion below assumes that the representations contained in the deposit agreement are true and that the obligations in the deposit agreement and any related agreement have been and will be complied with in accordance with their terms. If you hold ADSs, you should be treated as the beneficial owner of the underlying ordinary shares represented by those ADSs for U.S. federal income tax purposes.

The U.S. Treasury has expressed concerns that parties to whom ADSs are pre-released may be taking actions that are inconsistent with the claiming, by U.S. Holders of ADSs, of foreign tax credits for U.S. federal income tax purposes. Such actions would also be inconsistent with the claiming of the reduced rate of tax applicable to dividends received by certain non-corporate U.S. Holders, as described below. Accordingly, the availability of the reduced tax rate for dividends received by certain non-corporate U.S. Holders could be affected by future actions that may be taken by the U.S. Treasury or parties to whom ADSs are pre-released.

Taxation of Dividends and Other Distributions on the ADSs or Ordinary Shares

Subject to the passive foreign investment company rules discussed below, the gross amount of distributions we make to you with respect to the ADSs or ordinary shares (including the amount of any taxes withheld therefrom) generally will be included in your gross income as dividend income on the date of actual or constructive receipt by the depository, in the case of ADSs, or by you, in the case of ordinary shares, but only to the extent that the distribution is paid out of our current or accumulated earnings and profits (as determined under U.S. federal income tax principles). To the extent the amount of the distribution exceeds our current and accumulated earnings and profits (as determined under U.S. federal income tax principles), such excess amount will be treated first as a tax-free return of your tax basis in your ADSs or ordinary shares, and then, to the extent such excess amount exceeds your tax basis, as capital gain. We currently do not, and we do not intend to, calculate our earnings and profits under U.S. federal income tax principles. Therefore, a U.S. Holder should expect that a distribution will generally be treated as a dividend even if that distribution would otherwise be treated as a non-taxable return of capital or as capital gain under the rules described above. Any dividends we pay will not be eligible for the dividends-received deduction allowed to corporations in respect of dividends received from other U.S. corporations.

With respect to certain non-corporate U.S. Holders, including individual U.S. Holders, for taxable years beginning before January 1, 2011, dividends will be “qualified dividend income” that is taxed at the lower applicable capital gains rate, provided that certain conditions are satisfied, including (1) the ADSs or ordinary shares are readily tradable on an established securities market in the United States or, in the event we are deemed to be a “resident enterprise” under PRC tax law (see Item 10, “Additional Information—Taxation—People’s Republic of China Taxation”), we are eligible for the benefits of the income tax treaty between the United States and the PRC, (2) we are neither a passive foreign investment company nor treated as such with respect to you (as discussed below) for our taxable year in which the dividend is paid and the preceding taxable year, and (3) certain holding period requirements are met. U.S. Treasury guidance indicates that common or ordinary shares, or ADSs representing such shares, are considered for the purpose of clause (1) above to be readily tradable on an established securities market in the United States if they are listed on the Nasdaq Global Market, as are our ADSs (but not our ordinary shares). There can be no assurance that our ADSs will be considered readily tradable on an established securities market in later years. You should consult your tax advisors regarding the availability of the lower capital gains rate applicable to qualified dividend income for dividends paid with respect to our ADSs or ordinary shares and any possible change in law relating to the availability of such lower rate for dividends paid by us.

Dividends will constitute foreign source income for foreign tax credit limitation purposes. If the dividends are qualified dividend income (as discussed above), the amount of the dividend taken into account for purposes of calculating the foreign tax credit limitation will in general be limited to the gross amount of the dividend, multiplied by the reduced tax rate applicable to qualified dividend income and divided by the highest tax rate normally applicable to dividends. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For this purpose, dividends distributed by us with respect to the ADSs or ordinary shares will be “passive category income” or, in the case of certain U.S. Holders, “general category income.” In addition, if PRC withholding taxes apply to dividends paid to you with respect to the ADSs or ordinary shares (see Item 10, “Additional Information—Taxation—People’s Republic of China Taxation”), subject to certain conditions and limitations, such PRC withholding taxes may be treated as foreign taxes eligible for credit against your U.S. federal income tax liability.

Taxation of Disposition of ADSs or Ordinary Shares

Subject to the passive foreign investment company rules discussed below, you will recognize taxable gain or loss on any sale, exchange or other taxable disposition of an ADS or ordinary share equal to the difference between the amount realized (in U.S. dollars) for the ADS or ordinary share and your tax basis (in U.S. dollars) in the ADS or ordinary share. The gain or loss generally will be capital gain or loss. If you are a non-corporate U.S. Holder, including an individual U.S. Holder, who has held the ADS or ordinary share for more than one year, you will be eligible for reduced tax rates. The deductibility of capital losses is subject to limitations.

Any such gain or loss that you recognize will generally be treated as U.S. source income or loss for foreign tax credit limitation purposes. However, in the event we are deemed to be a “resident enterprise” under PRC tax law, we may be eligible for the benefits of the income tax treaty between the United States and the PRC. In such event, if PRC tax were to be imposed on any gain from the disposition of the ADSs or ordinary shares (see Item 10, “Additional Information—Taxation—People’s Republic of China Taxation”), a U.S. Holder that is eligible for the benefits of the treaty may elect to treat such gain as PRC source income. You should consult your tax advisor regarding the proper treatment of gain or loss in your particular circumstances.

Passive Foreign Investment Company

Based on the market price of our ADSs, the value of our assets, and the composition of our income and assets, we do not believe we were a “passive foreign investment company,” or PFIC, for U.S. federal income tax purposes for our taxable year ended December 31, 2008. A non-U.S. corporation will be a PFIC for any taxable year if either:

- at least 75% of its gross income for such year is passive income; or
- at least 50% of the value of its assets (based on an average of the quarterly values of the assets) during such year is attributable to assets that produce passive income or are held for the production of passive income (the “asset test”).

We will be treated as owning our proportionate share of the assets and earning our proportionate share of the income of any other corporation in which we own, directly or indirectly, at least 25% (by value) of the stock.

We must make a separate determination after the close of each taxable year as to whether we were a PFIC for that year. Accordingly, we cannot assure you that we will not be a PFIC for our current taxable year ending December 31, 2009 or any future taxable year. The composition of our income and assets will be affected by how, and how quickly, we use the cash we generate from our operations and raise in any offering. Because the value of our assets for purposes of the asset test will generally be determined by reference to the market price of our ADSs and ordinary shares, fluctuations in the market price of the ADSs and ordinary shares may cause us to become a PFIC. If we are a PFIC for any taxable year during which you hold ADSs or ordinary shares, we generally will continue to be treated as a PFIC with respect to you for all succeeding years during which you hold ADSs or ordinary shares, unless we cease to be a PFIC and you make a “deemed sale” election with respect to the ADSs or ordinary shares, as applicable. If such election is made, you will be deemed to have sold the ADSs or ordinary shares you hold at their fair market value and any gain from such deemed sale would be subject to the consequences described below. After the deemed sale election, your ADSs or ordinary shares with respect to which such election was made will not be treated as shares in a PFIC unless we subsequently become a PFIC.

For each taxable year that we are treated as a PFIC with respect to you, you will be subject to special tax rules with respect to any “excess distribution” that you receive and any gain you realize from a sale or other disposition (including a pledge) of the ADSs or ordinary shares, unless you make a “mark-to-market” election as discussed below. Distributions you receive in a taxable year that are greater than 125% of the average annual distributions you received during the shorter of the three preceding taxable years or your holding period for the ADSs or ordinary shares will be treated as an excess distribution. Under these special tax rules:

- the excess distribution or gain will be allocated ratably over your holding period for the ADSs or ordinary shares,
- the amount allocated to the current taxable year, and any taxable years in your holding period prior to the first taxable year in which we were a PFIC, will be treated as ordinary income, and
- the amount allocated to each other year will be subject to the highest tax rate in effect for individuals or corporations, as applicable, for each such year and the interest charge generally applicable to underpayments of tax will be imposed on the resulting tax attributable to each such year.

The tax liability for amounts allocated to years prior to the year of disposition or excess distribution cannot be offset by any net operating losses for such years, and gains (but not losses) realized on the sale of the ADSs or ordinary shares cannot be treated as capital, even if you hold the ADSs or ordinary shares as capital assets.

If we are treated as a PFIC with respect to you for any taxable year, to the extent any of our subsidiaries are also PFICs or we make direct or indirect equity investments in other entities that are PFICs, you will be deemed to own shares in such lower-tier PFICs that are directly or indirectly owned by us in that proportion that the value of the ADSs or ordinary shares you own bears to the value of all of our ADSs and ordinary shares, and you may be subject to the adverse tax consequences described above with respect to the shares of such lower-tier PFICs that you would be deemed to own. You should consult your tax advisors regarding the application of the PFIC rules to any of our subsidiaries.

A U.S. Holder of “marketable stock” (as defined below) of a PFIC may make a mark-to-market election for such stock to elect out of the tax treatment discussed above. If you make a mark-to-market election for the ADSs or ordinary shares, you will include in income for each year that we are treated as a PFIC with respect to you an amount equal to the excess, if any, of the fair market value of the ADSs or ordinary shares as of the close of your taxable year over your adjusted basis in such ADSs or ordinary shares. You will be allowed a deduction for the excess, if any, of the adjusted basis of the ADSs or ordinary shares over their fair market value as of the close of the taxable year. However, deductions will be allowable only to the extent of any net mark-to-market gains on the ADSs or ordinary shares included in your income for prior taxable years. Amounts included in your income under a mark-to-market election, as well as gain on the actual sale or other disposition of the ADSs or ordinary shares, will be treated as ordinary income. Ordinary loss treatment will apply to the deductible portion of any mark-to-market loss on the ADSs or ordinary shares, as well as to any loss realized on the actual sale or disposition of the ADSs or ordinary shares, to the extent that the amount of such loss does not exceed the net mark-to-market gains previously included for such ADSs or ordinary shares. Your basis in the ADSs or ordinary shares will be adjusted to reflect any such income or loss amounts. If you make a valid mark-to-market election, the tax rules that apply to distributions by corporations which are not PFICs would apply to distributions by us, except that the lower capital gains rate applicable to qualified dividend income (discussed above under “—Taxation of Dividends and Other Distributions on the ADSs or Ordinary Shares”) would not apply.

The mark-to-market election is available only for “marketable stock,” which is stock that is traded in other than *de minimis* quantities on at least 15 days during each calendar quarter (“regularly traded”) on a qualified exchange or other market, as defined in applicable U.S. Treasury regulations. Our ADSs are listed on the Nasdaq Global Market, which is a qualified exchange or other market for these purposes. Consequently, if the ADSs continue to be listed on the Nasdaq Global Market and are regularly traded, and you are a holder of ADSs, we expect that the mark-to-market election would be available to you if we become a PFIC. Because a mark-to-market election cannot be made for equity interests in any lower-tier PFICs that we own, a U.S. Holder may continue to be subject to the PFIC rules with respect to its indirect interest in any investments held by us that are treated as an equity interest in a PFIC for U.S. federal income tax purposes.

Alternatively, a U.S. Holder of stock in a PFIC may make a “qualified electing fund” election with respect to such PFIC to elect out of the tax treatment discussed above. A U.S. Holder that makes a valid qualified electing fund election with respect to a PFIC will generally include in gross income for a taxable year such holder’s *pro rata* share of the corporation’s earnings and profits for the taxable year. However, the qualified electing fund election is available only if the PFIC provides such U.S. Holder with certain information regarding its earnings and profits as required under applicable U.S. Treasury regulations. We do not intend to prepare or provide the information that would enable you to make a qualified electing fund election.

If you hold ADSs or ordinary shares in any year in which we are treated as a PFIC with respect to you, you will be required to file Internal Revenue Service Form 8621 regarding distributions received on the ADSs or ordinary shares and any gain realized on the disposition of the ADSs or ordinary shares.

You are urged to consult your tax advisor regarding the application of the PFIC rules to your investment in ADSs or ordinary shares.

Information Reporting and Backup Withholding

Dividend payments with respect to ADSs or ordinary shares and proceeds from the sale, exchange or redemption of ADSs or ordinary shares may be subject to information reporting to the Internal Revenue Service and possible U.S. backup withholding at a current rate of 28%, unless the conditions of an applicable exception are satisfied. Backup withholding will not apply to a U.S. Holder that furnishes a correct taxpayer identification number and makes any other required certification or that is otherwise exempt from backup withholding. U.S. Holders that are required to establish their exempt status generally must provide such certification on Internal Revenue Service Form W-9. U.S. Holders should consult their tax advisors regarding the application of the U.S. information reporting and backup withholding rules.

Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against your U.S. federal income tax liability, and you may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the Internal Revenue Service and furnishing any required information in a timely manner.

F. Dividends and Paying Agents

Not Applicable.

G. Statement by Experts

Not Applicable.

H. Documents on Display

We previously filed with the SEC our registration statement on Form F-1 (Registration No. 333-144282, as amended) and the prospectus under the Securities Act of 1933, with respect to our ordinary shares. We have also filed with the SEC a related registration statement on F-6 (Registration No. 333-142574) to register the ADSs. We also filed with the SEC a registration statement on Form S-8 (File Number 333-148125, as amended) with respect to our securities to be issued under our First Plan.

We are subject to periodic reporting and other informational requirements of the Exchange Act as applicable to foreign private issuers. Accordingly, we will be required to file reports and other information with the SEC. Specifically, we are required to file annually a Form 20-F no later than: (1) within six months after the end of each fiscal year, which is December 31, for fiscal years ending before December 15, 2011; and (2) within four months after the end of each fiscal year for fiscal years ending on or after December 15, 2011. As a foreign private issuer, we are exempt from the rules of the Exchange Act prescribing the furnishing and content of proxy statements to shareholders. All information filed with the SEC can be inspected and copied at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549. You can request copies of these documents, upon payment of a duplicating fee, by writing to the SEC. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference rooms. You may also obtain additional information over the Internet at the SEC's website at www.sec.gov.

Our financial statements have been prepared in accordance with U.S. GAAP.

We will furnish our shareholders with annual reports, which will include a review of operations and annual audited consolidated financial statements prepared in conformity with U.S. GAAP.

In accordance with Nasdaq Stock Market Marketplace Rules 4350(b), we will post this annual report on Form 20-F on our website at <http://www.chinasunergy.com>.

I. Subsidiary Information

For a listing of our subsidiaries, see Item 4, "Information on the Company—Organizational Structure."

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Inflation

Since our inception, inflation in China has not materially impacted our results of operations. According to the National Bureau of Statistics of China, the change of consumer price index in China was 3.9%, 1.8%, 1.5%, 4.8% and 5.9% in 2004, 2005, 2006, 2007 and 2008, respectively.

Foreign Exchange Risk

A major portion of our sales are denominated in Renminbi and Euros, with the remainder in U.S. dollars, while a substantial portion of our costs and expenses is denominated in U.S. dollars and Renminbi, with the remainder in Euros. Therefore, fluctuations in currency exchange rates could have a significant impact on our financial stability due to a mismatch among various foreign currency-denominated sales and costs. Fluctuations in exchange rates, particularly among the U.S. dollar, Renminbi and Euro, affect our gross and net profit margins and could result in foreign exchange and operating losses.

Our exposure to foreign exchange risk primarily relates to currency gains or losses resulting from timing differences between signing of sales contracts and settling of these contracts. As of December 31, 2008, we had a Renminbi denominated cash balance of RMB546.5 million and a U.S. dollar denominated cash balance of \$9.5 million. Assuming we had converted the U.S. dollar denominated cash balance of \$9.5 million as of December 31, 2008 into Renminbi at the exchange rate of \$1.00 for RMB6.8225 as of December 31, 2008, this cash balance would have been RMB64.8 million. Assuming a further 1% appreciation of the Renminbi against the U.S. dollar, this cash balance would have decreased to RMB64.2 million as of December 31, 2008. Conversely, if we decide to convert our Renminbi into U.S. dollars for the purpose of making payments for dividends on our ordinary shares or ADSs 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.

We are also subject to foreign currency translation risk. Our financial statements are expressed in U.S. dollars but the functional currency of our operating subsidiary is Renminbi. We translate monetary assets and liabilities denominated in other currencies into Renminbi at the rates of exchange in effect at each balance sheet date. Depending on movements in foreign exchange rates, the foreign currency translation may have an adverse impact on our consolidated financial statements. We recorded these exchange gains and losses in the statements of operations. We recorded net foreign currency losses of \$1.3 million, \$1.2 million and \$6.9 million in 2006, 2007 and 2008, respectively.

In 2008, our exposure to foreign currency risk was also impacted by an embedded foreign currency forward contract. One of our supply contracts provided that the purchase price of the silicon raw materials to be acquired was denominated in U.S. dollars, which is not the functional currency of either of the contracting parties. Accordingly, the contract contains an embedded foreign currency forward contract, which is required to be bifurcated and accounted for at fair value in accordance with the provisions of FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities." Fluctuations in forward foreign exchange rates have impacted our assessment in determining the fair value of our embedded derivative. In 2008, we recorded a loss on the change in fair value of the embedded derivative of \$7.6 million which was included in the line item "Change in fair value of derivative" in the consolidated statements of operations.

In 2008, we entered into a series of foreign currency forward contracts with certain banks to hedge our exposure to foreign currency exchange risk. As of December 31, 2008, we had foreign currency forward contracts with a total contract value of approximately EUR33.0 million. As with all hedging instruments, there are risks associated with the use of foreign currency forward contracts. As at December 31, 2008, we recorded change in fair value of derivatives related to the forward foreign currency exchange contracts of \$2.3 million, which was included in the line item "Change in fair value of derivative" in the consolidated statements of operations. While the use of such foreign currency forward contracts provides us with protection from certain fluctuations in foreign currency exchange, we potentially forgo the benefits that might result from favorable fluctuations in foreign currency exchange. In addition, any default by the counterparties to these transactions could adversely affect our financial condition and results of operations.

Counterparty Risk

Outstanding financial derivative instruments expose us to credit loss in the event of non-performance by the counterparties to the agreements. On a periodic basis, we review the credit ratings of our counterparties and adjust our exposure as deemed appropriate. The counterparty risk has been considered in the fair value measurement of derivative instruments.

Interest Rate Risk

Our exposure to interest rate risk primarily relates to interest expenses incurred by our short-term borrowings, as well as interest income generated by excess cash invested in demand deposits with original maturities of three months or less. Such interest-earning instruments carry a degree of interest rate risk. We have not used any derivative financial instruments to manage our interest rate risk exposure. We have not been exposed nor do we anticipate being exposed to material risks due to changes in interest rates, because most of our borrowings bear fixed interest rates. However, our future interest expense may increase due to changes in market interest rates.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not Applicable.

II. PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

The following "Use of Proceeds" information relates to:

- the registration statement on Form F-1 (File number: 333-142367), or the IPO Registration Statement for our initial public offering of 9,775,000 American depositary shares, which IPO Registration Statement was declared effective by the SEC on May 16, 2007; and
- the registration statement on Form F-3 (File number: 333-151518), or the Shelf Registration Statement for our registration of convertible senior notes, which Shelf Registration Statement was declared effective by the SEC on June 19, 2008.

We received net proceeds after expenses of approximately \$95.9 million from our initial public offering and net proceeds of approximately \$50.2 million from the sale of our convertible senior notes.

The net proceeds from our public offering on NASDAQ were allocated as follows:

- approximately \$60 million for purchasing raw materials and other working capital requirements; and
- approximately \$20 million for modifying our existing solar cell manufacturing lines and expanding our solar cell manufacturing facilities.

Among the remaining amount of the net proceeds, approximately \$11 million has been pledged to procure RMB bank loans for our working capital requirements.

Merrill Lynch, Pierce, Fenner & Smith Incorporated, Cowen and Company, LLC and Jefferies & Company, Inc. the underwriters for our initial public offering.

We used the net proceeds from the sale of our convertible senior notes as follows:

- approximately \$30 million for expansion of production capacity;
- approximately \$10 million for enhancement of research and development; and
- the remainder for development, and general corporate purposes

Credit Suisse Securities (USA) LLC served as the initial purchaser for the sale of our convertible senior notes.

As of December 31, 2008, our cash resources amount to \$94.8 million, comprised of cash on hand and demand deposits.

See "Item 10. Additional Information" for a description of the rights of securities holders, which remain unchanged.

ITEM 15. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, has performed an evaluation of the effectiveness of our disclosure controls and procedures within the meaning of Rules 13a-15(e) and 15d-15(e) of the Exchange Act as of the end of the period covered by this report. Based on such evaluation, our management has concluded that, as of the end of the period covered by this annual report, our disclosure controls and procedures were effective.

Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) under the Exchange Act. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements in accordance with generally accepted accounting principles and includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of a company's assets, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles, and that a company's receipts and expenditures are being made only in accordance with authorizations of a company's management and directors, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of a company's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. In addition, projections of any evaluation of effectiveness of our internal control over financial reporting to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

As required by Section 404 of the Sarbanes-Oxley Act and related rules as promulgated by the SEC, management assessed the effectiveness of the our internal control over financial reporting as of December 31, 2008 using criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on this assessment, management concluded that the our internal control over financial reporting was effective as of December 31, 2008 based on the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Our independent registered public accounting firm, Deloitte Touche Tohmatsu CPA Ltd., has audited the financial statements included in this annual report on Form 20-F.

Attestation Report of the Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of

CHINA SUNERGY CO., LTD.:

We have audited internal control over financial reporting China Sunergy Co., Ltd and subsidiaries (the "Company") as of December 31, 2008, based on the criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on that risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and the related financial statement schedule as of and for the year ended December 31, 2008, of the Company and our report dated June 26, 2009 expressed an unqualified opinion on those financial statements and financial statement schedule.

/s/DELOITTE TOUCHE TOHMATSU CPA LTD.

Shanghai, China

June 26, 2009

Changes in Internal Control

No change in our internal control over financial reporting occurred during the year ended December 31, 2008 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our board of directors has determined that Merry Tang, an independent director and member of our audit committee, is an audit committee financial expert.

ITEM 16B. CODE OF ETHICS

Our board of directors has adopted a code of ethics that applies to our directors, officers, employees and agents, including certain provisions that specifically apply to our chief executive officer, chief financial officer, senior finance officer, controller, vice presidents and any other persons who perform similar functions for us. We hereby undertake to provide to any person without charge, a copy of our code of business conduct and ethics within ten working days after we receive such person's written request.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table sets forth the aggregate fees by categories specified below in connection with certain professional services rendered by Deloitte Touche Tohmatsu CPA Ltd., our principal external auditors, for the periods indicated. We did not pay any tax related or other fees to our auditors during the periods indicated below.

	2007		2008	
Audit fees ⁽¹⁾	\$	480,000	\$	1,140,516
Audit-related fees ⁽²⁾	\$	300,000	\$	393,384
Tax fees		—		—
All other fees		—		—

- (1) “Audit fees” means the aggregate fees billed in each of the fiscal years listed for professional services rendered by our principal auditors for the audit of our annual financial statements.
- (2) “Audit-related fees” means the aggregate fees billed in each of the fiscal years listed for assurance and related services by our principal auditors that are reasonably related to the performance of the audit or review of our financial statements and are not reported under “Audit fees.” Services comprising the fees disclosed under the category of “Audit-related fees” involve principally the issue of comfort letter, rendering of listing advice, and other audit-related services for the years ended December 31, 2007 and December 31, 2008.

We engaged Deloitte Touche Tohmatsu CPA Ltd. in 2006. Total service fees billed to 2006 related to these professional services in 2007 and 2008 amounted to \$780,000 and \$1,533,900, respectively.

The policy of our audit committee is to pre-approve all audit and non-audit services provided by Deloitte Touche Tohmatsu CPA Ltd., including audit services, audit-related services, tax services and other services as described above, other than those for de minimus services which are approved by the Audit Committee prior to the completion of the audit.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

We are in compliance with the Nasdaq corporate governance rules with respect to the audit committee.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS.

None.

ITEM 16F. CHANGE IN REGISTRANT’S CERTIFYING ACCOUNTANT

Not applicable.

ITEM 16G. CORPORATE GOVERNANCE

Rule 5635(c) of the Nasdaq Rules requires a Nasdaq listed company to obtain its shareholders’ approval of stock option plans or other equity compensation arrangements, and any material amendments to such plans or arrangements. Rule 5615 of the Nasdaq Rules permits a foreign private issuer like our company to follow home country practice in certain corporate governance matters. Upon board approval in May 2009, we effected amendments to our First Plan. We believe that some of the amendments are material changes to the then existing plan. Our Cayman Islands counsel has provided a letter to Nasdaq dated May 14, 2009, confirming that under the existing Cayman Islands law, we are not required to obtain shareholders’ approval for amendments to our existing equity incentive plan. Nasdaq has acknowledged the receipt of such letter and our home country practice with respect to approval for amendments to our equity incentive plan.

Other than the home country practice described above, we are not aware of any significant ways in which our corporate governance practices differ from those followed by U.S. domestic companies under the Nasdaq Rules.

III. PART III

ITEM 17. FINANCIAL STATEMENTS

We have elected to provide financial statements pursuant to Item 18.

ITEM 18. FINANCIAL STATEMENTS

The consolidated financial statements of China Sunergy and its subsidiaries are included at the end of this annual report.

ITEM 19. EXHIBITS

Exhibit Number	Description of Document
1.1	Amended and Restated Memorandum and Articles of Association of the Registrant (incorporated by reference to Exhibit 3.2 from our Registration Statement on Form F-1 (file no. 333-142367) filed with the Securities and Exchange Commission on April 25, 2007).
2.1	Registrant's Specimen American Depositary Receipt (included in Exhibit 2.3).
2.2	Registrant's Specimen Certificate for Ordinary shares (incorporated by reference to Exhibit 4.2 from our Registration Statement on Form F-1 (file no. 333-142367) filed with the Securities and Exchange Commission on April 25, 2007).
2.3	Form of Deposit Agreement among the Registrant, JPMorgan Chase Bank, N.A. as depositary, and holders of the American Depositary Receipts (incorporated by reference to Exhibit 4.3 from our Registration Statement on Form F-1 Amendment No. 2 (file no. 333-142367) filed with the Securities and Exchange Commission on April 25, 2007).
2.4	Indenture dated as of July 1, 2008 between Wilmington Trust Company and the Registrant (incorporated by reference to Exhibit 4.8 of the Report of Foreign Private Issuer on Form 6-K filed by China Sunergy Co., Ltd. on July 2, 2008).
4.1	Subscription Agreement among the Registrant and other parties therein dated as of September 17, 2006 (incorporated by reference to Exhibit 4.4 from our Registration Statement on Form F-1 (file no. 333-142367) filed with the Securities and Exchange Commission on April 25, 2007).
4.2	Shareholders Agreement among the Registrant and other parties therein dated as of September 26, 2006, amended as of October 24, 2006, March 22, 2007 and April 24, 2007 (incorporated by reference to Exhibit 4.5 from our Registration Statement on Form F-1 (file no. 333-142367) filed with the Securities and Exchange Commission on April 25, 2007).
4.3	Registration Rights Agreement among the Registrant and other parties therein dated as of September 26, 2006 (incorporated by reference to Exhibit 4.6 from our Registration Statement on Form F-1 (file no. 333-142367) filed with the Securities and Exchange Commission on April 25, 2007).
4.4	Sale and Purchase Agreement among the Registrant, Sunergy BVI and other parties therein dated as of August 29, 2006 (incorporated by reference to Exhibit 4.7 from our Registration Statement on Form F-1 (file no. 333-142367) filed with the Securities and Exchange Commission on April 25, 2007).
4.5	Agreement for the Transfer and Assumption of Obligations among the Registrant, Sunergy BVI and other parties therein dated as of August 29, 2006 (incorporated by reference to Exhibit 4.8 from our Registration Statement on Form F-1 (file no. 333-142367) filed with the Securities and Exchange Commission on April 25, 2007).
4.6	Subscription Agreement among the Sunergy BVI, Sunergy Nanjing and other parties therein dated as of April 4, 2006 (incorporated by reference to Exhibit 4.9 from our Registration Statement on Form F-1 (file no. 333-142367) filed with the Securities and Exchange Commission on April 25, 2007).

Exhibit Number	Description of Document
4.7	Warrant Purchase Agreement among the Sunergy BVI, Sunergy Nanjing and other parties therein dated as of March 8, 2006(incorporated by reference to Exhibit 4.10 from our Registration Statement on Form F-1 (file no. 333-142367) filed with the Securities and Exchange Commission on April 25, 2007).
4.8	Amended and Restated Share Incentive Plan (incorporated by reference to Exhibit 4.1 from our Post-Effective Amendment No. 1 to Registration Statement on Form S-8 (File No. 333-148125), as amended, filed with the Commission on June 22, 2009).
4.9	Second Share Incentive Plan, including form of Restricted Share Award Agreement.
4.10	Form of Indemnification Agreement between the Registrant and its directors (incorporated by reference to Exhibit 10.2 from our Registration Statement on Form F-1 (file no. 333-142367) filed with the Securities and Exchange Commission on April 25, 2007).
4.11*	Form of Employment Agreement between the Registrant and a Senior Executive Officer of the Registrant.
4.12	Form of Director Agreement between the Registrant and certain independent directors.
4.13	English Translation of Authorization License for Usage of Trademark between China Electric Equipment Group Co., Ltd. and Sunergy Nanjing dated as of June 7, 2006(incorporated by reference to Exhibit 10.4 from our Registration Statement on Form F-1 (file no. 333-142367) filed with the Securities and Exchange Commission on April 25, 2007).
4.14	English Translation of Trademark License Agreement between China Electric Equipment Group Co., Ltd. and Sunergy Nanjing dated as of March 15, 2006(incorporated by reference to Exhibit 10.5 from our Registration Statement on Form F-1 (file no. 333-142367) filed with the Securities and Exchange Commission on April 25, 2007).
4.15	English Translation of License Authorization for Usage of Trademark between China Electric Equipment Group Co., Ltd. and Sunergy Nanjing dated as of February 9, 2006(incorporated by reference to Exhibit 10.6 from our Registration Statement on Form F-1 (file no. 333-142367) filed with the Securities and Exchange Commission on April 25, 2007).
4.16	English Translation of Purchase Contract between Jiangsu Zhongneng and Sunergy Nanjing dated as of March 1, 2007 (incorporated by reference to Exhibit 10.24 from our Registration Statement on Form F-1 (file no. 333-142367) filed with the Securities and Exchange Commission on April 25, 2007).
4.17	English Translation of Guarantee Contract between China Electric Equipment Group Co., Ltd. and Bank of Communications dated as of November 30, 2006 (incorporated by reference to Exhibit 10.31 from our Registration Statement on Form F-1 (file no. 333-142367) filed with the Securities and Exchange Commission on April 25, 2007).
4.18	English Translation of Property Lease Contract between CEEG (Nanjing) Special Transformers Co., Ltd. and Sunergy Nanjing dated as of August 29, 2006 (incorporated by reference to Exhibit 10.37 from our Registration Statement on Form F-1 (file no. 333-142367) filed with the Securities and Exchange Commission on April 25, 2007).
4.19	Series A and Series B Preferred Shares Sale and Purchase Agreement dated as of March 22, 2007 (incorporated by reference to Exhibit 10.39 from our Registration Statement on Form F-1 (file no. 333-142367) filed with the Securities and Exchange Commission on April 25, 2007).
4.20	English Translation of Joint Venture Contract between Sunergy BVI and CEEG in 2007 (incorporated by reference to Exhibit 4.50 from our Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 9, 2008).
4.21	English Translation of Land Use Right Transfer Agreement between China Electric Equipment Group Co., Ltd. and Sunergy Nanjing dated as of July 23, 2007 (incorporated by reference to Exhibit 4.51 from our Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 9, 2008).
4.22	English Translation of Form of Equipment Purchase Contract between China Electric Equipment Group Co., Ltd and Sunergy Nanjing (incorporated by reference to Exhibit 4.52 from our Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 9, 2008).
4.23	English Translation of Form of Guarantee Contract between China Electric Equipment Group Co., Ltd. and Bank of Communications (incorporated by reference to Exhibit 4.53 from our Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 9, 2008).

Exhibit Number	Description of Document
4.24	English Translation of Comprehensive Credit Granting Contract between Sunergy Nanjing and China Citic Bank dated as of January 9, 2008 (incorporated by reference to Exhibit 4.54 from our Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 9, 2008).
4.25	English Translation of Maximum Guarantee Contract between China Electric Equipment Group Co., Ltd. and China Citic Bank dated as of January 9, 2008 (incorporated by reference to Exhibit 4.55 from our Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 9, 2008).
4.26	English Translation of Maximun Guarantee Contract between China Electric Equipment Group Co., Ltd. and Huaxia Bank dated as of May 31, 2007(incorporated by reference to Exhibit 4.56 from our Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 9, 2008).
4.27	English Translation of Form of Guarantee Contract between China Electric Equipment Group Co., Ltd. and Industrial and Commercial Bank of China (incorporated by reference to Exhibit 4.57 from our Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 9, 2008).
4.28	English Translation of Maximum Guarantee Contract between China Electric Equipment Group Co., Ltd. and Evergrowing Bank dated as of November 1, 2007 (incorporated by reference to Exhibit 4.58 from our Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 9, 2008).
4.29	English Translation of Guarantee Contract among China Electric Equipment Group, Tingxiu Lu and Agriculture Bank of China dated as of December 27, 2007 (incorporated by reference to Exhibit 4.59 from our Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 9, 2008).
4.30	English Translation of Guarantee Contract between China Electric Equipment Group Co., Ltd. and Nanjing Jiangning Rural Credit Cooperative dated as of January 24, 2008 (incorporated by reference to Exhibit 4.60 from our Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 9, 2008).
4.31	English Translation of Guarantee Contract between China Construction Bank and China Electric Equipment Group Co., Ltd. dated as of November 15,2007 (incorporated by reference to Exhibit 4.61 from our Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 9, 2008)
4.32	English Translation of Guarantee Contract between Tingxiu Lu and Bank of Shanghai dated as of February 2, 2008 (incorporated by reference to Exhibit 4.62 from our Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 9, 2008).
4.33	English Translation of Guarantee Contract between China Electric Equipment Group Co., Ltd. and Bank of Shanghai dated as of February 2, 2008 (incorporated by reference to Exhibit 4.63 from our Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 9, 2008).
4.34	English Translation of Credit Granting Contract between Sunergy Nanjing and China Merchant Bank dated as of January 18, 2008 (incorporated by reference to Exhibit 4.64 from our Annual Report on Form 20-F (file no .001-33433) filed with the Securities and Exchange Commission on June 9, 2008).
4.35	English Translation of Agreement on Co-Construction Transformer Substation between China Electric Equipment Group Co., Ltd. dated as of November 2, 2007 (incorporated by reference to Exhibit 4.65 from our Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 9, 2008).
4.36 †	Sales Contract between Aleo Solar AG and Sunergy Nanjing dated as of October 4, 2007 as well as Supplementary Contract dated as of January 21, 2008 (incorporated by reference to Exhibit 4.66 from our Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 9, 2008).

Exhibit Number	Description of Document
4.37	English Translation of Sales Contract between CEEG Nanjing International Trade Co., Ltd. and Sunergy Nanjing dated as of October 15, 2007. (incorporated by reference to Exhibit 4.67 from our Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 9, 2008).
4.38	English Translation of Purchase Contract between CEEG (Nanjing) Semiconductor Material Co., Ltd. and Sunergy Nanjing dated as of December 11, 2007. (incorporated by reference to Exhibit 4.68 from our Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 9, 2008).
4.39	English Translation of Form of Purchase Contract between CEEG (Nanjing) Semiconductor Material Co., Ltd. and Sunergy Nanjing. (incorporated by reference to Exhibit 4.69 from our Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 9, 2008).
4.40	English Translation of Purchase Contract between CEEG (Nanjing) Semiconductor Material Co., Ltd. and Sunergy Nanjing dated as of December 29, 2007. (incorporated by reference to Exhibit 4.70 from our Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 9, 2008).
4.41	English Translation of Sales Contract between CEEG (Nanjing) Semiconductor Material Co., Ltd. and Sunergy Nanjing dated as of November 20, 2007. (incorporated by reference to Exhibit 4.71 from our Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 9, 2008).
4.42	English Translation of Purchase Contract between CEEG (Nanjing) Solar Research Institute and Sunergy Nanjing dated as of November 28, 2007. (incorporated by reference to Exhibit 4.72 from our Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 9, 2008).
4.43	English Translation of Form of Sales Contract between CEEG (Shanghai) Solar Science and Technology Co., Ltd. and Sunergy Nanjing (incorporated by reference to Exhibit 4.73 from our Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 9, 2008).
4.44	English Translation of Long-term Sales Contract between CEEG (Shanghai) Solar Science and Technology Co., Ltd. and Sunergy Nanjing dated as of January 10, 2008 (incorporated by reference to Exhibit 4.74 from our Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 9, 2008)
4.45	English Translation of Purchase Contract between CEEG (Shanghai) Solar Science and Technology Co., Ltd. and Sunergy Nanjing dated as of November 28, 2007 (incorporated by reference to Exhibit 4.75 from our Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 9, 2008).
4.46	English Translation of Module Processing Contract between CEEG (Shanghai) Solar Science and Technology Co., Ltd. and Sunergy Nanjing dated as of December 19, 2007 (incorporated by reference to Exhibit 4.76 from our Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 9, 2008).
4.47	English Translation of Security Agreement between China Electric Equipment Group Co., Ltd. and Sunergy Nanjing (incorporated by reference to Exhibit 4.77 from our Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 9, 2008).
4.48*	English Translation of Purchase Contract between CEEG (Nanjing) Semiconductor Material Co., Ltd. and Sunergy Nanjing dated as of June 16, 2008 and its supplemental agreement dated as of July 29, 2008.
4.49*	English Translation of Sales Contract between China Electric Equipment Group (Hong Kong) Limited and Sunergy Nanjing dated as of June 3, 2008.
4.50*	English Translation of Purchase Contract between Jiangxi Jingde Semiconductor New Material Co., Ltd. and Sunergy Nanjing dated as of January 19, 2009.
4.51*	English Translation of Sales Contract between CEEG (Shanghai) Solar Science and Technology Co., Ltd. and Sunergy Nanjing dated as of April 7, 2008.

**Exhibit
Number****Description of Document**

4.52*	English Translation of Form of Sales Contract between CEEG (Shanghai) Solar Science and Technology Co., Ltd. and Sunergy Nanjing.
4.53*	English Translation of Long-term Sales Contract between CEEG (Shanghai) Solar Science and Technology Co., Ltd. and Sunergy Nanjing dated as of January 10, 2008.
4.54*	English Translation of Sales Contract between CEEG (Shanghai) Solar Science and Technology Co., Ltd. and Sunergy Nanjing dated as of July 2, 2008.
4.55*	English Translation of Sales Contract between CEEG (Shanghai) Solar Science and Technology Co., Ltd. and Sunergy Nanjing dated as of August 20, 2008.
4.56*	English Translation of Sales Contract between CEEG (Nanjing) New Energy Co., Ltd. and Sunergy Nanjing dated as of September 8, 2008.
4.57*	English Translation of Form of Sales Contract between CEEG (Shanghai) Solar Science and Technology Co., Ltd. and Sunergy Nanjing and its supplementary contract.
4.58*	English Translation of Creditor's Rights Transfer Contract between CEEG (Nanjing) International Trading Co., Ltd. and Sunergy Nanjing dated as of October 14, 2008.
4.59*	English Translation of Agreement among CEEG, CEEG (Nanjing) New Energy Co., Ltd. and Sunergy Nanjing dated as of December 30, 2008.
4.60*	English Translation of Agreement among CEEG, CEEG (Nanjing) International Trade Co., Ltd. and Sunergy Nanjing dated as of December 31, 2008.
4.61*	English Translation of Equity Interest Transfer Agreement regarding the transfer of equity interest in China Sunergy (Shanghai) Co., Ltd. between China Electric Equipment Group Co., Ltd. and China Sunergy (Hong Kong) Co., Ltd. dated as of September 1, 2008
4.62	ADS Lending Agreement, dated June 25, 2008, among Credit Suisse Securities (Europe) Limited, Credit Suisse, London Branch, and the Registrant (incorporated by reference to Exhibit 99.1 of the Report of Foreign Private Issuer on Form 6-K filed by China Sunergy Co., Ltd. on July 2, 2008).
8.1	Subsidiaries of the Registrant (incorporated by reference to Exhibit 8.1 our Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 9, 2008).
11.1	Code of Business Conduct and Ethics of the Registrant (incorporated by reference to Exhibit 99.1 from Registration Statement on Form F-1 (file no. 333-142367) filed with the Securities and Exchange Commission on April 25, 2007).
12.1*	CEO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
12.2*	CFO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
13.1*	CEO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
13.2*	CFO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
15.1*	Consent of Conyers Dill & Pearman.
15.2*	Consent of Jun He Law Offices.
15.3*	Consent of Deloitte Touche Tohmatsu, Independent Registered Public Accounting Firm.

* Filed with this Annual Report on Form 20-F.

† Confidential treatment has been granted with respect to portions of this exhibit and such confidential treatment portions have been deleted and replaced with “*****” and filed separately with the Securities and Exchange Commission pursuant to Rule 406 under the Securities Act of 1933.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing its annual report on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

CHINA SUNERGY CO., LTD.

By /S/ RUENNSHENG ALLEN WANG

Name: Ruennsheng Allen Wang

Title: Chief Executive Officer

Date: June 26, 2009

CHINA SUNERGY CO., LTD.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of China Sunergy Co., Ltd.

We have audited the accompanying consolidated balance sheets of China Sunergy Co., Ltd. (the "Company") and subsidiaries (collectively referred to as the "Group") as of December 31, 2006, 2007 and 2008, and the related consolidated statements of operations, shareholders' equity and comprehensive income (loss), and cash flows for each of the three years in the period ended December 31, 2008 and the related financial statement schedule included in Schedule I. These financial statements and financial statement schedule are the responsibility of the Group's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of China Sunergy Co., Ltd. and subsidiaries as of December 31, 2006, 2007 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Group's internal control over financial reporting as of December 31, 2008, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated June 26, 2009 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE TOUCHE TOHMATSU CPA LTD.

Shanghai, China
June 26, 2009

CHINA SUNERGY CO., LTD.
CONSOLIDATED BALANCE SHEETS
(In U.S. dollars)

	December 31,		
	2006	2007	2008
	\$	\$	\$
ASSETS			
Current assets:			
Cash and cash equivalents	14,749,575	60,457,666	94,799,699
Restricted cash	4,952,473	23,473,400	62,399,835
Inventories, net	44,331,156	56,091,909	59,124,619
Accounts receivable, net of allowance for doubtful accounts of, \$nil, \$nil and \$349 in 2006, 2007 and 2008, respectively	43,048,151	26,817,355	8,905,979
Advances to suppliers, net of allowance for doubtful accounts of \$nil, \$1,109,602 and \$1,105,384 in 2006, 2007 and 2008, respectively	26,281,257	79,912,181	7,319,946
Amounts due from related parties	1,976,410	2,111,890	18,583,319
Current deferred tax assets	-	527,361	1,992,759
Prepaid expenses and other current assets	1,081,935	16,315,963	11,531,250
Total current assets	<u>136,420,957</u>	<u>265,707,725</u>	<u>264,657,406</u>
Prepayments for equipment	7,271,178	7,535,411	173,208
Property, plant and equipment, net	31,458,453	45,393,354	102,608,619
Prepaid land use rights	1,026,447	2,179,486	6,441,567
Non-current deferred tax assets	150,431	328,574	1,511,797
Restricted cash- Collateral account	-	-	17,502,450
Convertible bond issuance cost	-	-	3,450,859
Other long-term assets	-	-	1,378,659
TOTAL ASSETS	<u><u>176,327,466</u></u>	<u><u>321,144,550</u></u>	<u><u>397,724,565</u></u>

(Continued)

CHINA SUNERGY CO., LTD.
CONSOLIDATED BALANCE SHEETS
(In U.S. dollars)

	December 31,		
	2006	2007	2008
	\$	\$	\$
LIABILITIES, MEZZANINE EQUITY AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term bank borrowings	69,262,771	121,841,022	97,299,027
Current portion of long-term borrowings	8,673,886	-	-
Accounts payable- Trade	7,123,668	3,477,132	18,033,583
Accounts payable- non-Trade	4,721,828	3,679,981	11,065,565
Notes payable	-	-	14,631,434
Accrued expenses and other current liabilities	1,368,368	2,344,176	4,639,648
Advances from customers	949,915	4,892,450	706,055
Amounts due to related parties	3,742	8,214	246,465
Total current liabilities	92,104,178	136,242,975	146,621,777
Collateral account payable	-	-	17,502,450
Derivative liabilities	-	-	9,058,340
Convertible bond payable	-	-	48,098,364
Other liabilities	157,595	1,053,482	1,187,233
Total liabilities	92,261,773	137,296,457	222,468,164
Commitments and contingencies (Note 19)			
Minority Interest	-	-	299,020
Mezzanine equity:			
Series A redeemable convertible preferred shares (\$0.0001 par value; 12,847,300 shares authorized, 12,847,340, nil and nil shares issued and outstanding as of December 31, 2006 2007 and 2008, respectively)	13,227,862	-	-
Series B redeemable convertible preferred shares (\$0.0001 par value; 23,905,100 shares authorized, 23,905,100, nil and nil shares issued and outstanding as of December 31, 2006 2007 and 2008, respectively)	28,501,788	-	-
Series C redeemable convertible preferred shares (\$0.0001 par value; 6,901,000 shares authorized, 6,901,000, nil and nil shares issued and outstanding as of December 31, 2006 2007 and 2008, respectively)	20,056,093	-	-
Shareholders' equity:			
Ordinary shares (par value \$0.0001; 463,247,600 shares authorized, 104,544,000, 237,332,777 and 267,766,443 shares issued and outstanding as of December 31, 2006, 2007 and 2008, respectively)	10,454	23,733	26,777
Additional paid-in capital	20,144,945	178,361,461	182,070,348
Subscription receivable	-	-	(405,313)
Accumulated deficit	-	(4,854,650)	(27,792,246)
Accumulated other comprehensive income	2,124,551	10,317,549	21,057,815
Total shareholders' equity	22,279,950	183,848,093	174,957,381
TOTAL LIABILITIES, MEZZANINE EQUITY AND SHAREHOLDERS' EQUITY	176,327,466	321,144,550	397,724,565

The accompanying notes are an integral part of these consolidated financial statements.

CHINA SUNERGY CO., LTD.

CONSOLIDATED STATEMENTS OF OPERATIONS
(In U.S. dollars, except share data)

	Years ended December 31,		
	2006	2007	2008
	\$	\$	\$
Sales to third parties	144,692,707	224,315,485	295,919,243
Sales to related parties	4,828,237	10,592,416	55,000,718
Total revenues	149,520,944	234,907,901	350,919,961
Cost of sales to third parties	(118,597,234)	(206,032,155)	(284,311,888)
Cost of sales to related parties	(4,292,012)	(10,848,766)	(51,142,106)
Cost of revenues	(122,889,246)	(216,880,921)	(335,453,994)
Gross profit	26,631,698	18,026,980	15,465,967
Selling expenses	(1,014,442)	(1,644,234)	(3,866,300)
General and administrative expenses	(9,900,617)	(13,664,204)	(16,778,970)
Research and development expenses	(545,783)	(2,555,073)	(1,870,882)
Total operating expenses	(11,460,842)	(17,863,511)	(22,516,152)
Income (loss) from operations	15,170,856	163,469	(7,050,185)
Interest expense	(3,002,054)	(7,394,229)	(8,069,073)
Interest income	419,720	1,577,194	1,664,683
Changes in fair value of derivatives	-	-	(9,864,075)
Other (expense) income, net	(844,814)	93,412	(2,267,567)
Income (loss) before income taxes	11,743,708	(5,560,154)	(25,586,217)
Tax benefit	70,674	705,504	2,648,621
Net income (loss)	11,814,382	(4,854,650)	(22,937,596)
Dividend on Series A redeemable convertible preferred shares	(13,377,452)	(154,723)	-
Dividend on Series B redeemable convertible preferred shares	(28,551,788)	(330,229)	-
Dividend on Series C redeemable convertible preferred shares	(7,097,263)	(233,125)	-
Net loss attributable to holders of ordinary shares	(37,212,121)	(5,572,727)	(22,937,596)
Net loss per share:			
Basic	\$ (0.36)	\$ (0.04)	\$ (0.10)
Diluted	\$ (0.36)	\$ (0.04)	\$ (0.10)
Shares used in computation:			
Basic	103,583,178	185,165,757	238,079,890
Diluted	103,583,178	185,165,757	238,079,890

The accompany notes are an integral part of these consolidated financial statements.

CHINA SUNERGY CO., LTD.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
AND COMPREHENSIVE INCOME (LOSS)
(In U.S. dollars, except share data)

	Ordinary shares		Additional paid-in capital	Subscription receivable	Accumulated (deficit)	Accumulated other comprehensive income	Total	Comprehensive (loss) income
	Number	\$	\$	\$	\$	\$	\$	\$
Balance at January 1, 2006	-	-	9,450,000	(3,052,020)	(1,266,067)	108,024	5,239,937	
Reorganization								
Contribution from shareholders	-	-	-	2,512,020	-	-	2,512,020	
Excess of prorata distribution to shareholders	-	-	3,708,844	-	-	-	3,708,844	
Forgiveness of shareholder receivable	-	-	-	540,000	-	-	540,000	
Purchase and retirement of treasury shares	-	-	(2,701,792)	-	-	-	(2,701,792)	
Distribution on reorganization	-	-	-	(4,046,811)	-	-	(4,046,811)	
Issuance of ordinary shares	99,144,000	9,914	-	-	-	-	9,914	
Exercise of warrant	5,400,000	540	-	-	-	-	540	
Return of distribution on reorganization	-	-	-	4,046,811	-	-	4,046,811	
Series A beneficial conversion								
Feature	-	-	13,110,400	-	-	-	13,110,400	
Series B beneficial conversion								
Feature	-	-	27,999,948	-	-	-	27,999,948	
Series C beneficial conversion								
Feature	-	-	6,941,170	-	-	-	6,941,170	
Dividend on Series A redeemable convertible preferred shares	-	-	(2,829,137)	-	(10,548,315)	-	(13,377,452)	
Dividend on Series B redeemable convertible preferred shares	-	-	(28,551,788)	-	-	-	(28,551,788)	
Dividend on Series C redeemable convertible preferred shares	-	-	(7,097,263)	-	-	-	(7,097,263)	
Share-based compensation	-	-	114,563	-	-	-	114,563	
Net income	-	-	-	-	11,814,382	-	11,814,382	11,814,382
Foreign currency translation adjustments	-	-	-	-	-	2,016,527	2,016,527	2,016,527
Balance at December 31, 2006	104,544,000	10,454	20,144,945	-	-	2,124,551	22,279,950	13,830,909
Issuance of ordinary shares upon initial public offering net of issuance cost of \$11,616,804	58,650,000	5,865	95,902,331	-	-	-	95,908,196	
Dividend on Series A redeemable convertible preferred shares	-	-	(154,723)	-	-	-	(154,723)	
Dividend on Series B redeemable convertible preferred shares	-	-	(330,229)	-	-	-	(330,229)	
Dividend on Series C redeemable convertible preferred shares	-	-	(233,125)	-	-	-	(233,125)	
Conversion of Series A, B and C redeemable convertible preferred shares into ordinary shares	74,138,777	7,414	62,496,406	-	-	-	62,503,820	
Share-based compensation	-	-	535,856	-	-	-	535,856	
Net loss	-	-	-	-	(4,854,650)	-	(4,854,650)	(4,854,650)
Foreign currency translation adjustments	-	-	-	-	-	8,192,998	8,192,998	8,192,998
Balance at December 31, 2007	237,332,777	23,733	178,361,461	-	(4,854,650)	10,317,549	183,848,093	3,338,348
Issuance of restricted shares	3,476,086	348	3,128	-	-	-	3,476	
Exercise of share options	371,580	37	476,824	(405,313)	-	-	71,548	
Issuance of ordinary shares under share lending facility	26,586,000	2,659	(2,659)	-	-	-	-	
Share-based compensation	-	-	3,231,594	-	-	-	3,231,594	
Net loss	-	-	-	-	(22,937,596)	-	(22,937,596)	(22,937,596)
Foreign currency translation adjustments	-	-	-	-	-	10,740,266	10,740,266	10,740,266
Balance at December 31, 2008	267,766,443	26,777	182,070,348	(405,313)	(27,792,246)	21,057,815	174,957,381	(12,197,330)

The accompanying notes are an integral part of these consolidated financial statements.

CHINA SUNERGY CO., LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In U.S. dollars)

	Years ended December 31,		
	2006	2007	2008
	\$	\$	\$
Operating activities:			
Net loss attributable to holders of ordinary shares	(37,212,121)	(5,572,727)	(22,937,596)
Dividend on Series A redeemable convertible preferred shares	13,377,452	154,723	-
Dividend on Series B redeemable convertible preferred shares	28,551,788	330,229	-
Dividend on Series C redeemable convertible preferred shares	7,097,263	233,125	-
Net income (loss)	11,814,382	(4,854,650)	(22,937,596)
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:			
Depreciation and amortization	1,798,331	4,315,613	5,814,348
Bad debt provision (recoveries)	-	1,134,926	(76,384)
Inventory write-down	-	1,661,594	11,769,435
Share-based compensation	114,563	535,856	3,231,594
Forgiveness of shareholder receivable	540,000	-	-
Excess of prorata distribution to shareholders	3,708,844	-	-
Purchase and retirement of treasury shares	408,608	-	-
Loss from disposal of property, plant and equipment	61,677	54,397	78,563
Loss on changes in fair value of derivatives	-	-	9,864,075
Gain on repurchase of convertible notes	-	-	(4,525,625)
Amortization of convertible bonds issuance cost	-	-	886,715
Others	-	-	(173,658)
Changes in operating assets and liabilities:			
Inventories	(37,684,121)	(13,422,347)	(14,651,994)
Accounts receivable	(41,342,761)	16,230,796	17,911,376
Advances to suppliers	(8,872,960)	(54,740,526)	72,359,945
Prepaid expenses and other current assets	(801,077)	(15,259,352)	5,602,661
Amounts due from related parties	(1,925,286)	(135,480)	(1,805,017)
Accounts payable	5,495,031	(3,402,165)	13,827,681
Accrued expenses and other current liabilities	560,976	917,413	2,135,799
Accrued warranty costs	157,595	80,505	125,564
Advances from customers	(10,181,955)	3,942,535	(4,186,395)
Amount due to related parties	-	4,472	238,251
Deferred other income	-	815,382	254,854
Accrued interest expense	71,773	58,395	108,891
Income tax payable	-	-	(1,250,477)
Deferred tax assets	(70,674)	(705,504)	(2,648,621)
Net cash (used in) provided by operating activities	(76,147,054)	(62,768,140)	91,953,985
Investing activities:			
Purchases of property, plant and equipment	(23,143,893)	(15,568,560)	(44,080,514)
Proceeds from disposal of property, plant and equipment	2,505	110	5,661
Purchase of land use rights	(1,727,780)	(1,182,432)	(4,330,930)
Purchase of long-term assets	-	-	(936,817)
Proceeds from government grant	1,105,538	-	24,566
Change in restricted cash	17,006,193	(18,520,927)	(38,926,435)
Net cash used in investing activities	(6,757,437)	(35,271,809)	(88,244,469)

CHINA SUNERGY CO., LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In U.S. dollars)

	Years ended December 31,		
	2006	2007	2008
	\$	\$	\$
Financing activities:			
Proceeds from investor upon formation of the Company	13,110,400	-	-
Issuance cost of Series A redeemable convertible preference shares	(99,590)	-	-
Proceeds from issuance of Series B redeemable convertible preference shares	27,999,948	-	-
Proceeds from issuance of Series C redeemable convertible preference shares	20,000,000	-	-
Proceeds from issuance of ordinary shares	10,454	107,525,000	-
Issuance cost of ordinary shares	-	(11,616,804)	-
Proceeds from issuance of convertible senior notes	-	-	54,500,000
Issuance cost of convertible senior notes	-	-	(4,337,573)
Payment of convertible senior notes repurchase	-	-	(1,974,375)
Proceeds received from exercise of options	-	-	71,548
Cash contributions received from shareholders	2,512,020	-	-
Cash contributions received from minority shareholder	-	-	299,020
Distribution on reorganisation	(4,046,811)	-	-
Return of distribution on reorganisation	4,046,811	-	-
Purchase and retirement of treasury share	(3,110,400)	-	-
Amounts due from related parties	14,053,159	-	-
Amounts due to related parties	(28,433,126)	-	-
Proceeds from short-term bank borrowings	80,087,689	168,006,462	142,450,312
Repayment of bank borrowings	(34,007,393)	(128,882,001)	(175,109,760)
Net cash provided by financing activities	92,123,161	135,032,657	15,899,172
Effect of exchange rate changes on cash and cash equivalents	2,765,518	8,715,383	14,733,345
Net increase in cash and cash equivalents	11,984,188	45,708,091	34,342,033
Cash and cash equivalents at the beginning of the year	2,765,387	14,749,575	60,457,666
Cash and cash equivalents at the end of the year	14,749,575	60,457,666	94,799,699
Supplemental disclosure of cash flow information:			
Interest paid	3,002,054	7,210,061	7,083,994
Income taxes paid	-	-	1,250,477
Supplemental disclosure of non-cash investing activities:			
Purchase of property, plant and equipment included in accounts payable	4,721,828	1,286,218	8,114,354
Supplemental disclosure of non-cash financing activities:			
Exchange of investor contribution for Series A redeemable convertible preference shares	13,010,810	-	-
Redeemable convertible preference shares issuance costs included in accrued expenses and other current liabilities	200,000	-	-

The accompanying notes are an integral part of the consolidated financial statements.

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

China Sunergy Co., Ltd. (the “Company”) was incorporated under the laws of the Cayman Islands on August 4, 2006.

The Company entered into an agreement with the equity owners of China Sunergy Co., Ltd., a company incorporated under the laws of the British Virgin Islands, (“China Sunergy BVI”) to initiate a restructuring process, whereby the Company acquired a 100% interest in China Sunergy BVI. The restructuring process was completed on August 30, 2006. This transaction has been accounted for as a legal reorganization as there was no change in the ownership structure between the Company and China Sunergy BVI.

On April 26, 2006, China Sunergy BVI issued 1,045,440 warrants on a pro rata basis to the shareholders, or their assignees, that owned 100% of China Sunergy (Nanjing) Co., Ltd. (“Sunergy Nanjing”) in exchange for their equity interests (see Note 10). This transaction has been accounted for as a legal reorganization with all shares and per share data being restated to give retroactive effect to this transaction. Of the 1,045,440 warrants, 991,440 warrants were exercised immediately into ordinary shares, and the remaining 54,000 warrants were exercised in August 2006.

In April 2007, the Company effected a 100-for-one share split, as a result of which each of the ordinary share, Series A preferred share, Series B preferred share and Series C preferred share was subdivided into 100 ordinary shares, 100 Series A preferred shares, 100 Series B preferred shares and 100 Series C preferred shares, respectively. This share split has been retroactively reflected for all periods presented.

On December 7, 2007, China Sunergy Hong Kong Co., Ltd. (“Sunergy Hong Kong”) was incorporated in Hong Kong under China Sunergy BVI. In the same month, China Sunergy BVI swapped all of the equity interests in Sunergy Nanjing to Sunergy Hong Kong, who became Sunergy Nanjing’s direct holding company.

The Company and its subsidiaries (collectively referred to as the “Group”) are principally engaged in the design, development, manufacturing and marketing of solar cells in the People’s Republic of China (the “PRC”) and overseas markets. During the periods covered by the consolidated financial statements, substantially all of the Group’s business was conducted through Sunergy Nanjing.

As of December 31, 2008, the Company’s subsidiaries include the following entities:

Subsidiaries' Name	Principal Activities	Date of Incorporation	Percentage of Ownership	Place of Incorporation
China Sunergy Co., Ltd.	Investment Holding	January 27, 2006	100%	British Virgin Islands
China Sunergy (Hong Kong) Co., Limited	Investment Holding	December 7, 2007	100%	Hong Kong
China Sunergy Europe GmbH	Marketing Service	November 27, 2007	100%	Germany
China Sunergy (Nanjing) Co., Ltd. (previously named as CEEG (Nanjing) PV-Tech Co., Ltd)	Solar cells manufacturing	August 2, 2004	100%	PRC
China Sunergy (Shanghai) Co., Ltd. (previously named as CEEG (Shanghai) PV-Tech Co., Ltd)	Solar cells manufacturing	November 1, 2007	95% (Note)	PRC

Note: China Sunergy (Shanghai) Co. Ltd. does not commence operation as of December 31, 2008.

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

(a) Basis of presentation

The consolidated financial statements of the Group have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

(b) Basis of consolidation

The consolidated financial statements include the assets, liabilities, revenues and expenses of the Group. All significant intercompany transactions and balances have been eliminated on consolidation.

(c) Use of estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates. The Group bases its estimates on historical experience and various other factors believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Significant accounting estimates reflected in the consolidated financial statements include inventory valuation, purchase commitment, allowance on accounts receivable and supplier advances, provision of warranty costs, assumptions used in embedded derivative evaluation of long-term purchase contract, forfeiture rate of options, capitalized interest and the useful lives of and impairment for property, plant and equipment, prepaid land use rights and other long-term assets.

(d) Cash and cash equivalents and restricted cash

Cash and cash equivalents consist of cash on hand and demand deposits, which are unrestricted as to withdrawal and use, and which have original maturities of three months or less.

Restricted cash represents bank deposits for securing letter of credit, bank promissory note and bank guarantee that are not available for use in operations.

(e) Fair value of financial instruments

The Group's financial instruments consist of cash and cash equivalents, restricted cash, accounts receivable, certain amounts due from related parties, short-term borrowings, accounts payable, notes payable, convertible senior notes and derivative liabilities. For cash and cash equivalents, restricted cash, accounts receivable, certain amounts due from related parties, short-term borrowings, accounts payable, notes payable, the carrying amounts of these financial instruments as of December 31, 2007 and 2008 were considered representative of their fair values due to their short terms in nature. For convertible senior notes, the fair value is measured based on observable market quotes. For fair value of derivative instruments, the Group uses the observable rates or when observable rates are not readily available, uses discounted cash flow technique involving management's estimation. Refer to Note 8 for fair value measurement.

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES - continued

(f) Inventories

Inventories are stated at the lower of cost or market value. Cost is determined using the weighted-average method.

The Group estimates excess and slow moving inventory based upon assumptions of future demands and market conditions. If actual market conditions are less favorable than projected by management, additional inventory write-downs may be required.

The Group outsourced portions of its manufacturing process, including transforming polysilicon to ingots, cutting ingots into wafers, and assembling cells into modules. These outsourcing arrangements do not include transfer of title of the inventory (silicon, ingots or cells) to the outside manufacturers. Such polysilicon and ingots are recorded as raw material inventory when purchased from suppliers and while in the possession of the outsourced manufacturers. Upon receipt of the processed polysilicon, ingots and cells, it is recorded as raw material and finished goods respectively, and the processing fee is paid to the manufacturers and capitalized as cost of inventory.

(g) Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated depreciation and amortization. Depreciation and amortization are provided on a straight-line basis over the following estimated useful lives:

Buildings	20 years
Machinery	10 years
Furniture, fixtures and equipment	5 years
Motor vehicles	5 years

Costs incurred in constructing new facilities, including progress payments and other costs related to construction, are capitalized and transferred to property, plant and equipment on completion, at which time depreciation commences. Interest cost incurred and capitalized in respect of construction of new facilities amounted to \$nil, \$nil and \$2,492,328 for the years ended December 31, 2006, 2007 and 2008, respectively.

(h) Prepaid land use rights

Prepaid land use rights are recorded at cost less accumulated amortization. Amortization is provided on a straight-line basis over 50 years based on the terms of the land use right agreements.

(i) Impairment of long-lived assets

The Group evaluates its long-lived assets and finite lived intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When these events occur, the Group measures 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 flows is less than the carrying amount of the assets, the Group would recognize an impairment loss equal to the excess of the carrying amount over the fair value of the assets.

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES - continued

(j) Derivative financial instruments

The Group entered into certain foreign exchange forward contracts to protect against volatility of future cash flows caused by the changes in foreign exchange rates associated with sales contracts denominated in Euro or U.S. dollar. The Group also has a supply agreement containing embedded foreign currency derivative. The Group accounts for the forward contracts as well as the embedded derivative pursuant to SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), as amended and interpreted, and recognizes all derivative instruments as either assets or liabilities at fair value in the consolidated balance sheets. The derivatives do not qualify for hedge accounting and, as a result, the changes in fair value of the derivatives are recognized in the statement of operations.

(k) 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 carryforwards and credits by applying enacted statutory tax rates applicable to future years. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. 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, or the expected timing of their use when they do not relate to a specific asset or liability.

(l) Revenue recognition

Sales of solar cells and modules are recorded when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectability is reasonably assured. Customers do not have any rights of return. A portion of the Group's sales to domestic customers require the customers to prepay before delivery has occurred. Such prepayments are recorded as advances from customers in the consolidated balance sheets until delivery has occurred. A majority of the Group's contracts with overseas customers are written such that the customer takes title and assumes the risks and rewards of ownership of the products upon shipment. Accordingly, the Group recognizes revenue upon documentary evidence of shipment, assuming all other criteria have been met.

(m) Buy-and-sell arrangements

The Group has buy-and-sell arrangement with certain raw material vendors wherein the Group sells finished goods, comprised of solar cells, and acquires raw materials in the form of silicon wafers. These arrangements are with counterparties in the same line of business as the Group and are executed as a means of securing a consistent supply of silicon wafer raw materials. The Group records such transactions at fair value.

During the years ended December 31, 2006, 2007 and 2008, the Group purchased \$35,538,653, \$15,173,393 and \$1,504,018 of raw materials and sold \$47,157,841, \$10,517,112 and \$1,529,131 of finished goods, respectively, under these buy-and-sell arrangements.

(n) Cost of revenue

Cost of revenue includes production and indirect costs, as well as shipping and handling costs for products sold and warranty costs.

(o) Research and development

Research and development costs are expensed when incurred.

(p) Advertising expenses

Advertising expenses are charged to the statements of operations in the period incurred. The Group incurred advertising expenses amounting to \$231,514, \$363,237 and \$495,162 for the years ended December 31, 2006, 2007 and 2008, respectively.

(q) Warranty cost

For solar cells, the Group warrants its products against specified declines in the initial minimum power generation capacity for up to 20 years after sales have taken place. The Group has the right to repair or replace the solar cells based on the specific nature of the defect claims under the terms of the warranty policy. The Group maintains warranty reserves to cover potential liabilities that could arise under these warranties. Due to limited warranty claims to date, the Group accrues the estimated costs of warranties at 0.5% of solar cell sales. Since the beginning of 2007, however, the Group has aborted such warranty terms in solar cell sales contracts signed in 2007.

Beginning in 2007, the Group began selling modules. Generally, the warranty is for a period of between 20 to 25 years and covers the modules sold by the Group. The Group estimates and accrues the costs of warranties at 1% of module sales.

Due to very limited claims occurred to date, the warranty provisions for cells and modules are mainly based on an assessment competitors' accrual history and industry practice. Actual warranty costs are accumulated and charged against the accrued warranty liability. To the extent that accrual warranty costs differ from the estimates, the Group will prospectively revise its accrual rate.

(r) Government grants

Government grants are recognized when received and all the conditions for their receipt have been met. Government grants are recognized as income in the period in which the related expenditures are recorded. Capital grants for the acquisition of equipment are recorded as a liability until earned and then offset against the related capital assets.

(s) Foreign currency translation

The functional and reporting currency of the Company is the United States dollar ("US dollar"). Monetary assets and liabilities denominated in other currencies other than the US dollar are translated into US dollar at the rates of exchange in effect at the balance sheet dates. Transactions dominated in currencies other than the US dollar during the year are converted into US dollar at the applicable rates of exchange prevailing when the transactions occur. Transaction gains and losses are recorded in the statements of operations.

The financial records of the Group's subsidiaries are maintained in their local currencies. Assets and liabilities are translated at the exchange rates at the balance sheet date, equity accounts are translated at historical exchange rates and revenue, expenses, gains and losses are translated at the average rate for the period. Translation adjustments are reported as cumulative translation adjustments and are shown as a separate component of other comprehensive income in the statements of shareholders' equity.

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES - continued

(t) Comprehensive income (loss)

Comprehensive income (loss) includes all changes in equity except those resulting from investments by owners and distributions to owners and is comprised of net income (loss) and foreign currency translation adjustments.

(u) Foreign currency risk

The functional currency of the Group's subsidiaries which operate in the PRC is Renminbi ("RMB"). The RMB is not a freely convertible currency. The PRC State Administration for Foreign Exchange, under the authority of the People's Bank of China, controls the conversion of RMB into foreign currencies. The value of the RMB is subject to changes in central government policies and to international economic and political developments affecting supply and demand in the China foreign exchange trading system market. The Group's aggregate amount of cash and cash equivalents and restricted cash denominated in RMB amounted to \$5,420,911, \$41,036,439 and \$113,448,504 at December 31, 2006, 2007 and 2008, respectively.

(v) Concentration of credit risk

Financial instruments that potentially expose the Group to significant concentrations of credit risk consist principally of cash and cash equivalents, accounts receivable and advance to suppliers. The Group places its cash and cash equivalents with financial institutions with high-credit ratings and quality.

The Group performs ongoing credit evaluations of customers and suppliers and generally does not require collateral or other security from its customers. The Group establishes an allowance for doubtful accounts primarily based upon the age of the receivables and advances and factors surrounding the credit risk of specific customers and suppliers.

The Group recognized bad debt provision of \$nil and \$1,134,926 for the year ended December 31, 2006, 2007, and reversed \$76,384 for the year ended December 31, 2008 related to a provision against an advance to a supplier which was recovered.

(w) Net loss per share

Basic loss per share is computed by dividing loss attributable to holders of ordinary shares by the weighted-average number of ordinary shares outstanding during the year. Diluted loss per ordinary share reflects the potential dilution that could occur if securities or other contracts to issue ordinary shares were exercised or converted into ordinary shares. Generally, ordinary share equivalents are excluded from the computation in loss periods as their effects would be anti-dilutive.

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES - continued

(w) Net loss per share - continued

For the year ended December 31, 2006, the series A, series B and series C redeemable convertible preference shares of 12,847,300, 23,905,100 and 6,901,000, respectively, as well as 54,000 warrants and 1,467,200 share options were excluded from the calculation of dilutive EPS as their effects would have been anti-dilutive. For the year ended December 31, 2007 and 2008, 1,586,900 share options and 2,317,391 non-vested restricted shares were excluded from the calculation of dilutive EPS as their effects would have been anti-dilutive.

The terms of the series A, series B and series C preferred share subscription agreements allow for the preferred shareholders to participate equally with the common shareholders with regards to any dividends declared and payable, after the payment of preferred shares dividends. The subscription agreements do not require the preferred shareholders to participate in losses of the Company. Accordingly, the Company presents earnings per share using the two-class method when the operations of the company result in earnings, and not losses, for any given period.

Upon the consummation of the Group's initial public offering on May 22, 2007, the series A, series B and series C redeemable convertible preference shares were automatically converted into ordinary shares. The two class method of computing earnings per share ceased to apply on the conversion date.

The call option on the Loaned Shares (see Note 9) has been excluded in the computation of basic EPS as the Company has concluded that the Loaned Shares are not regarded as issued for accounting purposes as existing shareholders are not expected to be impacted by the issuance due to (a) the existence of the collateral arrangement and (b) the requirement that the holders of the Loaned Shares return any dividends received. The call option on the Loaned Shares would be considered in the computation of diluted EPS using the treasury stock method with the fair value of the collateral representing the assumed proceeds for the issuance of the underlying shares. For the year ended December 31, 2008, there were no incremental shares included in the diluted EPS computation as the effect would be anti-dilutive.

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES - continued

(w) Net loss per share - continued

The following table sets forth the computation of basic and diluted income per share for the periods indicated:

	Years ended December 31,		
	2006	2007	2008
	\$	\$	\$
Net loss attributable to ordinary shareholders-basic and diluted	\$ (37,212,121)	\$ (5,572,727)	\$ (22,937,596)
Allocation of undistributed earnings to preferred shares for participating rights to dividends *	\$ -	\$ 950,009	\$ -
Net loss attributable to ordinary shareholders	\$ (37,212,121)	\$ (6,522,736)	\$ (22,937,596)
Weighted-average ordinary shares outstanding-basic	103,583,178	185,165,757	238,079,890
Weighted-average ordinary shares outstanding-diluted	103,583,178	185,165,757	238,079,890
Net loss per share:			
Basic	\$ (0.36)	\$ (0.04)	\$ (0.10)
Diluted	\$ (0.36)	\$ (0.04)	\$ (0.10)

* Reflects the allocation of net income of \$1,826,535 for the period from January 1, 2007 to May 22, 2007, the date on which the preference shares were converted into ordinary shares.

(x) Share-based compensation

The Group adopted SFAS No. 123(R), "Share-Based Payment" (SFAS 123R), effective January 1, 2006 using the modified prospective basis in accounting for stock based compensation. The Group recognizes the services received in exchange for awards of equity instruments based on the grant-date fair value of the award as determined by the Binomial option pricing model, net of estimated forfeitures. The estimated compensation cost is recognized using straight line method over the period the grantor is required to provide services per the conditions of the award. See Note 17, "Share Based Compensation", for further details.

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES - continued

(y) Recently issued accounting pronouncements

In December 2007, the FASB issued SFAS No. 141, "Business Combinations: (Revised 2007)" ("SFAS 141R"). SFAS 141R is relevant to all transactions or events in which one entity obtains control over one or more other businesses. SFAS 141R requires an acquirer to recognize any assets and non-controlling interest acquired and liabilities assumed to be measured at fair value as of the acquisition date. Liabilities related to contingent consideration are recognized and measured at fair value on the date of acquisition rather than at a later date when the amount of the consideration may be resolved beyond a reasonable doubt. This revised approach replaces SFAS 141, "Business Combinations" ("SFAS 141") cost allocation process in which the cost of an acquisition was allocated to the individual assets acquired and liabilities assumed based on their respective fair value. SFAS 141R requires any acquisition-related costs and restructuring costs to be expensed as incurred as opposed to allocating such costs to the assets acquired and liabilities assumed as previously required by SFAS 141. Under SFAS 141R, an acquirer recognizes liabilities for a restructuring plan in purchase accounting only if the requirements of SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities", are met. SFAS 141R allows for the recognition of pre-acquisition contingencies at fair value only if these contingencies are likely to materialize. If this criterion is not met at the acquisition date, then the acquirer accounts for the non-contractual contingency in accordance with recognition criteria set forth under SFAS No. 5, "Accounting for Contingencies", in which case no amount should be recognized in purchase accounting. SFAS 141R is effective as of the beginning of an entity's first fiscal year that begins 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 FAS 141R. An entity may not apply it before that date. The adoption of FAS 141R will change the Group's accounting treatment for business combinations on a prospective basis beginning on January 1, 2009.

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES - continued

(y) Recently issued accounting pronouncements - continued

In December 2007, the FASB released FAS No. 160, "Non-controlling Interests in Consolidated Financial Statements an amendment of ARB No. 51" ("FAS 160"). FAS 160 applies to all entities that prepare consolidated financial statements, except not-for-profit organizations, but will affect only those entities that have an outstanding non-controlling interest in one or more subsidiaries or that deconsolidate a subsidiary. FAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008 (that is, January 1, 2009, for entities with calendar year-ends). Earlier adoption is prohibited. The Group does not expect that the adoption of FAS 160 will have an impact on the consolidated financial statements.

In February 2008, the FASB issued FASB Staff Position No. SFAS 157-2, "Effective Date of FASB Statement No. 157" ("FSP FAS 157-2"). FSP FAS 157-2 defers the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), to fiscal years, and interim periods within those fiscal years, beginning after November 15, 2008. The Group does not expect a material impact on its consolidated financial statements.

In March 2008, the FASB issued FAS No. 161, "Disclosures About Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133" ("FAS 161"). 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. FAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. FAS 161 does not change the accounting treatment for derivative instruments but will impact the Group's disclosures related to derivative instruments and hedging activities effective January 1, 2009.

In April 2008, the FASB issued FASB Staff Position No. 142-3, "Determining the Useful Life of Intangible Assets" ("FSP 142-3"). FSP 142-3 amends the factors to be considered in determining the useful life of intangible assets. Its intent is to improve the consistency between the useful life of an intangible asset and the period of expected cash flows used to measure such asset's fair value. FSP 142-3 is effective for fiscal years beginning after December 15, 2008. The Group does not expect that the adoption of FSP 142-3 will have a material impact on the consolidated financial statements.

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES - continued

(y) Recently issued accounting pronouncements - continued

At its June 25, 2008 meeting, the FASB ratified the consensus reached in EITF Issue No. 07-5, "Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock" ("EITF 07-5"). EITF 07-5 is effective for fiscal years and interim periods beginning after December 15, 2008. This Issue's "fixed-for-fixed, plus fair value inputs" model is largely consistent with current interpretations of the phrase "indexed to an entity's own stock." However, in certain circumstances, Issue 07-5 may result in changes to those accounting conclusions and may have impact on issuers of equity-linked financial instruments (e.g., options or forward contracts) or instruments containing embedded features (e.g., embedded conversion options in a convertible instrument) that have (1) exercise or settlement contingency provisions, (2) a strike price that is subject to adjustment, or (3) a strike price that is denominated in a currency other than the entity's functional currency. The Group does not expect that the adoption of EITF 07-5 will have a material impact on the consolidated financial statements.

In October 2008, the FASB issued FSP FAS 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active" ("FSP 157-3"). FSP 157-3 clarifies the application of SFAS 157 in a market that is not active, and addresses application issues such as the use of internal assumptions when relevant observable data does not exist, the use of observable market information when the market is not active, and the use of market quotes when assessing the relevance of observable and unobservable data. FSP 157-3 is effective for all periods presented in accordance with FAS 157. The Group does not expect the adoption of FSP 157-3 to have a material impact on its consolidated financial statements or the fair values of its financial assets and liabilities.

In November 2008, the FASB ratified the Emerging Issues Task Force (EITF) Issue 08-7, "Accounting for Defensive Intangible Assets." A defensive intangible asset is an asset acquired in a business combination or in an asset acquisition that an entity does not intend to actively use. According to the guidance, defensive intangible assets are considered to be a separate unit of account and valued based on their highest and best use from the perspective of an external market participant. EITF 08-7 is effective January 1, 2009. The adoption of this EITF issue is not expected to have an impact on the Consolidated Financial Statements.

On April 9, 2009, the FASB issued three Staff Positions ("FSPs"): (1) FSP FAS 157-4, which provides guidance on determining fair value when market activity has decreased; (2) FSP FAS 115-2 and FAS 124-2, which addresses other-than-temporary impairments for debt securities; and (3) FSP FAS 107-1 and APB 28-1, which discusses fair value disclosures for financial instruments in interim periods. These FSPs are effective for interim and annual periods ending after June 15, 2009, with early adoption permitted. The Group is currently evaluating the impact, if any, of these FSPs on its consolidated financial statements.

In May 2009, the FASB issued Statement No. 165, Subsequent Events. This statement establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. An entity should apply the requirements of this statement to interim or annual financial period ending after June 15, 2009. The Group is currently evaluating the impact on its consolidated financial statements.

On June 12, 2009, the Financial Accounting Standards Board (FASB) issued FASB Statements No. 166, Accounting for Transfers of Financial Assets. Statement 166 is a revision to FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, and will require more information about transfers of financial assets, including securitization transactions, and where entities have continuing exposure to the risks related to transferred financial assets. It eliminates the concept of a “qualifying special-purpose entity,” changes the requirements for derecognizing financial assets, and requires additional disclosures. Statement 166 enhances information reported to users of financial statements by providing greater transparency about transfers of financial assets and an entity’s continuing involvement in transferred financial assets. Statements 166 will be effective at the start of a reporting entity’s first fiscal year beginning after November 15, 2009, or January 1, 2010, for a calendar year-end entity. The Group is currently evaluating the impact on its consolidated financial statements.

On June 12, 2009, the Financial Accounting Standards Board (FASB) also issued FASB Statements No. 167, Amendments to FASB Interpretation No. 46(R). Statement 167 is a revision to FASB Interpretation No. 46 (Revised December 2003), Consolidation of Variable Interest Entities, and changes how a reporting entity determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a reporting entity is required to consolidate another entity is based on, among other things, the other entity’s purpose and design and the reporting entity’s ability to direct the activities of the other entity that most significantly impact the other entity’s economic performance. Statement 167 will require a reporting entity to provide additional disclosures about its involvement with variable interest entities and any significant changes in risk exposure due to that involvement. A reporting entity will be required to disclose how its involvement with a variable interest entity affects the reporting entity’s financial statements. Statements 167 will be effective at the start of a reporting entity’s first fiscal year beginning after November 15, 2009, or January 1, 2010, for a calendar year-end entity. The Group is currently evaluating the impact on its consolidated financial statements.

3. INVENTORIES, NET

Inventories consist of the following:

	At December 31,		
	2006	2007	2008
	\$	\$	\$
Raw materials	37,579,053	33,659,206	36,475,120
Work-in-process	472,173	117,437	3,829
Finished goods	6,279,930	22,315,266	22,645,670
Inventories	<u>44,331,156</u>	<u>56,091,909</u>	<u>59,124,619</u>

The Group recorded lower of cost or market provisions for inventories of \$nil, \$1,661,594 and \$11,769,435 during the years ended December 31, 2006, 2007 and 2008 respectively.

4. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net consist of the following:

	At December 31,		
	2006	2007	2008
	\$	\$	\$
Buildings	6,434,679	6,779,011	12,458,528
Plant and machinery	33,046,676	40,871,028	62,532,676
Furniture, fixtures and equipment	889,649	1,881,422	2,988,805
Motor vehicles	212,359	393,571	421,070
	<u>40,583,363</u>	<u>49,925,032</u>	<u>78,401,079</u>
Less: Accumulated depreciation	<u>(2,108,022)</u>	<u>(6,622,316)</u>	<u>(12,817,495)</u>
	<u>38,475,341</u>	<u>43,302,716</u>	<u>65,583,584</u>
Construction in process	254,290	9,626,049	37,025,035
Property, plant and equipment, net	<u>38,729,631</u>	<u>52,928,765</u>	<u>102,608,619</u>

Depreciation expense was \$1,773,603, \$4,286,220 and \$5,695,363 for the years ended December 31, 2006, 2007 and 2008, respectively.

The construction in process primarily relates to the construction of four selective emitter solar cell production lines.

5. PREPAID LAND USE RIGHTS, NET

Amortized prepaid land use rights, net consist of the following:

	At December 31,		
	2006	2007	2008
	\$	\$	\$
Cost	1,074,093	2,256,525	6,587,430
Less: Accumulated amortization	(47,646)	(77,039)	(145,863)
Prepaid land use rights, net	<u>1,026,447</u>	<u>2,179,486</u>	<u>6,441,567</u>

The prepaid land use rights at December 31, 2006 represent rights to usage of land in the PRC for a period of 50 years, effective from November 12, 2004. Sunergy Nanjing paid \$483,296 in 2004 and \$1,727,780 in 2006, in respect of the rights, and subsequently received a government grant of \$1,105,538 in 2006 as an incentive for local capital investment. The Group has presented the cost of the rights paid, net of the grants received.

In addition, Sunergy Nanjing purchased a right to use a parcel of land, approximately 26,000 square meters, from a related party, China Electric Equipment Group Co., Ltd, or CEEG, in August 2007, at a consideration approximately \$1.2 million. The land use right represents rights to usage of land in the PRC for a period of 46 years, effective from August 21, 2007.

In 2008, Sunergy Shanghai purchased a right to use a parcel of land, approximately 100,000 square meters at a consideration approximately \$4.3 million. The land use right represents rights to usage of land in the PRC for a period about 50 years.

Amortization expense was \$24,728, \$29,393 and \$68,824 for the year ended December 31, 2006, 2007 and 2008.

For 2009, 2010, 2011, 2012 and 2013, the Group will record annual amortization expense of approximately \$134,564.

6. BANK BORROWINGS

	At December 31,		
	2006	2007	2008
	\$	\$	\$
Short-term bank borrowings	69,262,771	121,841,022	97,299,027
Current portion of long-term borrowings	8,673,886	-	-
Total	<u>77,936,657</u>	<u>121,841,022</u>	<u>97,299,027</u>

The short-term bank borrowings outstanding as of December 31, 2006, 2007 and 2008 bore an average interest rate of 5.93%, 6.27% and 7.42% per annum, respectively. These loans represent borrowings of Sunergy Nanjing from various financial institutions and represent the maximum amount available under each facility. Each of these borrowings has a term of one year, and expires at various times throughout the year.

6. BANK BORROWINGS - continued

On October 31, 2005, Sunergy Nanjing entered into an unsecured loan agreement with Bank of Communications for an amount of \$2,524,583, due in October 2007. The loan is subject to interest at a rate of 6.34% per annum.

At December 31, 2007, approximately \$28.7 million and \$16.4 million of the short-term bank borrowings are secured by raw materials and a standby letter of credit from an off-shore bank, respectively. The remaining short-term borrowings are guaranteed by China Electric Equipment Group Co., Ltd., which is a related party, and Wuxi Guofei Green Energy Co., Ltd.

At December 31, 2008, approximately \$72.4 million of the short-term bank borrowings are guaranteed by China Electric Equipment Group Co., Ltd. and Jiangsu CEEG Electrical Equipment Manufacturing Co., Ltd., which are related parties. Approximately \$16.1 million of the short-term bank borrowings are secured by raw materials and chairman Mr. Tingxiou Lu, and \$8.8 million of the short-term bank borrowings are secured by a standby letter of credit issued by Sunergy Hong Kong from off-shore account, respectively.

Sunergy Nanjing has a short-term credit facility with China Merchants Bank. The credit facility is restricted for operating activities. The maximum borrowing amount of the credit facility is \$8.8 million (RMB60 million), all of which was drawn on November 11, 2008. The credit facility bears an interest rate of 5.73% per annum. The credit facility does not contain any financial covenants or restrictions. The credit facility will expire at May 4, 2009.

Sunergy Nanjing also has the short-term credit facilities with China CITIC Bank and China Minsheng Bank. The maximum borrowing amount of the credit facility is \$21.9 million (RMB150 million) and \$14.6 million (RMB100million) respectively for China CITIC Bank and China Minsheng Bank, all of which \$7.3 million (RMB50 million) and \$7.3 million (RMB50 million) were drawn on January 9, 2008 and May 16, 2008 with an interest rate of 5.86% and 7.32% per annum respectively. Those credit facilities do not contain any financial covenants or restrictions. The credit facilities will expire at January 9, 2009 and May 16, 2009 respectively.

7. DERIVATIVES FINANCIAL INSTRUMENTS

During 2008, the Group entered into a long-term silicon supply contract that the purchase price of the silicon to be acquired was denominated in U.S. dollars, which is not the functional currency of either of the contracting parties. Accordingly, the contract contains an embedded foreign currency forward contract, which is required to be bifurcated and accounted for at fair value in accordance with the provisions of FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities." Changes in fair value are recorded in the consolidated statements of operations.

As of December 31, 2008, the fair value of embedded foreign currency derivatives related to the purchase contract amounted to \$7,603,956 and are recorded as derivative liability. The loss arising from the embedded foreign currency derivative instruments amounted to \$7,611,513 for the year ended December 31, 2008 has been recorded as "Change in fair value of derivatives" in the consolidated statements of operations.

The Group recorded foreign-currency forward exchange loss not under hedge accounting in earnings for the years ended December 31, 2008 at \$2.3 million, with \$0.8 million realized loss and \$1.5 million unrealized. The unrealized loss would be realized at exercise date. As of December 31, 2008, the Group had outstanding foreign exchange hedge contracts with notional amount of \$ 46.6 million and estimated fair value of \$1.5 million.

8. FAIR VALUE MEASUREMENT

On January 1, 2008, the Group adopted FAS 157, Fair Value Measurements. FAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands financial statement disclosure requirements for fair value measurements. The Group's adoption of FAS 157 was limited to its financial assets and financial liabilities, as permitted by FSP 157-2. The Group does not have any nonfinancial assets or nonfinancial liabilities that it recognizes or discloses at fair value in its financial statements on a recurring basis. The implementation of the fair value measurement guidance of FAS 157 did not result in any material changes to the carrying values of the Group's financial instruments on its opening balance sheet on January 1, 2008.

FAS 157 defines fair value as the price that would be received from the sale of an asset or paid to transfer a liability (an exit price) on the measurement date in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. FAS 157 specifies a hierarchy of valuation techniques, which is based on whether the inputs into the valuation technique are observable or unobservable. The hierarchy is as follows:

- Level 1 — Valuation techniques in which all significant inputs are unadjusted quoted prices from active markets for assets or liabilities that are identical to the assets or liabilities being measured.
- Level 2 — Valuation techniques in which significant inputs include quoted prices from active markets for assets or liabilities that are similar to the assets or liabilities being measured and/or quoted prices for assets or liabilities that are identical or similar to the assets or liabilities being measured from markets that are not active. Also, model-derived valuations in which all significant inputs and significant value drivers are observable in active markets are Level 2 valuation techniques.
- Level 3 — Valuation techniques in which one or more significant inputs or significant value drivers are unobservable. Unobservable inputs are valuation technique inputs that reflect the Group's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

When available, the Group uses quoted market prices to determine the fair value of an asset or liability. If quoted market prices are not available, the Group measures fair value using valuation techniques that use, when possible, current market-based or independently-sourced market parameters, such as interest rates and currency rates.

As of December 31, 2008, information about inputs into the fair value measurements of the Group's assets and liabilities that are measured at fair value on a recurring basis in periods subsequent to their initial recognition is as follows:

FAIR VALUE MEASUREMENT - continued

	Total Fair Value and Carrying Value on the Balance Sheet	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Liabilities:				
Foreign exchange forward contract	\$ 1,454,383		\$ 1,454,383	—
Embedded derivatives for long-term purchase contract	\$ 7,603,956			\$ 7,603,956
Total liabilities	\$ 9,058,340		\$ 1,454,383	\$ 7,603,956
		Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
		Embedded Derivative for Long-term Purchase Contract		
Beginning balance				
Total gains and losses (realized/unrealized)				
Included in earnings (or change in net assets)			\$	7,603,956
Included in other comprehensive income				
Purchases, issuances, and settlements				
Transfers in and/or out of Level 3				
Ending balance			\$	7,603,956
The amount of total gains or losses for the period included in earnings (or changes in net assets) attributable to the change in unrealized gains or losses relating to assets still held at the reporting date			\$	7,603,956

8. FAIR VALUE MEASUREMENT - continued

The foreign exchange forward contract and embedded derivatives for long-term purchase contract were recorded under "Derivative liability" in the consolidated financial statements as of December 31, 2008. The changes in the fair value of those derivatives were charged into "Changes in fair value of derivatives" in the consolidated statements of operations. There was no any derivative during the year ended December 31, 2006 and 2007.

The following is a description of the fair value techniques used for instruments measured at fair value under SFAS 157 as well as the general classification of such instruments pursuant to the valuation hierarchy described above under SFAS 157.

Foreign Exchange Forward Contract: Quoted prices in active markets for identical assets are not available. The term of the forward contracts held by Sunergy Nanjing is less than one year. Main inputs for these short-term forward contracts include foreign exchange rates, which are observable and can be obtained from third party professional pricing sources. These fair value measurements are classified as level 2.

Embedded Derivatives for long-term purchase contract: The fair value measurement is performed using a discounted cash flow model, using observable USD/RMB forward rates and unobservable inputs mainly including Group's estimation about silicon wafers to be purchased under the contract, expected future cash flows based on monthly delivery of silicon wafer, degree of liquidity in the current credit markets, and discount rate. This fair value measurement is classified as level 3.

The Group is also required by SFAS 107, "Disclosures about Fair Value of Financial Instrument", to disclose fair value of financial instruments that are not carried at fair value on the consolidated balance sheet.

As of December 31, 2008, the carrying amounts of accounts receivable, certain amounts due from related parties, short-term borrowings, accounts payable and notes payable, approximate their fair values due to their short-term nature.

The carrying amount of the Group's outstanding convertible notes was US\$48 million and the estimated fair value of this debt was approximately US\$19 million as of December 31, 2008. The fair value was estimated using market quotes as of December 31, 2008.

The fair value estimates presented above are based on pertinent information available to management as of December 31, 2007 and 2008, respectively. Although management is not aware of any factors that would significantly affect these fair value estimates, such amounts have not been comprehensively revalued for purposes of these financial statements since those dates, and current estimates of fair value may differ significantly from the amounts presented.

9. CONVERTIBLE SENIOR NOTES

On July 1, 2008, the Company issued US\$54.5 million aggregate principal amount (includes USD 4.5 million from exercise of over-allotment option in full) of Convertible Senior Notes ("Convertible Notes" or "Notes") due June 15, 2013, with an interest rate of 4.75% per annum, payable in arrears semi-annually on June 15 and December 15, beginning December 15, 2008.

Conversion.

Each \$1,000 principal amount of the Notes will initially be convertible into 81.30 American Depositary Shares, or ADSs, par value \$.0001 per share at a conversion price of \$12.3, subject to adjustment. The Notes are convertible into a number of ADSs equal to the conversion rate, at any time prior to the close of business on the third business day immediately preceding the maturity date. Securities may be converted only in denominations of USD 1,000 principal amount and integral multiples thereof.

If Notes are converted in connection with a Fundamental Change, then the conversion rate of the Notes being converted shall be increased by an additional number of ADSs. The conversion rate, including any additional ADSs added to the conversion rate in connection with a Fundamental Change, will not exceed 97.56 ADSs (equal to a conversion price of USD10.25 per ADS). Such maximum conversion rate will be appropriately adjusted for anti-dilution conversion rate adjustments.

Redemption

In the event of a Fundamental Change, holders have the option to require the Company to repurchase the entire principal amount of this Notes, or the portion thereof (which is \$1,000 or an integral multiple thereof), at the Fundamental Change Repurchase Price, together with accrued interest to, but excluding the repurchase date.

In the Event of Default, the Trustee by notice to the Company or the Holders of at least 25% in principal amount of the Notes then outstanding by notice to the Company and the Trustee, may declare the Notes to be due and payable. Upon such declaration, the principal of, and accrued and unpaid interest (including any additional amounts) on all Notes shall be due and payable immediately.

Offering expenses incurred for issuing of Convertible Notes amounted to \$4.3 million, and are being amortized through interest expense over the beneficiary period from July 2008 to June 2013, using the effective interest rate method. These capitalized costs are reported as deferred assets in Convertible bond issuance cost, and \$0.9 million was amortized for the year ended December 31, 2008.

9. CONVERTIBLE SENIOR NOTES - continued

Share Lending Agreement

Concurrent with this offering, 4,431,000 ADSs were borrowed by an affiliate of the initial purchaser of the notes pursuant to an ADS lending agreement, and offered in a transaction registered under the Securities Act. This is designed to facilitate short sales and/or privately negotiated derivative transactions by which investors may elect to hedge their investments in the Convertible Notes.

The Loaned Shares must be returned to the Group by the earliest of (a) the maturity date of the Notes, June 15, 2013, (b) upon the Group's election to terminate the Share Lending Agreement at any time after the later of (x) the date on which the entire principal amount of the Notes ceases to be outstanding, and (y) the date on which the entire principal amount of any additional convertible securities that the Group has in writing consented to permit the ADS Borrower to hedge under the Share Lending Agreement ceases to be outstanding, in each case, whether as a result of conversion, redemption, repurchase, cancellation or otherwise; and (c) the termination of the Share Lending Agreement. The Group is not required to make any payment to the Underwriter or ADS Borrower upon the return of the Loaned Shares.

The Underwriter has agreed to post collateral in cash, having a market value equal to at least 100% of the market value of the Loaned Shares during the term of the Share Lending Agreement. Otherwise, the Group can demand that the Underwriter transfer to the Collateral Agent, a deposit equal to 100% of the market value of the Loaned Shares to the Collateral Account, no later than the second following business day. The Collateral Agent will promptly give the Group a statement setting forth the Market Value of all Collateral upon the Group's reasonable request and the Group has the right to audit the Market Value of all Collateral.

The Collateral Agent is required to deliver to the Group any interest, distributions or dividends on the date of such interest, distribution or dividends are received. The Underwriter has agreed not to vote the Loaned Shares to the extent it is the shareholder of record. An ADS Borrower has the ability to vote without restriction.

A nominal lending fee of US\$0.0006 per ADS was received from the ADS borrower for the use of the borrowed ADSs. The ADS Borrower will be required to return the borrowed ADSs pursuant to the ADS lending agreement by the scheduled maturity date of the notes in June 2013. The loaned ADS were accounted for as being reflected at their par value in the common stock line item of the Group's balance sheet, with an offsetting reduction of additional paid in capital.

The Group used the proceeds from the issuance of the Convertible Notes for expansion of production capacity, for enhancement of research and development, and for general corporate purposes.

9. CONVERTIBLE SENIOR NOTES - continued

The Group has accounted for the Share Lending Agreement as the issuance of a written call option to the ADS Borrower for the fair value of the associated ADSs. The Group has recorded the call option at fair value in accordance with EITF Issue No. 00-6, "Accounting for Freestanding Derivative Financial Instruments Indexed to, and Potentially Settled in, the Stock of a Consolidated Subsidiary," given the Group has no economic benefit associated with the issuance of the call option. The fair value of the call option upon issuance and subsequently is immaterial.

Although legally issued, the Group has not considered the Loaned Shares issued for accounting purposes. As a result, any cash collateral, to the extent posted by the ADS Borrower, is not considered attributable to the issuance of shares. To the extent cash collateral is posted, the Group recorded the cash as an asset on its balance sheet with an offsetting liability recorded to reflect the collateral receipt as the proceeds of a borrowing. The cash collateral posted as of December 31, 2008 is \$17,502,450 which is recorded as a long term asset under Restricted Cash Collateral Account with an offsetting long term liability recorded in Collateral accounts payable as of December 31, 2008.

During the fourth quarter of 2008, the Group conducted open market repurchase of its Convertible Notes. Through December 31, 2008, the Group repurchased US\$6.5 million aggregate principal amount of the Convertible Notes for a total cash consideration of US\$2.0 million. As a result, the Group realized a net gain of US\$4.5 million and recorded as other income.

10. RESTRUCTURING

In April 2006, China Sunergy BVI underwent a legal reorganization as discussed in Note 1. To effect the reorganization, the following occurred either at or near the date of reorganization:

- China Sunergy BVI was formed by a single shareholder who contributed \$13.1 million in cash in exchange for one common share of China Sunergy BVI.
- China Sunergy BVI issued loans to Sunergy Nanjing and three of its founding shareholders (the "Loans") for \$10 million and \$3.1 million, respectively. Approximately \$2.0 million of the \$3.1 million received by the founding shareholders was immediately contributed to Sunergy Nanjing in satisfaction of outstanding capital contribution requirements.
- Two shareholders (the "Transferors") transferred 10% of their ownership interest in Sunergy Nanjing to two of the remaining three beneficial shareholders of Sunergy Nanjing (the "Transferees"), who were directors and officers of Sunergy Nanjing, one of which assumed the Transferors unfunded capital contribution requirement of \$540,000. China Sunergy accounted for this transaction as a contribution of capital by the Transferors followed by a non prorata dividend distribution to the Transferees. As a result, China Sunergy BVI recorded a compensation charge of approximately \$3.7 million, equal to the fair value of the interest received by one of the Transferees in excess of what that Transferee would have received had the distribution been made on a prorata basis.

10. RESTRUCTURING - continued

- The Loans were effectively converted into 12,847,300 shares of Series A redeemable convertible preference shares ("Series A Shares"). This resulted in the three founding shareholders relinquishing a 3.2% ownership interest in Sunergy Nanjing (3,456,000 common shares of China Sunergy BVI on a post-restructuring basis), in exchange for the \$3.1 million in loans outstanding. The fair value of the 3.2% ownership interest has been recorded as a reduction in additional paid-in capital. The excess of the \$3.1 million in loans outstanding over the fair value of the 3.2% ownership interest received of \$408,608 has been recorded as compensation expense. China Sunergy BVI effectively reclassified the carrying value of the Loans to Series A Shares.
- China Sunergy BVI acquired all of Sunergy Nanjing's ownership interests for approximately \$4.04 million. Substantially all of this was paid to Sunergy Nanjing's Chinese shareholder in order to comply with established regulatory practice, which requires that Chinese shareholders be paid not less than net asset value or investment cost for their equity interest in Sunergy Nanjing. A nominal amount was paid to the remaining shareholders. Under agreement, the Chinese shareholder remitted the \$4.04 million to Sunergy Nanjing in August 2006. As a result, China Sunergy BVI will have paid nominal consideration to all Sunergy Nanjing shareholders for all of their equity interests in Sunergy Nanjing.
- China Sunergy BVI issued 1,045,440 warrants (the "Warrants"), exercisable into 104,544,000 ordinary shares to the shareholders of Sunergy Nanjing to purchase China Sunergy BVI's common shares at a nominal exercise price. The Warrants do not confer any voting rights or rights to dividends to the holders thereof.
- The Transferors effectively sold 54,000 Warrants to an unrelated third-party for proceeds of approximately \$5.2 million. The Warrants were exercised into common shares of China Sunergy BVI in August 2006.

11. REDEEMABLE CONVERTIBLE PREFERRED SHARES

As discussed in Note 10, in April 2006, China Sunergy BVI issued 12,847,300 Series A redeemable convertible preferred shares, par value \$0.0001 per share (the "Series A Shares"). China Sunergy BVI incurred issuance costs of \$149,590 which it has deducted from the carrying value of the loans and, correspondingly, the Series A shares. In May 2006, China Sunergy BVI issued 23,905,100 Series B redeemable convertible preferred shares, par value \$0.0001 per share (the "Series B Shares"), China Sunergy BVI incurred issuance costs of \$50,000 which it has deducted from the carrying value of the Series B shares.

In September 2006, the Company issued 6,901,000 Series C redeemable convertible preferred shares, par value \$0.0001 per share (the "Series C Shares") (collectively with the Series A and Series B Shares, the "Preferred Shares"), and incurred issuance costs of \$100,000 which it has deducted from the carrying value of the Series C shares.

11. REDEEMABLE CONVERTIBLE PREFERRED SHARES - continued

Dividends

The Preferred Shares are entitled to dividends at an annual rate of 3% of the original issue price, compounded quarterly, whether or not declared by the Board of Directors of the Company. After payment of the Preferred Shares dividend, holders of Preferred Shares are entitled to participate in dividends paid to holders of ordinary shares on an as-converted basis.

Conversion

The preferred shares, plus all accrued but unpaid dividends thereon were originally convertible into ordinary shares at pre-set conversion prices, at the option of the holder at any time after the date of issuance of such shares. The preferred shares are automatically converted upon the consummation of an initial public offering ("IPO") or by obtaining the necessary written consent from the holders of the Preferred Shares. An IPO refers to an initial public offering duly approved by the Company's board of directors. The conversion price is subject to adjustment for dilution, the issuance of additional equity securities with a conversion price lower than that of the Preferred Shares, upon certain distributions made by the Company and upon an earnings adjustment in the event the Company's 2006 (for series A and B); and 2007 (for series C) net earnings as defined under the agreement, is less than a predefined amount.

For each of the Preferred Shares, the Group recognized an initial beneficial conversion feature ("BCF") based on the conversion price that would be in effect assuming the Group would not generate any additional income or issue any additional ordinary shares on A, series B and series C issuance dates, the Group's earnings were below the pre-defined amounts. As such, the Group assumed that if there are no changes to the current circumstances other than the passage of time the conversion price would be (i) approximately \$0.0001 per share for both the series A and series B shares as there was no floor on the conversion price adjustment, and (ii) \$1.76 for the series C shares, representing the adjustment floor (collectively the "Effective Conversion Price"). Based on this, the Group recorded a BCF, limited to proceeds received upon issuance, for the series A, series B and series C preferred shares of \$13,110,400, \$27,999,948 and \$6,941,170 respectively, during the year ended December 31, 2006. This amount was amortized immediately as a dividend to holders of the preferred shares as the Preferred Shares were convertible upon issuance.

As the Group's 2006 net earnings were less than the pre-defined earnings target, the conversion prices of the series A and series B shares were adjusted to \$0.39 and \$0.44, respectively (collectively the "Adjusted Conversion Price"), effective December 31, 2006. The Adjusted Conversion Price was greater than the Effective Conversion Price, resulting in an adjusted BCF (intrinsic value) that is lower than the BCF (intrinsic value) recognized at issuance of the series A and series B shares. As the BCF had been fully amortized and there was no incremental BCF to recognize based on the Adjusted Conversion Price, no further adjustment was required.

11. REDEEMABLE CONVERTIBLE PREFERRED SHARES - continued

Conversion - continued

In March 2007, our shareholders adopted a third amended and restated memorandum and articles of association to (a) modify the conversion prices of our Series A, Series B and Series C preferred shares, which were revised to \$.39, \$.44 and \$1.76, respectively, subject to adjustments in the case of certain dilution events, and (b) replace the definition of “qualified IPO” or “QIPO” with the definition of “IPO.” The purposes of these modifications were to (a) ensure that there would be no preferred share outstanding after the completion of our initial public offering, (b) fix the conversion prices of our Series A and Series B preferred shares according to the earnings-based adjustments based on our 2006 net earnings as provided in our previous memorandum and articles of association, and (c) re-set the conversion price of our Series C preferred shares and delete the provision on the adjustment of such conversion price based on our 2007 net earnings, in order to avoid any dilution caused by the possible earnings-based adjustment. Such modifications did not have a significant impact on expected cash flows and, as such, did not impact our consolidated financial statements.

In March 2007, our shareholders mutually agreed for holders of our Series A and Series B preferred shares to sell a portion of their preferred shares to the Group for nominal consideration. The number of Series A and Series B shares sold was determined based on a calculation to offset the dilution impact of the adjustment of conversion prices caused by non-cash compensation charges of \$4.7 million. Accordingly, we purchased 48,238 Series A preferred Shares, 72,079 Series B preferred shares, 8,009 Series B preferred shares and 9,610 Series B preferred shares from PraxCapital, Exuberance Investment Limited, Gersec Trust Reg., and China Environmental Fund 2004, LP, respectively, with nominal consideration. According to Cayman Islands law, these Series A and Series B preferred shares were automatically cancelled upon our purchase.

All the outstanding Series A, Series B and Series C redeemable convertible preferred shares of 12,847,300, 23,905,100 and 6,901,000 were automatically converted into 74,138,777 ordinary shares upon the consummation of the Group's initial public offering on May 22, 2007.

Redemption

The Preferred Shares may redeem at any time after the occurrence of a redemption event, which includes (i) March 31, 2008 with respect to the Series A Shares, May 6, 2009 with respect to the Series B Shares and September 26, 2009 with respect to the Series C Shares (ii) a breach in the Preferred Share agreements by the Company or its founders, (iii) a non-competition breach by the founders or (iv) the commencement of a liquidation procedure or related action. The Company is only obligated to redeem 9,799,300 of the Series A Shares upon the occurrence of events (iii) or (iv) above. The Company has the ability to request a one year extension of the redemption date upon the occurrence of event (i) above, the extension of which requires the approval of the majority of the holders of the Series A, Series B or Series C Shares, respectively. The redemption amount must be paid in cash and is that amount which would provide the holder with an internal rate of return of 15% for Series A and Series B Shares and 12% for Series C Shares.

11. REDEEMABLE CONVERTIBLE PREFERRED SHARES - continued

Voting rights

Each Preferred Share has voting rights equivalent to the number of ordinary shares into which it is convertible.

12. SUBSCRIPTION RECEIVABLE

In March 2006, Sunergy Nanjing modified its existing articles of incorporation. Such modifications had the effect of reducing the cash capital contribution requirements of certain of its shareholders, who were also employees. The Company has accounted for this as forgiveness of a shareholder loan and has recorded compensation charges of \$540,000.

As described in Note 11, in April 2006, China Sunergy BVI acquired all of Sunergy Nanjing ownership interests for \$4,046,811 which was paid to Sunergy Nanjing Chinese shareholder as a distribution on reorganization. Under the terms of an agreement, the Chinese shareholder was required to remit these funds, and did so in August 2006, to Sunergy Nanjing.

The \$405,313 subscription receivable recorded in 2008 represents amount due from employee for options exercised but not yet paid in 2008.

13. MAINLAND CHINA CONTRIBUTION PLAN

Full time employees of the Group in the PRC participate in a government-mandated multiemployer defined contribution plan pursuant to which certain pension benefits, medical care, unemployment insurance, employee housing fund and other welfare benefits are provided to employees. PRC labor regulations require the Group to accrue for these benefits based on certain percentages of the employees' salaries. The total contribution for such employee benefits was \$278,235, \$636,913 and \$2,240,492 for the years ended December 31, 2006, 2007 and 2008, respectively.

14. PROFIT APPROPRIATION

Pursuant to laws applicable to entities incorporated in the PRC, Sunergy Nanjing is prohibited from distributing its statutory capital and must make appropriations from PRC GAAP after-tax profit to other non-distributable reserve funds. These reserve funds include one or more of the following: (i) a general reserve, (ii) an enterprise expansion fund and (iii) a staff bonus and welfare fund. Subject to certain cumulative limits, the general reserve fund requires annual appropriation of 10% of after tax profit (as determined under accounting principles generally accepted in the PRC at each year-end); the appropriation to the other fund are at Sunergy Nanjing's discretion. These reserve funds can only be used for specific purposes of enterprise expansion and staff bonus and welfare and are not distributable as cash dividends, loans or advances to the Company.

14. PROFIT APPROPRIATION - continued

In 2006, Sunergy Nanjing made appropriations of \$1,617,997 to the non-distributable general reserve fund. Due to a net loss in 2007 and 2008, Sunergy Nanjing made no appropriation for 2007 and 2008.

In 2007, with a board resolution on December 20, 2007, Sunergy Nanjing declared a dividend of \$15,827,573 to the then shareholder, China Sunergy BVI, for the profit made in 2006.

As a result of these PRC laws and regulations, Sunergy Nanjing is restricted in its ability to transfer the registered capital to the Company in the form of dividends, loans or advances. The restricted portion amounted to \$121,564,808, as of December 31, 2008.

15. OTHER (EXPENSE) INCOME, NET

	Years ended December 31,		
	2006	2007	2008
	\$	\$	\$
Foreign currency exchange loss, net	(1,250,644)	(1,173,159)	(6,858,856)
Convertible bond repurchase gain	-	-	4,525,625
Government grants	583,569	1,660,567	98,732
Others	(177,739)	(393,996)	(33,068)
	<u>(844,814)</u>	<u>93,412</u>	<u>(2,267,567)</u>

16. INCOME TAX BENEFIT

Tax benefit comprises:

	Years ended December 31,		
	2006	2007	2008
	\$	\$	\$
Current tax	-	-	-
Deferred tax benefit	70,674	705,504	2,648,621
	<u>70,674</u>	<u>705,504</u>	<u>2,648,621</u>

China Sunergy Cayman and China Sunergy BVI are not subject to tax in these jurisdictions as they are incorporated in the Cayman Islands and British Virgin Islands, respectively. China Sunergy Hong Kong is subject to 16.5% income tax rate.

Sunergy Nanjing was governed by the Income Tax Law of PRC Concerning Foreign Investment and Foreign Enterprise for the period before January 1, 2008, and the statutory rate was 33% (30% of state income tax plus 3% local income tax) on PRC taxable income. Sunergy Nanjing, as a foreign-invested manufacturing enterprise established in Nanjing (within a coastal economic zone), enjoyed a preferential rate of 24%. In addition, Sunergy Nanjing was granted a "2+3" tax holiday (two year exemption followed by three years 50% deduction) starting from its first profit making year which was 2006. Thus Sunergy Nanjing was tax exempted in 2006 and 2007.

16. INCOME TAXES - continued

On March 16, 2007, the National People's Congress approved and promulgated a new tax law, China's Unified Enterprise Income Tax Law ("new EIT law"). On December 6, 2007, the Congress also adopted its Implementing Regulation. On December 26, 2007, State Council of China promulgated the circular on implementation of enterprise income tax transition preferential policy. The New EIT Law and its Implementing Regulation have become effective on January 1, 2008. Under the new EIT law, FIEs and domestic companies are subject to a uniform tax rate of 25%, and enterprises which were established and already enjoyed preferential tax treatments before March 16, 2007 will continue to enjoy them (i) in the case of preferential tax rates, for a period of five years from January 1, 2008, and the enterprises which previously enjoyed the tax rate of 24% shall be subject to the tax rate of 25% in 2008, and (ii) in the case of preferential tax exemption or reduction for a specified term, until the expiration of such term. Therefore, we are subject to an applicable income tax rate of 12.5% in 2008, 2009 and 2010.

In 2008, Sunergy Nanjing obtained the certificate of High and New Technology Enterprises ("HNTEs"), the valid period of which is from 2008 to 2010. Under the new EIT Law, HNTEs are subject to a lower tax rate of 15%. As Sunergy Nanjing is still in a tax holiday specified above, the applicable rate for 2008, 2009 and 2010 is 12.5%. 15% favored rate will be granted from 2011 if the HNTE certificate is renewed.

Effective on January 1, 2007, the Group adopted the provisions of FASB Interpretation No. 48, "*Accounting for Uncertainty in Income Taxes—an Interpretation of SFAS No. 109*" ("FIN 48"), which clarifies the accounting and disclosure for uncertainty in tax positions, as defined in that statement. FIN 48 prescribes a more-likely-than-not threshold for financial statement recognition and measurement of tax position taken or expected to taken in a tax return. This interpretation also provides guidance on de-recognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, accounting for income taxes in interim periods and income tax disclosures. Based on its FIN 48 analysis documentation, the Group has made its assessment of the level of tax authority for each tax position (including the potential application of interest and penalties) based on the technical merits. The adoption of FIN 48 did not have any impact on the Group's total liabilities or shareholders' equity. The Group has no material uncertain tax position as of December 31, 2008 or unrecognized tax benefit which would favorably affect the effective income tax expense. The Group does not anticipate any significant increases or decreases to its liabilities for unrecognized tax benefits within the next 12 months.

16. INCOME TAXES - continued

The principal components of the deferred income tax assets are as follows:

	At December 31,		
	2006	2007	2008
	\$	\$	\$
Deferred tax assets:			
Pre-operating expense	58,573	61,179	34,469
Depreciation of property, plant and equipment	49,307	151,570	169,011
Warranty costs	42,551	56,121	47,354
Inventory provision	-	242,686	1,648,271
Bad debts provision	-	137,134	127,952
Tax losses carried forward	-	147,541	216,536
Derivative assets (liabilities)	-	-	1,225,925
Others	-	59,704	35,038
Total deferred tax assets	<u>150,431</u>	<u>855,935</u>	<u>3,504,556</u>
Analysis as:			
Current	-	527,361	1,992,759
Non-current	<u>150,431</u>	<u>328,574</u>	<u>1,511,797</u>
Total deferred tax assets	<u>150,431</u>	<u>855,935</u>	<u>3,504,556</u>

The tax losses available for carry forward in 2007 and 2008 amounted to approximately \$1,180,328 and \$1,732,288, and will expire in 2012 and 2013 respectively.

The Group considers positive and negative evidence to determine whether some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, the Group believes it is more-likely-than-not that the Group will realize the benefits of these deductible differences, and as such, no valuation allowances as of December 31, 2008 have been recorded. The amount of the deferred tax assets considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carry forward periods are reduced.

16. INCOME TAXES - continued

Reconciliation between the provision for income tax computed by applying the PRC corporate income tax to income before income taxes and the actual provision for income tax is as follows:

	Years ended December 31,		
	2006	2007	2008
PRC enterprise income tax	33.0%	33.0%	25.0%
Expense not deductible for tax purposes			
Forgiveness of shareholder receivable	1.5%	-	
Excess of prorata distribution to shareholders	10.2%	-	
Purchase and retirement of treasury shares	1.1%	-	
Return of distribution on reorganization	11.1%	-	
Government grants	3.0%	-	
50% additional deduction of R&D expense	-	(11.7)%	0.4%
Other expense non-deductible for tax purposes	0.2%	1.3%	(0.7)%
Effect of tax rate change	-	0.1%	(0.2)%
Different tax rates in other jurisdictions	-	-	(3.0)%
Tax holiday granted to Sunergy Nanjing	(60.7)%	(10.0)%	(11.1)%
	<u>(0.6)%</u>	<u>12.7%</u>	<u>10.4%</u>
Gross tax holiday effect	\$ 22,163,865	\$ 3,117,790	\$ 2,514,002
Tax holiday per share-basic	\$ 0.17	\$ 0.02	\$ 0.01
Tax holiday per share-diluted	\$ 0.17	\$ 0.02	\$ 0.01

The Company plans to indefinitely reinvest the undistributed earnings of the Company's PRC subsidiaries. However, as of December 31, 2008, the PRC subsidiaries have an accumulated deficit of \$30.2 million. Upon distribution of any future earnings in the form of dividends or otherwise, the Company would be subject to the then applicable PRC tax laws and regulations.

17. SHARE BASED COMPENSATION

The Company measures share-based compensation cost on the grant date at the fair value of the award and recognizes this cost as an expenses over the grant recipient's requisite service periods.

Prior to 2006, the Company did not grant share options to employees, officers, directors or individual consultants and/or advisors who rendered services to the Group.

In October 2006, the Company adopted the Share Incentive Plan (the "First Plan") which allows the Company to offer share incentive awards to employees, officers, directors, individual consultants or advisors who rendered services to the Group, pursuant to which 1,366,400 ordinary shares were authorized and granted. Under the First Plan, options are granted with an exercise price equal to 70% of the fair market value of the underlying shares, as determined by the Board of Directors at the date of grant and expire after 10 years, with vesting occurring 25% upon each anniversary of the grant. The proceeds from the exercise of the options by the grantee will be equity settled by cash or other method as permitted and set forth in the plan.

17. SHARE BASED COMPENSATION - continued

On April 24, 2007, the Company amended and restated the above Share Incentive Plan, which approved the issuance of up to 2,500,000 ordinary shares of the Company pursuant to awards of options. Under the First plan, additional 684,500 ordinary shares were granted at an exercise price equal to 70% of the IPO offering price per ordinary share.

On January 10, 2008, under the First Plan, the Company further granted options to purchase 716,226 ordinary shares to certain employees at an exercise price of US\$1.283 per share. The options expire ten years from the date of grant, with one-fourth of the options vesting on each of the following four grant date anniversaries.

On February 5, 2008, the shareholders granted approval for its Second Share Incentive Plan (the "Second Plan"). The Second Plan is open to members of the China Sunergy Board, as well as employees and consultants as determined by the Compensation Committee of the Board. The maximum number of shares that may be issued pursuant to the Second Plan is 4,190,748. The Company granted 2,397,301 and 1,078,785 restricted common shares to its CEO and CFO on the same day, which vest one third annually over the following three years.

The Company recorded \$114,563, \$535,856 and \$3,231,594 as compensation expense for the years ended December 31, 2006, 2007 and 2008, respectively.

The derived fair value of the ordinary shares underlying the options was determined by the Company, with references to a retrospective third-party valuation as of September 30, 2006, an independent appraiser, using generally accepted valuation methodologies, including a weighted average equity value derived by using a combination of the discounted cash flow method, a method within the income approach whereby the present value of future expected net cash flows is calculated using a discount rate and the guideline companies method, which incorporates certain assumptions including the market performance of comparable listed companies as well as the financial results and growth trends of the Group, to derive the total equity value of the Group. The valuation model allocated the equity value between the ordinary shares and the preferred shares and determined the fair value of ordinary shares based on the option-pricing method under the enterprise value allocation method. Under this method, the ordinary shares have value only if the funds available for distribution to shareholders exceed the value of the liquidation preference at the time of a liquidity event (for example, merger or sale). The ordinary shares are considered to be a call option with claim on the enterprise at an exercise price equal to the remaining value immediately after the preferred shares are liquidated.

The fair value of each award is estimated on the date of grant using the binomial option-pricing formula that uses the assumptions noted below. Expected volatilities are based on the average volatility of comparable companies with the time period commensurate with the expected time period. The Group uses historical data to estimate option exercise and employee termination within the pricing formula. The contractual life of the option is 10 years. The risk-free rate for periods within the contractual life of the option is based on the yield of US Treasury Bond.

17. SHARE BASED COMPENSATION - continued

	2006	2007	2008
Average risk-free rate of return	4.77%	4.63%	3.91%
Contractual life of the option	10 years	10 years	10 years
Volatility rate	65%	61%	60%
Dividend yield	0%	0%	0%

The weighted average grant-date fair value of options granted during year 2006, 2007 and 2008 was \$1.34, \$0.96 and \$1.20 per share, respectively. There were no options exercised during the year ended December 31, 2006 and 2007. Total fair value of options vested during the year ended December 31, 2006, 2007 and 2008 is nil, \$369,840 and \$341,934, respectively.

In November 2007, the Company modified the exercise price of all the options granted in 2006 from \$1.99 to \$1.28 per ordinary share. The total incremental compensation expense resulting from the modification was \$139,600, which will be amortized over the remaining requisite service period of 2.95 years.

All the amounts below reflect the modification of exercise prices of options.

A summary of the option activities is follows:

	Number of Options	Weighted average exercise price	Weighted average remaining contract term	Aggregate intrinsic value
Outstanding at January 1, 2008	1,586,900	\$ 1.283		
Granted	716,226	\$ 1.283		
Forfeited	(651,420)	\$ 1.283		
Exercised	(371,580)	\$ 1.283		\$ 125,222
Outstanding at December 31, 2008	1,280,126	\$ 1.283	8.36	\$ 0
Options vested or expected to vest at December 31, 2008	1,280,126	\$ 1.283	8.36	\$ 0
Options exercisable at December 31, 2008	267,790	\$ 1.283	7.85	\$ 0

As of December 31, 2008, there was \$1,147,278 of unrecognized compensation expense related to unvested share-based compensation, which is expected to be recognized over a weighted-average period of 2.24 years.

17. SHARE BASED COMPENSATION - continued

The following table summarizes the activity of restricted shares during the year ended December 31, 2008:

	Number of Restricted Shares	weighted average grant- date fair value
Non-vested as of January 1, 2008	-	-
Granted	3,476,086	\$ 1.13
Forfeited	-	-
Vested	(1,158,695)	1.13
Non-vested as of December 31, 2008	2,317,391	1.13

The group did not grant any restricted shares prior to 2008. The weighted average grant-date fair value of restricted shares granted during year 2008 was \$1.13 per share. Total fair value of restricted shares vested during the year ended December 31, 2008 is \$1,314,933.

As of December 31, 2008, there was \$1,303,540 of total unrecognized compensation expense related to restricted shares granted under the plan, which is expected to be recognized over a weighted-average period of 1.66 years.

18. RELATED PARTY TRANSACTIONS AND BALANCES

Related party balances

Amounts due from related parties:

	Years ended December 31,		
	2006	2007	2008
	\$	\$	\$
Balances with directors	768	-	410,778
Trade related balances.	1,535,648	2,111,890	18,172,541
Non-trade related balances.	439,994	-	-
Amounts due from related parties	<u>1,976,410</u>	<u>2,111,890</u>	<u>18,583,319</u>

Balances with directors in 2006 pertain to petty cash advances to directors for business travel. Balances with directors in 2008 pertain to withheld individual income tax paid for director.

18. RELATED PARTY TRANSACTIONS AND BALANCES - continued

Related party balances - continued

Trade related balances pertain to receivables and prepayments in respect of sales and inventory purchases to/from related parties with common ultimate investors. Details of trade related balances with such parties are as follows:

Name of related party	At December 31,		
	2006	2007	2008
	\$	\$	\$
CEEG (Nanjing) International Trading Co., Ltd.	1,535,648	90,321	-
CEEG (Nanjing) Semiconductor Co., Ltd.	-	441,627	11,479,561
CEEG (Shanghai) Solar Science and Technology Co., Ltd.	-	1,159,337	6,692,980
CEEG (Nanjing) Solar Research Institute	-	420,605	-
	<u>1,535,648</u>	<u>2,111,890</u>	<u>18,172,541</u>

In 2006, the non-trade related balance pertains to payments of \$212,684 made on behalf of CEEG (Nanjing) Special Transformer Manufacturing Co., Ltd. in respect of purchase of fixed assets, and \$227,310 made on behalf of CEEG Nanjing International Trade Co., Ltd. in respect of purchase of inventories.

Amounts due to related parties:

	At December 31,		
	2006	2007	2008
	\$	\$	\$
Balances with directors	3,742	-	-
Trade-related balance	-	8,214	246,465
Non-trade related balances	-	-	-
Amounts due to related parties	<u>3,742</u>	<u>8,214</u>	<u>246,465</u>

Balances with directors pertain to expense reimbursements payable to directors.

Trade related balances pertain to payables and pre collected amounts in respect of rental, inventory and fixed assets purchases and sales to/from related parties with common ultimate investors. Details of trade related balances with such parties are as follows:

Name of related party	At December 31,		
	2006	2007	2008
	\$	\$	\$
CEEG (Nanjing) Special Transformer Co., Ltd.	-	8,214	17,560
China Electric Equipment Group Co., Ltd.	-	-	150,119
China Electric Equipment Group (Hongkong) Limited...	-	-	76,618
CEEG (Nanjing) New Energy Co., Ltd.	-	-	2,168
	<u>-</u>	<u>8,214</u>	<u>246,465</u>

18. RELATED PARTY TRANSACTIONS AND BALANCES - continued

Related party transactions

Other than as disclosed in Note 6, details of related party transactions are as follow:

Sales to related parties with common ultimate investors:

Name of related party	Years ended December 31,		
	2006	2007	2008
	\$	\$	\$
CEEG Nanjing International Trade Co., Ltd.	4,772,552	3,234,428	-
Jiangsu East China Micro-ware Equipment Co., Ltd.	55,685	-	-
CEEG (Shanghai) Solar Science and Technology Co., Ltd.	-	5,192,155	46,575,536
CEEG (Nanjing) Solar Research Institute	-	1,521,110	1,265,956
CEEG (Nanjing) New Energy Co., Ltd.	-	41,927	7,159,226
CEEG (Nanjing) Semiconductor Co., Ltd.	-	602,796	-
	<u>4,828,237</u>	<u>10,592,416</u>	<u>55,000,718</u>

Purchases from related parties with common ultimate investors are as follows:

Name of related party	Years ended December 31,		
	2006	2007	2008
	\$	\$	\$
CEEG (Nanjing) Solar Research Institute	-	155,374	11,147
CEEG Nanjing International Trade Co., Ltd.	6,462,879	1,166,712	-
CEEG (Shanghai) Solar Science and Technology Co., Ltd.	-	704,880	257,301
CEEG (Nanjing) Semiconductor Co., Ltd.	-	1,425,888	7,076,920
China Electric Equipment Group (Hongkong) Limited -	-	-	76,713
	<u>6,462,879</u>	<u>3,452,854</u>	<u>7,422,081</u>

In 2006, Sunergy Nanjing entered into a rental tenancy agreement with CEEG Jiangsu (Nanjing) Special Transformer Co., Ltd. for the use of warehouse premises. The tenancy agreement provides for annual rental payments of \$8,214, and has a remaining term of 3 years as of December 31, 2008. Rental expense for the years ended December 31, 2006, 2007 and 2008 was \$1,921, \$7,940 and \$8,487.

In 2007, Sunergy Nanjing purchased the right to use a parcel of land of approximately 26,000 square meters from China Electric Equipment Group Co., Ltd, or CEEG, for approximately \$1.2 million. The land use right is with a period of 46 years, starting from August 21, 2007.

18. RELATED PARTY TRANSACTIONS AND BALANCES - continued

Related party transactions - continued

In October 2007, Sunergy Nanjing and CEEG entered into an agreement to jointly construct a transformer substation. The total budget investment for the construction was \$4.79 million, which was 50% funded by the Jiangning Development Zone Administration Committee funds and 50% by Sunergy Nanjing and CEEG Group. Pursuant to the agreement, Sunergy Nanjing should contribute approximately \$1.33 million, which represents 55.7% of the investment contributed by Sunergy Nanjing and CEEG Group. By December 31, 2008, the construction has been completed, and Sunergy Nanjing has paid approximately \$1.26 million, accrued a payable of \$0.07 million. The investment by Sunergy Nanjing was recorded as a long-term deferred asset in Balance Sheet, and amortized over 10 years.

In 2008, the Group purchased equipments from CEEG with total amount of approximately \$1.4 million. The Group also entered into an agreement to lease the land use right from CEEG (Nanjing) Special Transformer Co., Ltd. for a term until March 2013. The tenancy agreement provides for annual rental payments of approximately \$3,000.

19. COMMITMENTS AND CONTINGENCIES

a) Operating lease commitments

The Group has operating lease agreements principally for staff quarters and for warehouse premises in the PRC. Such leases have remaining terms within 60 months, and are renewable upon negotiation. Rental expense was \$66,113, \$253,779 and \$390,649 for the years ended December 31, 2006, 2007 and 2008, respectively.

Future minimum lease payments under non-cancelable operating lease agreements at December 31, 2008 were as follows:

Twelve-month period ending December 31,

2009	\$	161,654
2010	\$	38,334
2011	\$	36,140
2012	\$	29,556
2013	\$	27,141
Over 5 years	\$	186,551
	\$	<u>479,376</u>

19. COMMITMENTS AND CONTINGENCIES - continued

b) Purchase commitments

	At December 31,		
	2006	2007	2008
	\$	\$	\$
Commitments to purchase property, plant and equipment	3,571,400	22,857,763	10,024,744
Commitments to purchase silicon raw materials	114,714,909	204,932,508	828,705,901
	<u>118,286,309</u>	<u>227,790,271</u>	<u>838,730,645</u>

c) Contingencies

The Group is subject to claims and legal proceedings that arise in the ordinary course of its business. Each of these matters is subject to various uncertainties, and it is possible that some of these matters may be decided unfavorably to the Group. The Group does not believe that any of these matters will have a material adverse affect on its business, assets or operations.

20. SEGMENT INFORMATION

The Group's chief operating decision maker has been identified as the Chief Executive Officer, who reviews consolidated results when making decisions about allocating resources and assessing performance of the Group. Based on this assessment, the Group has determined that it operates in a single business segment that includes the design, development, and manufacture of solar cells and modules. The following table summarizes the Group's net revenues generated from different geographic locations:

	Years ended December 31,		
	2006	2007	2008
	\$	\$	\$
Europe:			
- Germany	14,893	62,313,810	126,859,750
- Italy	12,234,738	8,980,140	6,127,527
- Netherlands	8,956,669	-	-
- Spain	-	-	9,399,022
- Others	175,084	1,802,956	51,109
Europe total	<u>21,381,384</u>	<u>73,096,906</u>	<u>142,437,408</u>
PRC	119,237,947	151,057,878	196,628,021
South Africa	3,712,425	83,437	-
India	1,053,951	2,332,253	1,153,918
South Korea	3,183,301	6,418,664	10,256,856
Others	951,936	1,918,763	443,758
Total net revenues	<u>149,520,944</u>	<u>234,907,901</u>	<u>350,919,961</u>

Substantially all the identifiable assets of the Group are located in the PRC.

21. MAJOR CUSTOMERS

Details of the customers accounting for 10% or more of total net sales are as follows:

Name of Customer	Years ended December 31,		
	2006	2007	2008
Company A	*	17%	18%
Company B	17%	24%	15%
Company C	*	*	13%
Company D	19%	*	*
Company E	17%	*	*

* Less than 10%

Accounts receivable from customers accounting for 10% or more of total gross accounts receivable are as follows:

Name of Customer	December 31,		
	2006	2007	2008
Company A	44%	76%	47%
Company C	*	*	43%
Company D	45%	*	-
Company E	-	11%	-

* Less than 10%

22. SUBSEQUENT EVENTS

On January 9, 2009, the Group granted options to purchase 260,002 and 80,640 ordinary shares to certain employees at an exercise price of US \$1.283 and US\$0.7 per share, respectively. The options expire ten years from the date of grant, with one-fourth of the options vesting on each of the following four grant date anniversaries. At the same date, the Group also granted options to purchase 100,002 ordinary shares to its strategy consultant at an exercise price of US\$0.7 per share. The shares subject to the option will be vested on the December 31, 2009 and will be exercisable within 5 years from the date the option is vested.

In January 2009, the Sunergy Nanjing entered into a purchase contract with Jiangxi Jingde Semiconductor New Material Co., Ltd., an entity controlled by our chairman, under which Jiangxi Jingde Semiconductor New Material Co., Ltd. agreed to supply an aggregate of 220 tons of polysilicon to Sunergy Nanjing from March 2009 to December 2009. The purchase prices shall be negotiated between the parties before shipment. In connection with this contract, Sunergy Nanjing issued a bank accepted note in the amount of approximately \$14.7 million to Jiangxi Jingde Semiconductor New Material Co., Ltd.

On February 6, 2009, the Company announced its Chief Financial Officer, Kenneth Luk, resigned effective March 31, 2009, with a need to return to Hong Kong for family reasons. Mr. Luk will remain available in an advisory capacity to the Group for a certain period of time after his resignation. The Company and Mr. Luk entered into an Amendment of Restricted Shares Award Agreement for the unvested Restricted Shares 719,190 on February 5, 2009. 120,000 Restricted Shares will vest on April 30, 2009. 120,000 Restricted Shares will vest on August 31, 2009. For the remaining 479,190 unvested Restricted Shares, both Mr. Luk and the Company agreed that the Company hereby repurchase the above 479,190 unvested Restricted Shares and the Repurchase Price will be paid according to the original Agreement.

In June 2009, the Company repurchased in open market of US\$4.0 million aggregate principal amount of the Convertible Notes for a total cash consideration of US\$1.8 million.

* * * * *

ADDITIONAL INFORMATION-FINANCIAL STATEMENTS SCHEDULE 1

CHINA SUNERGY CO., LTD.

These financial statements have been prepared in conformity with accounting principles generally accepted in the United States.

**Financial information of parent company
BALANCE SHEET
(In U.S. dollars)**

	December 31,		
	2006	2007	2008
	\$	\$	\$
ASSETS			
Current assets:			
Cash	487,206	5,866,420	7,255,917
Restricted cash	-	19,000,000	11,250,000
Amount due from subsidiaries	3,500,000	46,732,922	98,542,114
Dividend receivable	-	15,827,573	15,827,573
Other receivables	-	849,731	158,545
Total current assets	3,987,206	88,276,646	133,034,149
Investments in subsidiaries	80,378,077	97,370,678	89,354,208
Restricted cash-collateral account	-	-	17,502,450
Convertible bond issuance cost	-	-	3,450,859
Total assets	84,365,283	185,647,324	243,341,666
LIABILITIES, MEZZANINE EQUITY AND SHAREHOLDERS' EQUITY:			
Liabilities:			
Amount due to subsidiary	99,590	983,849	1,253,578
Other liabilities	200,000	815,382	1,529,893
Total current liabilities	299,590	1,799,231	2,783,471
Collateral account payable	-	-	17,502,450
Convertible bond payable	-	-	48,098,364
Total liabilities	-	1,799,231	68,384,285
Mezzanine equity:			
Series A redeemable convertible preferred shares (\$0.0001 par value; 12,847,300 shares authorized, 12,847,340 and nil shares issued and outstanding as of December 31, 2007 and 2008, respectively)	13,227,862	-	-
Series B redeemable convertible preferred shares (\$0.0001 par value; 23,905,100 shares authorized, 23,905,100 and nil shares issued and outstanding as of December 31, 2007 and 2008, respectively)	28,501,788	-	-
Series C redeemable convertible preferred shares (\$0.0001 par value; 6,901,000 shares authorized, 6,901,000 and nil shares issued and outstanding as of December 31, 2007 and 2008, respectively)	20,056,093	-	-

Financial information of parent company
BALANCE SHEET - continued
(In U.S. dollars)

	December 31,		
	2006	2007	2008
	\$	\$	\$
Shareholders' equity:			
Ordinary shares (par value \$0.0001; 463,247,600 shares authorized, 104,544,000, 237,332,777 and 267,766,443 shares issued and outstanding as of December 31, 2006, 2007 and 2008, respectively)	10,454	23,733	26,777
Additional paid-in capital	20,144,945	178,361,461	182,070,348
Subscription receivable	-	-	(405,313)
Accumulated deficit	-	(4,854,650)	(27,792,246)
Accumulated other comprehensive income	2,124,551	10,317,549	21,057,815
Total shareholders' equity	<u>22,279,950</u>	<u>183,848,093</u>	<u>174,957,381</u>
TOTAL LIABILITIES, MEZZANINE EQUITY AND SHAREHOLDERS' EQUITY	<u>84,365,283</u>	<u>185,647,324</u>	<u>243,341,666</u>

Financial information of parent company
STATEMENT OF OPERATIONS
(In U.S. dollars)

	Period from January 27, 2006 (date of inception) to December 31, 2006	Year ended December 31, 2007	Year ended December 31, 2008
	\$	\$	\$
General and administrative expenses	(121,102)	(1,670,018)	(4,622,480)
Total operating expenses	(121,102)	(1,670,018)	(4,622,480)
Loss from operations	(121,102)	(1,670,018)	(4,622,480)
Interest expense	-	-	(2,179,735)
Interest income	30,239	1,062,420	2,841,185
Equity in earnings of subsidiaries	14,388,238	(4,408,014)	(23,426,736)
Other income (expense), net	-	160,962	4,450,170
Net income (loss)	14,297,375	(4,854,650)	(22,937,596)
Dividend on Series A redeemable convertible preferred shares	(13,377,452)	(154,723)	-
Dividend on Series B redeemable convertible preferred shares	(28,551,788)	(330,229)	-
Dividend on Series C redeemable convertible preferred shares	(7,097,263)	(233,125)	-
Net loss attributable to holders of ordinary shares	(34,729,128)	(5,572,727)	(22,937,596)

Financial information of parent company
STATEMENT OF CASH FLOWS
(In U.S. dollars)

	Period from January 27, 2006 (date of inception) to December 31, 2006	Year ended December 31, 2007	Year ended December 31, 2008
	\$	\$	\$
Operating activities:			
Net loss attributable to holders of ordinary shares	(34,729,128)	(5,572,727)	(22,937,596)
Dividend on Series A redeemable convertible preferred shares	13,377,452	154,723	-
Dividend on SeriesB redeemable convertible preferred shares	7,097,263	330,229	-
Dividend on Series C redeemable convertible preferred shares	7,097,263	233,125	-
Net income (loss)	14,297,375	(4,854,650)	(22,937,596)
Adjustments to reconcile net income (loss) to net cash used in operating activities			
Equity in earnings of subsidiaries	(14,388,238)	4,408,014	23,426,736
Share-based compensation	114,563	535,856	3,231,594
Gain on repurchase of convertible notes	-	-	(4,525,625)
Amortization of convertible senior notes	-	-	886,715
Others	-	-	(258,333)
Changes in operating assets and liabilities:			
Other receivables	-	(849,731)	691,186
Other liabilities	-	615,382	804,687
Deferred other income	-	-	266,520
Amounts due from subsidiaries	-	-	(2,192,788)
Net cash used in operating activities	(3,476,300)	(145,129)	(606,904)
Investing activity:			
Investments in subsidiaries	(57,157,296)	(29,035,190)	(4,670,000)
Amounts due from subsidiaries	-	(43,232,922)	(49,541,380)
Increase in restricted cash	-	(19,000,000)	7,750,000
Net cash used in investing activity	(57,157,296)	(91,268,112)	(46,461,380)
Financing activities:			
Proceeds from investor upon formation of the Company	13,110,400	-	-
Proceeds from issuance of Series B redeemable convertible preference shares	27,999,948	-	-
Proceeds from issuance of Series C redeemable convertible preference shares	20,000,000	-	-
Proceeds from issuance of ordinary shares	10,454	107,525,000	-
Issuance cost of ordinary shares	-	(11,616,804)	-
Amounts due to subsidiaries	-	884,259	269,729
Proceeds from issuance of convertible senior notes	-	-	54,500,000
Payment of debt issuance costs	-	-	(4,337,573)
Payment of convertible senior notes repurchase	-	-	(1,974,375)
Net cash provided by financial activities	61,120,802	96,792,455	48,457,781
Net increase in cash and cash equivalents	487,206	5,379,214	1,389,497
Cash and cash equivalents at the beginning of the period/year	-	487,206	5,866,420
Cash and cash equivalents at the end of the period/year	487,206	5,866,420	7,255,917

Financial information of parent company

Note to Schedule 1

China Sunergy BVI undertook a restructuring in anticipation of an initial public offering involving a holding company (the “Company”) that was incorporated in the Cayman Islands on August 4, 2006. The Company became the ultimate holding company on August 30, 2006 by acquiring a 100% interest in China Sunergy BVI. This transaction was accounted for as a legal reorganization as there was no change in the ownership structure between the Company and China Sunergy BVI.

* * * * *

EMPLOYMENT AGREEMENT

BETWEEN

CHINA SUNERGY CO., LTD.

AND

Dated _____

OFFSHORE EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this "Agreement"), dated as of _____, is entered into by and between CHINA SUNERGY CO., LTD., a company organized in Cayman Islands and existing under the laws of the Cayman Islands (the "Company"), and _____ ("Executive"), and shall become effective as of the date hereof (the "Effective Date").

WHEREAS, the Company desires to employ Executive and to enter into an agreement embodying the terms of such employment on and after the Effective Date; and

WHEREAS, Executive desires and is willing to enter into such employment with the Company and to enter into this Agreement; and

NOW, THEREFORE, in consideration of the premises and mutual covenants herein and for other good and valuable consideration, the parties hereby agree as follows:

1. Definitions. For the purposes of this Agreement:

"Group" means the Company and any company which is for the time being and from time to time, the holding company, parent, subsidiary or Affiliate of the Company.

"Affiliate" of a Person (the "Subject Person") means any other Person directly or indirectly controlling, controlled by or under common control with the Subject Person, where "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise, and includes (a) ownership directly or indirectly of 50% or more of the shares in issue or other equity interests of such Person, (b) possession directly or indirectly of 50% or more of the voting power of such Person or (c) the power directly or indirectly to appoint a majority of the members of the board of directors or similar governing body of such Person, and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Person", for the purpose of this Agreement, means an individual, corporation, joint venture, enterprise, partnership, trust, unincorporated association, limited liability company, government or any department or agency thereof, or any other entity.

2. Term of Employment. Subject to the provisions of Section 8 of this Agreement, this Agreement shall be effective for a period commencing on the Effective Date and ending on _____ (the Initial Term together with any extension shall be referred to hereinafter as the "Employment Term").

3. Position.

(a) Executive shall serve as the _____ of the Company. In such position, Executive shall have such duties and authority as shall be determined from time to time by the Board of Directors of the Company (the "Board"). Executive shall report to the _____.

(b) During the Employment Term, Executive will devote his business time and best efforts to the performance of his duties hereunder and will not engage in any other business, profession or occupation for compensation or otherwise which would conflict with the rendition of such services either directly or indirectly, without the prior written consent of the Board.

4. Base Salary. During the Employment Term, the Company shall pay Executive a base salary (the "Base Salary") at the annual rate of [\$ _____], payable in regular installments in accordance with the Company's usual payroll practices. The Board may from time to time review and increase the Base Salary in its sole discretion. During the Employment Term, the Executive shall be eligible for any bonus program approved by the Board for the benefit of the senior executives of the Company; provided however, that the foregoing shall not create any presumption that a bonus will actually be granted by the Company to the Executive.

5. Employee Benefits. During the Employment Term, Executive shall be provided with benefits on the same basis as benefits are generally made available to other senior executives of the Company.

6. Vacation. Executive shall be entitled to four (4) weeks annual paid vacation in accordance with the vacation accrual policy of the Company.

7. Business Expenses. During the Employment Term, reasonable business expenses incurred by Executive in the performance of his duties hereunder shall be reimbursed by the Company in accordance with Company policies.

8. Termination. Notwithstanding any other provision of this Agreement:

(a) For Cause by the Company. The Employment Term, and Executive's employment hereunder, may be terminated at any time by the Company for "Cause" (as defined below) upon delivery of a "Notice of Termination" (as defined in Section 8(e)) by the Company to Executive. For purposes of this Agreement, "Cause" shall mean, in each case, as reasonably determined by the Board: (i) conviction of, or entry of a pleading of guilty or no contest by, Executive with respect to a felony or any lesser crime of which fraud or dishonesty is a material element; (ii) Executive's willful dishonesty towards the Company; (iii) Executive's willful and continued failure to perform substantially all of his duties with the Company, or a failure to follow the lawful direction of the Board after the Board delivers a written demand for substantial performance and Executive neglects to cure such a failure to the reasonable satisfaction of the Board within fifteen (15) days following receipt of such written demand; (iv) Executive's material, knowing and intentional failure to comply with applicable laws with respect to the execution of the Company's business operations or his material breach of this Agreement; (v) Executive's theft, fraud, embezzlement, dishonesty or similar conduct which has resulted or is likely to result in material damage to the Company or any of its affiliates or subsidiaries; or (vi) Executive's habitual intoxication or continued abuse of illegal drugs which materially interferes with Executive's ability to perform his assigned duties and responsibilities.

If Executive is terminated for Cause pursuant to this Section 8(a), he shall be entitled to receive only his Base Salary and authorized benefits through the date of termination and he shall have no further rights to any compensation (including any Base Salary or Bonus) or any other benefits under this Agreement. All other benefits, if any, due to the Executive following Executive's termination of employment for Cause pursuant to this Section 8(a) shall be determined in accordance with the plans, policies and practices of the Company; provided, however, that Executive shall not participate in any severance plan, policy or program of the Company.

(b) Disability or Death. The Employment Term, and Executive's employment hereunder, shall terminate immediately upon his death or following delivery of a Notice of Termination by the Company to Executive if Executive becomes physically or mentally incapacitated and is therefore unable for a period of ninety (90) consecutive days or one hundred twenty (120) days during any consecutive six (6) month period to perform his duties with substantially the same level of quality as immediately prior to such incapacity (such incapacity is hereinafter referred to as "Disability"). Upon termination of Executive's employment hereunder for either Disability or death, Executive or Executive's estate (as the case may be) shall be entitled to receive his Base Salary through the date of termination and any earned but unpaid Bonus for any calendar year preceding the year in which the termination occurs. Executive or Executive's estate (as the case may be) shall have no further rights to any compensation (including any Base Salary or Bonus) or any other benefits under this Agreement. All other benefits, if any, due Executive following Executive's termination for Disability or death shall be determined in accordance with the plans, policies and practices of the Company; provided, however, that Executive (or his estate, as the case may be) shall not participate in any severance plan, policy or program of the Company.

(c) Without Cause by the Company or for Good Reason by Executive. The Employment Term, and Executive's employment hereunder, may be terminated by the Company without Cause (other than by reason of Executive's Disability) or by Executive for "Good Reason" (as defined below) following the delivery of a Notice of Termination to the other party. If Executive's employment is terminated by the Company without Cause (other than by reason of Disability) or by Executive for Good Reason, Executive shall receive, within thirty (30) days following termination, a lump sum payment of (i) any earned but unpaid Base Salary through the date of termination and (ii) any earned but unpaid Bonus for any calendar year preceding the year in which the termination occurs. In addition, subject to Executive's compliance with Sections 9, 10 and 11, Executive shall continue to receive in bi-weekly installments the Base Salary Executive would have otherwise received through the first (1st) anniversary of the date of termination in the case of termination by the Company without Cause, or through the sixth (6th) month anniversary of the date of termination in the case of termination by Executive for Good Reason; provided, however, that if necessary to avoid additional or accelerated taxation pursuant to Section 409A of the Code, Executive will receive the first twelve (12) installments of the foregoing payments on the six-month anniversary of the date of his termination in a lump sum payment and the remainder of such payments, if any, shall thereafter be paid in bi-weekly installments through the first anniversary of the date of termination. Executive shall have no further rights to any compensation (including any Base Salary or Bonus) or any other benefits under this Agreement. All other benefits, if any, due Executive following a termination pursuant to this Section 8(c) shall be determined in accordance with the plans, policies and practices of the Company; provided, however, that Executive shall not participate in any severance plan, policy or program of the Company. If Executive's employment is terminated pursuant to this Section 8(c), the continued payment of Base Salary shall be subject to Employee's execution of a release in favor of the Company, its affiliates and their respective officers, directors and employees in such form as may be required by the Company.

For purposes of this Agreement, "Good Reason" means:

(i) Any failure by the Company to comply with any of the material provisions of this Agreement, other than an isolated, insubstantial and inadvertent failure not occurring in bad faith;

(ii) any change in the duties or responsibilities (including reporting responsibilities) of Executive that is inconsistent in any material and adverse respect with Executive's position(s), duties or responsibilities with the Company (including any material and adverse diminution of such duties or responsibilities); provided, however, that Good Reason shall not be deemed to occur upon a change in duties or responsibilities (other than reporting responsibilities) that is solely and directly a result of any event set forth in Section 8(a), (b) or (d); or

(iii) any failure by the Company to comply with the provisions of Section 4 of this Agreement;

provided that a termination by Executive with Good Reason shall be effective only if, within thirty (30) days following the delivery of a Notice of Termination for Good Reason by Executive to the Company, the Company has failed to cure the circumstances giving rise to Good Reason.

(d) Termination by Executive without Good Reason. The Employment Term, and Executive's employment hereunder, may be terminated by Executive without Good Reason following the delivery of a Notice of Termination to the Company. Upon a termination by Executive pursuant to this Section 8(d), Executive shall be entitled to his Base Salary up to the date of such termination and he shall have no further rights to any compensation (including any Base Salary or Bonus) or any other benefits under this Agreement. All other benefits, if any, due Executive following termination pursuant to this Section 8(d) shall be determined in accordance with the plans, policies and practices of the Company; provided, however, that Executive shall not participate in any severance plan, policy or program of the Company.

(e) Notice of Termination. Any purported termination of employment by the Company or Executive (other than on account of the death of Executive) shall be communicated by a written Notice of Termination to Executive or the Company, respectively, delivered in accordance with Section 14(j) hereof. For purposes of this Agreement, a "Notice of Termination" shall mean a notice which shall indicate the specific termination provision in this Agreement relied upon, the date of termination, and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of employment under the provision so indicated. The date of termination of Executive's employment shall be the date so stated in the Notice of Termination and shall be no less than thirty (30) days following the delivery of a Notice of Termination; except that in the case of a termination by the Company for Cause in accordance with the terms of Section 8(a) hereof, in which case the date of termination of Executive's employment may be, at the sole discretion of the Company, be the same date as the delivery of the Notice of Termination.

9. Non-Competition/Non-Solicitation.

(a) Executive acknowledges and recognizes the highly competitive nature of the "Business" (as defined below) of the Company and its subsidiaries and affiliates and accordingly agrees as follows:

(i) (A) The term "Business" means the manufacturing, whether directly by the Company or through its various subsidiaries or Affiliates (including without limitation NJPV), of photovoltaic cells and such other related business activities as the Company may engage in from time to time; (B) the Business is conducted primarily in the People's Republic of China ("China" or the "PRC"); (C) Executive has intimate and valuable knowledge of the Business, as well as technical, financial, customer, supplier and other confidential information related to the Business, which, if exploited by Executive in contravention of the terms of this Agreement, would seriously, adversely and irreparably affect the ability of the Company to continue the Business; (D) the agreements and covenants contained in this Agreement, as they relate to the Business and otherwise, have been determined by the Company to be essential to protect the Business and goodwill of the Company; (E) for purposes of this Section 9, the Company shall be construed to include the Company and its subsidiaries and affiliates; and (F) Executive has the means to support himself and his dependents other than by engaging in the Business, and the provisions of this Agreement will not impair such ability in any manner whatsoever.

(ii) During the Employment Term and until the third anniversary of the date Executive ceases to be employed by the Company (the "Restricted Period"), Executive will not directly or indirectly, (A) engage in the Business for Executive's own account in China, (B) enter the employ of, or render any services to, any Person engaged in the Business in the PRC or (C) acquire a financial interest in, or otherwise become actively involved with, any person engaged in the Business in the PRC, directly or indirectly (and whether or not for compensation), as an individual, partner, shareholder, officer, director, principal, agent, trustee or consultant, or (D) interfere with business relationships (whether formed before or after the Effective Date) between the Company and customers or suppliers of, or consultants to, the Company.

(iii) Notwithstanding anything to the contrary in this Agreement, Executive may, directly or indirectly, own, solely through passive ownership as a portfolio investment (with no director designation rights or other special governance rights), securities of any person engaged in the Business which are publicly traded on a national or regional stock exchange or on the over-the-counter market if Executive (A) is not a controlling person of, or a member of a group which controls, such person and (B) does not, directly or indirectly, own 1% or more of any class of securities of such person.

(iv) During the Restricted Period, Executive will not, directly or indirectly, solicit or encourage to cease to work with the Company, or directly or indirectly hire, any person who is an employee of or consultant then under contract with the Company or who was an employee of or consultant then under contract with the Company within the one year preceding such activity without the Company's written consent.

(b) It is expressly understood and agreed that although Executive and the Company consider the restrictions contained in this Section 9 to be reasonable, if a judicial determination is made by a court of competent jurisdiction that the time or territory or any other restriction contained in this Agreement is an unenforceable restriction against Executive, the provisions of this Agreement shall not be rendered void but shall be deemed amended to apply as to such maximum time and territory and to such maximum extent as such court may judicially determine or indicate to be enforceable. Alternatively, if any court of competent jurisdiction finds that any restriction contained in this Agreement is unenforceable, and such restriction cannot be amended so as to make it enforceable, such finding shall not affect the enforceability of any of the other restrictions contained herein.

10. Nondisparagement. Executive agrees (whether during or after Executive's employment with the Company) not to issue, circulate, publish or utter any false or disparaging statements, remarks or rumors about the Company or its affiliates or the officers, directors, managers or shareholders of the Company or its affiliates unless giving truthful testimony under subpoena.

11. Confidentiality. Executive shall not, without the prior written consent of the Company, use, divulge, disclose or make accessible to any other person, firm, partnership, corporation or other entity, any "Confidential Information" (as defined below) except while employed by the Company, in furtherance of the business of and for the benefit of the Company or its affiliates; provided that Executive may disclose such information when required to do so by a court of competent jurisdiction, by any governmental agency having supervisory authority over the business of the Company and/or its affiliates, as the case may be, or by any administrative body or legislative body (including a committee thereof) with jurisdiction to order Executive to divulge, disclose or make accessible such information; provided, further, that in the event that Executive is ordered by a court or other government agency to disclose any Confidential Information or Personal Information, Executive shall (i) promptly notify the Company of such order, (ii) at the written request of the Company, diligently contest such order at the sole expense of the Company as expenses occur, and (iii) at the written request of the Company, seek to obtain, at the sole expense of the Company, such confidential treatment as may be available under applicable laws for any information disclosed under such order. For purposes of this Section 11, "Confidential Information" shall mean non-public information concerning the financial data, strategic business plans, product development (or other proprietary product data), customer lists, marketing plans and other non-public, proprietary and confidential information relating to the business of the Company or its subsidiaries, affiliates or customers, that, in any case, is not otherwise available to the public (other than by Executive's breach of the terms hereof). Upon termination of Executive's employment with the Company and its affiliates, Executive shall return all Company property, including, without limitation, files, records, disks and any media containing Confidential Information, including all copies thereto.

12. Assignment of Inventions.

(a) Exhibit A hereto lists all inventions, original works of authorship, developments, improvements, and trade secrets which were made by the Executive prior to his employment with the Company (collectively referred to as "Prior Inventions"), which belong to the Executive, which relate to the Company's Business, products or research and development, and which are not assigned to the Company hereunder; or, if no such list is attached, the Executive represents that there are no such Prior Inventions.

(b) If in the course of his employment with the Company, the Executive incorporates into a product, process or machine of the Company and/or any other member of the Group a Prior Invention owned by him or in which he have an interest, the Company and/or any member of the Group is hereby granted and shall have a nonexclusive, royalty-free, irrevocable, perpetual, worldwide license to make, have made, modify, use and sell such Prior Invention as part of or in connection with such product, process or machine.

(c) The Executive shall promptly make full written disclosure to the Company, will hold in trust for the sole right and benefit of the Company, and hereby assign, free or charge, to the Company, or its designee, all the right, title, and interest he may have in and to any and all inventions, original works of authorship, developments, concepts, improvements, designs, discoveries, ideas, trademarks or trade secrets, processes, copyright works, know-how, Confidential Information, any other work's information or matter which gives rise or may give rise to any intellectual property of whatsoever nature, whether or not patentable or registrable under any law of any country, which he may solely or jointly conceive or develop or reduce to practice, or cause to be conceived or developed or reduced to practice, during his employment with the Company (collectively referred to as "Inventions"), except as provided in Section 12(j) below.

(d) The Executive acknowledges that the Company, or its designee, has the absolute title, right or interest in and to any and all original inventions or works of authorship which are made by him, as an employee, (solely or jointly with others) within the scope of and during the period of the employment with the Company and which inventions and works are the "service invention-creation" and "works made for hire" as defined under applicable law. If any one or more of the aforementioned Inventions can be protected by copyright and are not considered to be "service invention-creation" or "works made for hire" as defined under applicable law, such items shall be deemed to be assigned and transferred completely and exclusively to the Company, or its designee, by virtue of the execution of this Agreement by the Executive.

(e) The Executive acknowledges that the decision whether or not to commercialize or market any invention developed by him solely or jointly with others is within the Company's sole discretion and for the sole benefit of the Company and/or any other member of the Group, and that no royalty will be due to the Executive as a result of the Company's efforts (or the efforts of any member of the Group) to commercialize or market any such Invention.

(f) The Executive shall keep and maintain adequate and current written records of all Inventions made by him (solely or jointly with others) during the term of his employment with the Company. The records will be in the form of notes, sketches, drawings, and any other format that may be specified by the Company. The records will be available to and remain the sole property of the Company at all times.

(g) The Executive shall assist the Company, or its designee, at the Company's expense, in every proper way to secure the Company's (or its designee's) rights in the Inventions and any copyrights, patents, mask work rights or other intellectual property rights relating thereto in any and all countries, including the disclosure to the Company of all pertinent information and data with respect thereto, the execution of all applications, specifications, oaths, assignments and all other instruments which the Company shall deem necessary in order to apply for and obtain such rights and in order to assign and convey to its successors, assigns, and nominees the sole and exclusive rights, title and interest in and to such Inventions, and any copyrights, patents, mask work rights or other intellectual property rights relating thereto, and to do all other things reasonably requested by the Company, or its designee, (both during and after the term of this Agreement) in order to vest more fully in the Company, or its designee, all ownership rights in the Inventions.

(h) If the Company is unable because of the Executive's mental or physical incapacity or for any other reason to secure his signature to apply for or to pursue any application for any United States, PRC or foreign patents or copyright registrations covering Inventions or original works of authorship assigned to the Company as set forth above, the Executive hereby irrevocably designates and appoints the Company and its duly authorized officers and agents as his agent and attorney in fact, to act for and in his behalf and stead to execute and file any such applications and to do all other lawfully permitted acts to further the prosecution and issuance of letters patent or copyright registrations thereon with the same legal force and effect as if executed by the Executive.

(i) With respect to Inventions that are not considered as "service invention-creation" or "works made for hire" under applicable law, to the extent that any application, registration or other governmental processes may be required in order to protect the Company's, or its designee's ownership of any Inventions, the Executive hereby grants the Company, or its designee, an irrevocable power of attorney to execute all documents and do all acts in his name as the Company, or its designee, may deem necessary or advisable to effect such processes and agrees to diligently and faithfully assist the Company, or its designee, in effecting such processes.

(j) Any assignment of any Inventions under this Agreement includes all rights of paternity, integrity, disclosure and withdrawal and any other rights that may be known as or referred to as "moral rights" (collectively "Moral Rights"). To the extent such Moral Rights cannot be assigned under applicable law and to the extent the following is allowed by the laws in the various countries where such Moral Rights exist, the Executive hereby waives such Moral Rights and consent to any action of the Company, or its designee, that would violate such Moral Rights in the absence of such consent. The Executive hereby covenants to confirm any such waivers and consents from time to time as requested by the Company, or its designee.

(k) In respect of any inventions which are not Inventions but which relate to the business of the Company or Group, the Company or any member of the Group shall have a pre-emptive right to acquire for itself or its nominee all or any part (at the Company's option) of the Executive's rights therein within three (3) months of their disclosure by the Executive to the Company under Section 12(c) above on such terms as shall be agreed by the Company and Executive. In the event that the Company or any member of the Group decides not to acquire such inventions, the Executive hereby grants to the Company, a perpetual, worldwide, irrevocable, royalty-free, fully paid-up, exclusive license to use for any and all purposes and in any manner any such other inventions that are within the scope of the actual and anticipated business of the Company or the Group.

13. Enforcement of Restrictive Covenants. Executive acknowledges and agrees that the Company's remedies at law for a breach or threatened breach of any of the provisions of Sections 9, 10, 11 or 12 herein would be inadequate and, in recognition of this fact, Executive agrees that, in the event of such a breach or threatened breach, in addition to any remedies at law, the Company, without posting any bond, shall be entitled to obtain equitable relief in the form of specific performance, temporary restraining order, temporary or permanent injunction or any other equitable remedy which may then be available. In addition, upon a violation by Executive of Section 9, 10, 11 or 12, as determined in good faith by the Board, all payments remaining due to Executive pursuant to Section 8(c), if applicable, shall immediately cease.

14. Miscellaneous.

(a) Acceptance. Executive hereby represents that his performance and execution of this Agreement does not and will not constitute a breach of any agreement or arrangement to which he is a party or is otherwise bound, including, without limitation, any noncompetition or employment agreement.

(b) GOVERNING LAW; CONSENT TO JURISDICTION. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK OF THE UNITED STATES OF AMERICA APPLICABLE TO AGREEMENTS MADE AND TO BE WHOLLY PERFORMED WITHIN THAT STATE, WITHOUT REGARD TO THE CONFLICT OF LAWS PROVISIONS OF ANY JURISDICTION WHICH WOULD CAUSE THE APPLICATION OF ANY LAW OTHER THAN THAT OF THE STATE OF NEW YORK. ANY ACTION TO ENFORCE THIS AGREEMENT AND/OR THE EXHIBITS HERETO (OTHER THAN AN ACTION WHICH MUST BE BROUGHT BY ARBITRATION PURSUANT TO SECTION 14(d)) MUST BE BROUGHT IN, AND THE PARTIES HEREBY CONSENT TO THE JURISDICTION OF, A COURT SITUATED IN NEW YORK COUNTY, NEW YORK. EACH PARTY HEREBY WAIVES THE RIGHTS TO CLAIM THAT ANY SUCH COURT IS AN INCONVENIENT FORUM FOR THE RESOLUTION OF ANY SUCH ACTION.

(c) JURY TRIAL WAIVER. THE PARTIES EXPRESSLY AND KNOWINGLY WAIVE ANY RIGHT TO A JURY TRIAL IN THE EVENT ANY ACTION ARISING UNDER OR IN CONNECTION WITH THIS AGREEMENT OR EXECUTIVE'S EMPLOYMENT WITH THE COMPANY IS LITIGATED OR HEARD IN ANY COURT.

(d) Arbitration; Legal Fees. Except to the extent contemplated by Section 13, any dispute, controversy or other claim arising out of or relating to (i) this Agreement, or (ii) Executive's employment with the Company shall be resolved by binding confidential arbitration before a single arbitrator, to be held in New York, New York in accordance with the Commercial Arbitration Rules of the American Arbitration Association. Judgment upon the award rendered by the arbitrator may be entered in any court having jurisdiction thereof. Each party shall be responsible for its own expenses relating to the conduct of the arbitration or litigation (including reasonable attorneys' fees and expenses) and shall share the fees of the American Arbitration Association and the arbitrator, if applicable, equally.

(e) Entire Agreement/Effectiveness of this Agreement. This Agreement constitutes the entire agreement between the parties as of the Effective Date and supersedes all previous agreements and understandings between the parties with respect to the subject matter thereof. Executive hereby acknowledges and agrees that the Prior Employment Agreement shall terminate as of immediately prior to the Effective Date and Executive shall have no further rights thereunder and the Company and its affiliates shall have no further obligations thereunder.

(f) Amendments. There are no restrictions, agreements, promises, warranties, covenants or undertakings between the parties with respect to the subject matter herein other than those expressly set forth herein. This Agreement may not be altered, modified, or amended except by written instrument signed by the parties hereto. Sections 9, 10, 11, 12 and 13 survive the termination of this Agreement and the termination of Executive's employment with the Company, except as otherwise specifically stated therein.

(g) No Waiver. The failure of a party to insist upon strict adherence to any term of this Agreement on any occasion shall not be considered a waiver of such party's rights or deprive such party of the right thereafter to insist upon strict adherence to that term or any other term of this Agreement.

(h) Severability. In the event that any one or more of the provisions of this Agreement shall be or become invalid, illegal or unenforceable in any respect, each such provision shall be processed with whatever deletion or modification is necessary so that the provision is otherwise legal, valid and enforceable and gives effect to the commercial intention of the parties. To the extent it is not possible to delete or modify the provision, in whole or in part, then such provision or part of it shall, to the extent that it is illegal, invalid or unenforceable, be deemed not to form part of this Agreement and the validity, legality and enforceability of the remaining provisions of this Agreement shall, subject to any deletion or modification made hereunder, not be affected.

(i) Assignment. Executive shall not have the right to assign his interest in this Agreement, any rights under this Agreement or any duties imposed under this Agreement. This Agreement may be assigned by the Company to any successor in interest to substantially all of the business operations of the Company. Such assignment shall become effective when the Company notifies Executive of such assignment or at such later date as may be specified in such notice. Upon such assignment, the rights and obligations of the Company hereunder shall become the rights and obligations of such successor company.

(j) Notice. For the purpose of this Agreement, notices and all other communications provided for in this Agreement shall be in writing and shall be deemed to have been duly given if delivered personally, if delivered by overnight courier service, if sent by facsimile transmission or if mailed by registered mail, return receipt requested, postage prepaid, addressed to the respective addresses or sent via facsimile to the respective facsimile numbers, as the case may be, as set forth below, or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notice of change of address shall be effective only upon receipt; provided, however, that (i) notices sent by personal delivery or overnight courier shall be deemed given when delivered; (ii) notices sent by facsimile transmission shall be deemed given upon the sender's receipt of confirmation of complete transmission, and (iii) notices sent by United States registered mail shall be deemed given seven (7) days after the date of deposit in the United States mail.

If to Executive, to:

If to the Company, to:

123 Focheng West Road
Jiangning Economic & Technical Development Zone
Nanjing, PRC 211100
Facsimile: +86 (25) 5276-6882
Attention: Lu Tingxiu

with a copy to:

Latham & Watkins LLP
41/F One Exchange Square
8 Connaught Place, Central
Facsimile: (852) 2522-7006
Attention: David T. Zhang

(k) Withholding Taxes. The Company may withhold from any amounts payable under this Agreement such Federal, state, local and foreign taxes as may be required to be withheld pursuant to any applicable law or regulation.

(l) Continuation of Employment. Unless the parties otherwise agree in writing, continuation of Executive's employment with the Company beyond the expiration of the Employment Term shall be deemed an employment "at will" and shall not be deemed to extend any of the provisions of this Agreement, and Executive's employment may thereafter be terminated at will by Executive or the Company.

(m) Counterparts. This Agreement may be signed in counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

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IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the day and year first above written.

EXECUTIVE

CHINA SUNERGY CO., LTD.

By:

Name:

Title:

EXHIBIT A
Prior Inventions

Schedule

No.	Date of Agreement	Senior Executive Officer	Term of Employment	Position	Prior Inventions
1	October 25, 2006	Jianhua Zhao	the day immediately preceding the Fifth (5 th) anniversary of the Effective Date (the " <u>Initial Term</u> "); provided, however, that such term shall be automatically extended for successive twelve (12) month periods unless, no later than Sixty (60) days prior to the expiration of the Initial Term or any extension thereof, either party hereto shall provide written notice to the other party hereto of its or his desire not to extend the term hereof.	President and Chief Scientist; Board	Screen printed p-type silicon solar cell manufacturing technology, involving the standard steps of texturing etch, phosphorus diffusion, edge isolation plasma etch, PECVD SiNx deposition, screen printing front and rear Ag and Al contact metal, firing the pastes, testing, sorting and packing.
2	October 25, 2006	Aihua Wang	the day immediately preceding the Fifth (5 th) anniversary of the Effective Date (the " <u>Initial Term</u> "); provided, however, that such term shall be automatically extended for successive twelve (12) month periods unless, no later than Sixty (60) days prior to the expiration of the Initial Term or any extension thereof, either party hereto shall provide written notice to the other party hereto of its or his desire not to extend the term hereof.	Vice President - Research and Development; Board	Screen printed p-type silicon solar cell manufacturing technology, involving the standard steps of texturing etch, phosphorus diffusion, edge isolation plasma etch, PECVD SiNx deposition, screen printing front and rear Ag and Al contact metal, firing the pastes, testing, sorting and packing.
3	August 30, 2007	Fang Yang	the day immediately preceding the Third(3 rd) anniversary of the Effective Date (the " <u>Initial Term</u> "); provided, however, that such term shall be automatically extended for successive twelve (12) month periods unless, no later than Ninety (90) days prior to the expiration of the Initial Term or any extension thereof, either party hereto shall provide written notice to the other party hereto of its or his desire not to extend the term hereof.	Assistant to Chief Executive Officer and Vice President- Business Planning	None
4	April 2009	Shiliang Guo	the finish of acting CFO	Acting CFO	None

Purchase Contract

Contract No.: CG12008209
 Signing Place: Jiangning District, Nanjing
 Signing Date: 16-6-2008

The Seller: CEEG (Nanjing) Semiconductor Material Co., Ltd.	The Buyer: China Sunergy (Nanjing) Co., Ltd.
Address: No. 6 Shuige Road, Jiangning Economy and Technology Development Zone, Nanjing	Address: No. 123 West Focheng Road, Jiangning Economy and Technology Development Zone, Nanjing
Postal code: 211100	Postal code: 211100
Legal representative: Gao Zhengfei	Legal representative: Lu Tingxiu
Authorized agent:	Contact:
Tel: 025-52095976	Tel: 025-52766620
Fax: 025-52095953	Fax: 025-52766882

Through amicable consultation and in accordance with *the Contract Law of the People's Republic of China*, the two parties hereof have agreed to enter into the following contractual terms in connection with the purchase of the following goods for mutual compliance and performance.

1. Product name, specification, type, quantity and amount

No.	Product name	Specification & model	Unit	Quantity.	Unit price	Total price	Remarks
1.	Monocrystalline silicon wafer	125	Piece	200,000	57	11,400,000	
Total amount (in words) (including 17% value-added tax): Say RMB eleven million, four hundred thousand only; in figures: RMB11,400,000							

2. Quality standard of silicon wafers

Appearance and electric performance: Conductivity type: P (doped element of boron); crystal orientation: $\langle 100 \rangle \pm 3^\circ$; resistivity: 0.5~1, 1~3 and 3~6 .cm; resistivity nonuniformity of single wafer (RRV) <25%; square size: 125 ± 0.5 mm; diagonal length: 150 ± 1 mm; arc length 27.5~30.80 mm; thickness: 200 ± 20 μ m; (TTV 30 μ m); square wafer angle: $90 \pm 0.5^\circ$; bending degree 40 μ m; surface tool mark <10 μ m; free of recess, perforation and stain; the edge collapse: one third of the side thickness, with the length <0.5 mm and the width towards inside surface < 0.2 mm, on each wafer are not more than two pieces.

Electronic performance: working life 10 μ s; carbon content 5×10^{-16} and oxygen content 1×10^{-18} .

It is difficult to analyze and test impurities content and wafer's working life and is impossible to test all performance of each wafer. Therefore, the Buyer will conduct inspection on the silicon wafers purchased by sampling inspection and qualification test through preproduction.

- For the sampling inspection, the acceptance and inspection of silicon wafers are conducted under the regulations of GB/T 2828. 1-2003 and GB/T 2829-2002, and the samples are tested once only. The acceptance and inspection items, testing level and acceptable quality level should be carried out according to the stipulations in the table below. The order of the testing items is not regulated.

Testing item		Testing level	Acceptable quality level (AQL) %
Type		II	0.25
Resistivity			1
Thickness allowance			1
Gross thickness change			1
Camber			1
Surface quality	Cantilever		0.4
	Edge collapse		0.4
	Incision		0.4
	Piezoglypt		0.4
	Corner broken		0.4

- For the qualification test through preproduction, 10% of the silicon wafers (purchased as qualified products) shall be evenly taken out and preproduced after technology optimization. If the average conversion rate exceeds 15.00%, it means that the silicon wafers delivered hereunder meet the requirements.

3. Terms and time of payment

3.1 The Buyer shall pay all the payment for goods to the account of the Seller within one week after effectiveness of Contract.

3.2 The Seller shall be responsible for providing the Buyer with full-amount invoice of the 17% value-added tax (VAT) within five days after delivery of goods. If the Seller fails to provide VAT invoice within thirty days or the Buyer suffers tax loss due to the Seller, the losses shall be borne by the Seller.

4. Packing, transportation and insurance of goods

4.1 Packing shall meet the transportation requirements of the solar-grade monocrystalline silicon wafers. Any loss arising from improper packing shall be borne by the Seller.

4.2 The Seller shall be responsible for transportation, and cover the freight and insurance premium.

5. Term and place of delivery

5.1 Term of delivery: The Seller shall delivery the goods on the day after receipt of payment.

5.2 Place of delivery: Both parties agree that the place of delivery shall be the Buyer's factory.

6. Quality inspection and objection

In case of any quality defect, the Buyer shall complete inspection in accordance with standards stipulated hereunder and claim within one month of the arrival of the goods at the Buyer's warehouse. The Seller shall reply within seven days upon receipt of written notice on quality objection. If the Seller fails to reply within seven days, it shall be deemed that the Buyer's objection has been accepted by the Seller.

7. Reasonable Consumption Standard and Calculation

It shall be subject to the actual quantity of goods received at the Buyer's location.

8. Liabilities for breach

8.1 Within the quality inspection period, if the type, specifications and technology parameters of the products delivered by the Seller do not conform to that is agreed herein, the Buyer shall be entitled to payment refund, replacing of quality goods or price reduction according to the specific situation of the products. The Seller shall reply within three days after receiving the Buyer's written disposal opinion, otherwise it shall be deemed to consent to the Buyer's disposal opinion.

8.2 If the Seller delays the delivery, the Seller shall pay to the Buyer a default penalty of 0.05% of the total value of the delayed goods per day.

8.3 It shall be deemed as failure of delivery if the Seller fails to deliver goods within seven working days after the due time, and the Buyer shall be entitled to notify the Seller to terminate this Contract. This Contract shall be terminated upon the arrival of the written notice to the Seller. The Seller shall return the amount paid by the Buyer within three days after receiving Buyer's written notice for contract termination and compensated for the relevant losses suffered by the Buyer. Both parties agree that the default penalty shall be 20% of the amount of this Contract.

9. Transfer

Neither party may transfer all or part of the rights and obligations hereunder without written consent of the other party.

10. Confidentiality

The parties hereto and their employees, agents, representatives and counsel shall treat the terms and conditions under this Contract and any its supplementary agreements as business secrets and shall not disclose the information to any third party unless upon consent of the other party. Otherwise, the defaulting party shall compensate as much as twice of the direct or indirect losses of the other party.

11. Force majeure

If any party is unable to perform the contract due to any force majeure event, the affected party shall notify the other party within seven days upon the occurrence of such event, and shall present written evidence issued by the relevant authority within fifteen days upon the end of such events and could be partially or wholly exempt from the liability in the light of the impact caused by force majeure. Where an event of force majeure occurs after the party's delay in performance, the defaulting party shall not be exempted from its liabilities.

12. Integrity Assurance

12.1 It shall be viewed as damage to the Buyer's interest if the Seller and its staff directly or indirectly give, in the name of the company or an individual, a gift of money, valuables, securities or provide an improper interest in otherwise forms to any employee of the Buyer, or if the Seller and its staff conduct carries out a transaction similar to this Contract, in the name of the company or an individual, with any employee of the Buyer or any third person introduced by such employee. The Seller shall compensate as much as twice of the direct or indirect losses incurred by the Buyer by such reason, and shall be liable for the liquidated damages as of 20% of the amount of this Contract per breach (up to RMB 1,000,000).

12.2 The integrity report method for the Buyer: Supervision Committee of CHINA SUNERGY (NANJING) CO., LTD. 025-52766726 (Fax) yunie.cheng@chinasunergy.com.

13. Prohibition of commercial fraud

If the Buyer/Seller breaches the principle of honesty by providing to the Buyer/ Seller false registration materials, false certificates of qualification or false information, or by hiding the truth to deceive the Buyer/Seller or the end user, it shall be liable for the liquidated damages as of 20% of the amount of this Contract (up to RMB 1,000,000). This Article shall not preclude the liabilities of breach undertaken by the Buyer/Seller according to other provisions hereunder.

14. Dispute resolution

Any and all disputes arising from validity, performance and interpretation and so on of the Contract shall first be resolved by the parties through amicable consultation. In case no settlement can be reached through consultation, the disputes shall be governed by the people's court of first instance with jurisdiction where the Buyer is located. All related fees paid for litigation (including attorney fees, travel fees, evidence collection fees, notarization fees and litigation fees, etc) shall be borne by the losing party.

15. Effective and miscellaneous

15.1 The Contract shall take effect upon signature and seal by both parties. The printed text of the content hereof shall prevail. In case of any modification, the parties hereto shall confirm the modified text by signature and seal. In case the contract text covers more than one page, seal on the perforation shall be affixed to such pages.

15.2 The Contract is in duplicate, with each party holding one counterpart respectively. The two counterparts shall have the same legal effect. The parties hereto shall send the original contract text to each other within three working days as of the date hereof. The fax copy shall have the same effect as the original.

15.3 Any matters not covered in this Contract shall be mutually negotiated by both parties and be set forth in the supplementary agreements, which shall have the same legal effect as the Contract.

The Seller: CEEG (Nanjing) Semiconductor Material Co., Ltd. /Seal/	The Buyer: China Sunergy (Nanjing) Co., Ltd. (special seal for contract) /Seal/
Authorized agent:	Contact:
Date:	Date:

Purchase Contract

Contract No.: CG120080255

Signing Place: Jiangning District, Nanjing

Signing Date: 29-7-2008

The Seller: CEEG (Nanjing) Semiconductor Material Co., Ltd.	The Buyer: China Sunergy (Nanjing) Co., Ltd.
Address: No. 6 Shuige Road, Jiangning Economy and Technology Development Zone, Nanjing	Address: No. 123 West Focheng Road, Jiangning Economy and Technology Development Zone, Nanjing
Postal code: 211100	Postal code: 211100
Legal representative: Gao Zhengfei	Legal representative: Lu Tingxiu
Authorized agent:	Contact:
Tel: 025-52095976	Tel: 025-52766620
Fax: 025-52095953	Fax: 025-52766882

Through amicable consultation, the two parties hereof supplement the contract numbered CG12008029, which has been executed and effective, as follows:

1. Quantity: the quantity of monocrystalline 125 wafer supplied under the original contract: 200000 pieces. Now both parties hereof agree to increase the supply quantity under the original contract to about 290000 pieces (subject to the quantity actually delivered).
2. Other terms shall refer to CG120080209.
3. This agreement shall come into effect upon signature and seal by both parties. The Contract is in duplicate, with each party holding one counterpart respectively. The fax copy shall have the same effect as the original.

The Seller: CEEG (Nanjing) Semiconductor Material Co., Ltd. /Seal/	The Buyer: China Sunergy (Nanjing) Co., Ltd. (special seal for contract) /Seal/
Authorized agent:	Contact:
Date:	Date:

SALES CONTRACT

No. : CG120080316
Date: 08-6-3

The Seller: China Electric Equipment Group (HK) Ltd.
Address Unit 1107, Tower 3, Enterprise Square One, 9 Sheung Yuet Road, Kowloon Bay, Kowloon, Hong Kong
Tel+852-2757 2206
Fax+852-2243 2380

The Buyer: China Sunergy (Nanjing) Co., Ltd.
Add: NO.123, FoCheng West Road, Jiangning Economic & Technical Development Zone, Nanjing 211000, China
Tel: +86-25-52766603
Fax: +86-25-52766882
Contact person: Sun Qiquan

This contract is made out by and between the Buyer and the Seller, whereby the Buyer agree to buy and the Seller agree to sell the under mentioned commodity according to the terms and conditions stipulated below:

1. Goods description:

Commodity Descriptions	Quantity	Unit price	Price term	Total Amount
Solar Silicon Wafers (125mm*125mm)	222,444 pc	5.83\$/pc CIF Nanjing	T/T 90 days	\$1,296,848.52
Total Value: 1,296,848.52 USD				

2. Technical Requirement & Quality Standard:

The seller shall guarantee that the goods are conformity with technical specifications as Annex 1, otherwise the seller should change them into eligible wafer or return the money of goods.

3 Terms of Payment

The buyer should make a payment in 90 days for the amount of the delivered goods by wire transfer to the seller's account. The buyer has the right to inspect goods at anytime before shipment and payment.

The buyer should receive following documents, Original AWB (B/L), commercial invoice and packing list.

4 Shipment Term BY AIR

5 Delivery Date: 90 days after contract in force.

6. Port of Shipment & Destination:

From Hong Kong to Nanjing, China

7 Packing:

To be packed in plastic bubble box, then put into carton. (Standard for Exporting) Cargo with wooden pallet suitable for long distance transportation and well protected against dampness, moisture, shock, rust and rough handling. The seller shall be liable for any damage to the goods on account of improper packing and for any rust damage attributable to inadequate or improper protective measures taken by the seller, and in such case or cases any all losses and/or expenses incurred in consequence thereof shall be borne by the seller.

8Shipping Mark:

The Seller shall mark on the surface of each package with fadeless paint, the package number, measurement, gross weight, net weight, the lifting positions, such cautions as "DO NOT STACK UP SIDE DOWN", "HANDLE WITH CARE", "KEEP AWAY FROM MOISTURE".

9Shipping Advice:

The Seller shall, immediately upon the completion of loading of the commodity, notify by fax the Buyer of the Contract number, name of the goods, number of packages, quantity, gross/net weight and dimension of each package, invoice value and date of shipment etc.

10 Insurance:

To be effected by the Seller. The beneficiary of the insurance is the Buyer.

11Inspection and Claim:

Claims for quality or quantity should be filed by the Buyer with the Seller within 30 working days after arrival of the goods at buyer's warehouse. Claims in respect of matters within responsibility of insurance company or shipping company will not be entertained by the Seller. The claims mentioned above shall be regarded as being accepted if the seller fails to reply within 7 days after the seller received the buyer's claims.

12 Defaulting Liabilities

12.1 If the seller delays in making delivery (with the exception of delay due to Force Majeure), If such delay exceeds the grace period, the seller shall pay defaulting penalty to the buyer at 0.5% of the contract price per week of delay. However, total of the defaulting penalty shall not exceed 5% of the contract price.

12.2 If the seller fails to deliver cargo 4 weeks after the grace period, the buyer shall have the right to terminate this contract and request the seller to refund all cargo amount already paid plus the interest (at the interest rate of the bank during the same period of time) accrued during the period of time, but the Seller shall not thereby be exempted from the payment of penalty.

13 Force Majeure

13.1 "Force Majeure" means all events that can't be foreseen at the time of the execution hereof, whose occurrence and consequence can't be avoided or conquered, and that take place after the effective date hereof and affects any party's full or partial performance hereof, including earthquake, typhoon, flood, fire, war as well as any other unforeseeable, unavoidable or unconquerable event.

13.2 If due to any force majeure event one party is unable to perform its contractual liabilities, the affected party shall notify the other party within 7 days, and shall present certificate issued by local industrial and commercial authorities, specifying the nature and duration of the force majeure event. If the force majeure event lasts for over 3 months, both parties shall have the right not to continue to perform the liabilities hereunder, in this case neither party may request the other party to bear the defaulting liabilities.

14. Applicable Law

The agreement will apply to Chinese law.

15. Lawsuit

15.1 All disputes in connection with this contract or the execution therefore shall be settled through friendly negotiations.

15.2 In case no settlement can be reached through friendly negotiations, the case then will be submitted to China Nanjing court. The cost shall be borne by the losing party.

16 Terms of Duty Integrity Assurance:

The seller and other staff present directly or indirectly a gift of money, valuables, securities and provide an unfair advantage by other covert means on behalf of the company or person to the buyer, or the seller and other staff deal with the buyer or the introduced person about the business similar to the contract on behalf of the company or person. All of above will be deemed against the interests of the buyer. The seller should compensate twice the buyer's losses caused by this situation. And the seller should afford the 20% of the total contract amount for the default. (not exceed RMB 1,000,000) And the buyer will reserve the right to ask for the legal liability of the seller.

17 Terms of Prohibition of commercial fraud

If the seller provides the false registration information, the false certification of quality and the false information to the buyer or conceal the truth to deceive the buyer or the end-user, He or She should afford the 20% of the total contract amount for the default. (not exceed RMB 1,000,000) This agreement should not affect the duty of breach that the seller should afford according to other terms.

18. Remarks

18.1 This Contract was written in both English and Chinese, which have equal validity. In case there is any discrepancy between the passages in two languages, the Chinese version shall govern. Attachments are an integral part of the Contract. This Contract is made out in four originals, two originals to be held by each party in witness thereof. Fax for this contract is same valid as original.

18.2 The contract enters into effect after the last party's seal and signature. Appendixes are an integral parts hereof.

18.3 Modification and supplementation hereof shall become effective after being signed and sealed between both parties(seller and buyer) in writing.

18.4 Neither party may, unless agreed upon in writing between both parties (seller and buyer), transfer right and liabilities to the third party.

The Seller: China Electric Equipment Group
(HK) Ltd.

The BuyerChina Sunergy (Nanjing) Co.,
Ltd.

Signature/Seal/Seal/
date

Signature/Seal/Seal/
date

Purchase Contract

Contract No.: CG120090007

Place of execution: Jiangning, Nanjing

Date of execution: January 19, 2009

Party A: Jiangxi Jingde Semiconductor New Materials Co., Ltd.

Address: High and New-Tech Industrial Park, Jingdezhen, Jiangxi

Legal representative: Gao Zhengfei

Authorized agent

Contact phone: 0798-8580266

Fax: 0798-8568938

Party B: China Sunergy (Nanjing) Co., Ltd.

Address: 123, West Focheng Road, Jiangning Economic & Technical Development Zone, Nanjing

Legal representative: Lu Tingtiu

Contact person:

Contact phone: 025-52766603

Fax: 025-52766882

Through friendly consultations and in accordance with the *Contract Law of the People's Republic of China*, the parties agree to enter into the following terms with respect to the purchase of the following goods for mutual observance and performance:

1. Product name, specification and type, quantity and price are as follows:

From March 2009 to December 2009, Party A will sell to Party B 22 tons of solar grade multicrystalline silicon materials each month, totaling 220 tons. The reference price for the delivery in March 2009 is RMB 950 Yuan/KG (including tax) (The actual supply price is negotiated by the parties each month before the delivery, provided that Party A warrants that the sale price is 5% lower than the market price during the same period. The market price is provided by Party B according to the actual average purchase price of other independent third party main suppliers, or price converted from the price of silicon wafer in case of no availability of the price of the silicon materials). The total contract amount is RMB 200 million (subject to the actual amount).

2. Payment method and time:

2.1 Within 7 days upon effectiveness of the Contract, Party B shall prepay to Party A a banker's acceptance note of RMB 100 million. The prepayment is offset against the payment for goods within the contract term, and after deduction of the prepayment, Party B shall make the payment according to the actual quantity of goods delivered.

2.2 In case that Party B notifies Party A of termination of the Contract in writing thirty days in advance, Party A warrants that it will refund the prepayment balance unconditionally within fifteen days upon receipt of the notice.

2.3 Party A is responsible for providing the other party with 17% of the full-amount value-added tax invoice within fifteen days upon delivery of goods.

3. Delivery term and place:

3.1 Delivery term: Party A shall deliver all the goods that shall be delivered that month prior to the end of each month.

3.2 Delivery place: Party B's factory.

4. Packing, transportation and insurance of goods:

4.1 Packing is suitable for long-distance transportation, and any loss resulting from improper packing shall be borne by Party A;

4.2 Freight, insurance premium of multicrystalline silicon materials and transportation risks are borne by Party A.

5. Inspection method and period:

5.1 Quality claims shall be issued within thirty working days upon arrival of silicon materials at Party B's warehouse. If Party A fails to raise the claim within the specified period, it shall be deemed that Party A's delivery complies with the stipulations herein.

6. Liability for breach of contract:

6.1 Where technical parameters of the silicon materials delivered by Party A are inconsistent with the stipulations herein, and determined to be the quality problem by Party B, Party B will return all the nonconforming silicon materials, and Party A will replace them within seven working days.

6.2 In case that Party A delays the delivery unilaterally without Party B's written consent, Party A shall pay to Party B a default penalty at 5% of the value of goods delayed per day; in case that Party A fails to deliver the goods as scheduled herein for more than 30 days, Party B is entitled to rescind the Contract. The Contract is terminated as of the date of Party B's written notice, and Party A shall refund the payment for goods undelivered within the period required by Party B and pay to Party B a default penalty at 20% of the value of goods undelivered.

7. Transfer of the Contract:

Neither party may transfer the rights and obligations herein in whole or in part without the other party's written consent.

8. Confidentiality:

Party A and Party B, their employees, agents, representatives or advisors shall deem all the terms and conditions in the Contract and its supplementary agreements as business secrets, and shall not disclose them to any third party without the other party's consent. Otherwise, the defaulting party shall compensate as much as twice of the direct or indirect losses of the other party.

9. Force majeure:

If any party is unable to perform its contractual liabilities due to any force majeure event, the affected party shall notify the other party within 7 days upon the occurrence of such event, and shall present written evidence issued by the relevant authority within 15 days upon the end of such events and could partially or wholly exempt from the liability in the light of the impact caused by force majeure.

10. Integrity Assurance

10.1 It shall be viewed as damage to other party's interest if either party and its staff directly or indirectly give, in the name of the company or an individual, a gift of money, valuables, securities or provide an improper interest in otherwise forms to any employee of the receiving party, or either of the Buyer and Seller as well as its staff does, whether in the name of the company or an individual, any transaction similar to that contemplated hereunder with any employee of the other party or any third party introduced by any employee of the other party. The breaching party shall compensate as much as twice of the direct or indirect losses incurred by the other party by such reason, as well as the liquidated damages amounting to 20% of the total amount of this Contract per breach (up to RMB 1,000,000).

10.2 The integrity report method: supervision reporting email: JC@Chinasunergy.com, and the reporting telephone: 8625-52766726.

11. Prohibition of business fraud:

If either party breaches the principle of honesty by providing false registration materials, false certificates of qualification or false information, or by hiding the truth from and to deceiving the other party or the end user, it shall be liable for the liquidated damages (up to RMB 1,000,000). This Article shall not preclude the liabilities of breach undertaken by the breaching party according to other provisions hereunder.

12. Dispute settlement methods

Any dispute arising from validity, performance and interpretation of the Contract shall firstly be settled by both parties through amicable consultation. In case that no settlement can be reached, the dispute shall be submitted to the people's court of first instance with jurisdiction in Nanjing. The relevant fees resulting from the litigation (including attorney fees, travel fees, evidence collection fees, notarization fees and litigation fees, etc) shall be borne by the losing party.

13. Effectiveness and miscellaneous

13.1 The Contract comes into effect upon signatures and seals of both parties, and becomes null and void after both parties have fulfilled their own obligations. Any modification shall not become effective until signed and sealed by both parties. In case the contract text covers more than one page, seal on the perforation shall be affixed to such pages.

13.2 The Contract is in duplicate, with each party holding one counterpart respectively. The two counterparts shall have the same legal effect. The parties hereto shall send the original contract text to each other within three working days as of the date hereof. The fax copy shall have the same effect as the original.

13.3 Any matter not covered herein shall be shall be mutually negotiated by both parties and set forth in the supplementary agreements, which shall have the same legal effect as the Contract.

Party A: Jiangxi Jingde Semiconductor	Party B: China Sunergy (Nanjing) Co.,
New Materials Co., Ltd. /Seal/	Ltd. /Seal/
Authorized representative:	Contact person:
Date of execution:	Date of execution:

Sales Contract

Contract No.: CG120080107
Signing Place: Jiangning District, Nanjing
Signing Date: April 7, 2008

The Buyer: CEEG (Shanghai) Solar Science & Technology Co., Ltd.
Add.: No. V-25A, Western Science & Technology Park, Songjiang Industrial Park, Shanghai
Tel.: 021-57850711
Fax: 021-57850700

The Seller: China Sunergy (Nanjing) Co., Ltd.
Add.: No. 123, West Focheng Road, Jiangning Economy and Technology Development Zone, Nanjing
Tel.: 025-52766603
Fax: 025-52766882

Through friendly consultation between both parties and in accordance with the *Contract Law of the People's Republic of China*, the parties hereto agree to enter into the following contractual terms in connection with the sales of the following goods for mutual observance and performance:

1. Product name, specification, type, quantity and amount:

1.1 The Seller provides the Buyer with 268,374 monocrystalline 125 silicon wafers and 56,733 monocrystalline 126 silicon wafers; the circumstances include cutting mark, stain, edge-breaking, notch, unfilled corner, excessive length and width, excessive diagonal, excessive thickness, excessive TTV, scuffing, perforation, arcualia, excessive RRV, oxide film not ground, eccentricity and twin-crystal; the specific delivery quantity of each specification shall be subject to the written notice of the Seller; the price is RMB47/wafer (tax included).

2. Quality standard

Appearance and electric performance: Conductive type: P (doped element of boron); crystal orientation: $\langle 100 \rangle \pm 3^\circ$; resistivity: 0.5~1, 1~3 and 3~6 .cm; square size: 125 ± 0.5 mm and 126 ± 0.5 mm; arc length: 27.5~30.80 mm; thickness: 200 ± 20 μ m, 220 ± 25 μ m; square wafer angle: $90 \pm 0.5^\circ$.

Electronics properties: working lift 10 μ s; carbon content 5×10^{-6} and oxygen content 1×10^{-8} .

3. Terms and time of payment:

3.1 The Buyer shall wire all payment for goods to the account designated by the Seller within two working days upon receipt of the shipping order from the Seller.

3.2 The Seller shall be responsible for providing the Buyer with full-amount invoice of the 17% value-added tax within ten days upon delivery of goods.

4. Packing, transportation and insurance of goods:

4.1 Packing shall meet the transportation requirements of the solar-grade monocrystalline silicon wafers. Any loss arising from improper packing shall be borne by the Seller.

4.2 The Buyer shall be responsible for transportation and cover freight and insurance premium.

5. Term and place of delivery

5.1 Time of delivery: Installment is permitted. The Seller shall fulfill the obligation of delivery within two working days upon payment by the Buyer. The Buyer shall completely fulfill the obligation of delivery prior to June 1, 2008.

5.2 Place of delivery: Both parties agree that the place of delivery shall be the Seller's factory

6. Quality inspection and objection

In case of any quality defect, the Buyer shall complete appearance inspection and raise objection in accordance with standards stipulated hereunder within seven days after the arrival of the goods at the Buyer's warehouse, and complete quality inspection and raise objection within thirty days. The Seller shall reply within seven days upon receipt of written notice on quantity and quality objection. Where the Seller fails to reply within seven days, it shall be deemed that the Buyer's objection has been accepted by the Seller.

7. Reasonable Consumption Standard and Calculation

It shall be subject to the actual quantity delivered at the Seller's location.

8. Liabilities for breach

8.1 Within the quality inspection period, if the type, specifications and technology parameters of the products delivered by the Seller do not conform to that is agreed herein, the Buyer shall be entitled to payment refund, replacing of quality goods or price reduction according to the specific situation of the products. The Seller shall reply within three days after receiving the Buyer's written disposal opinion, otherwise it shall be deemed to consent to the Buyer's disposal opinion.

8.2 If the Seller delays the delivery, the Seller shall pay to the Buyer a default penalty of 0.5‰ of the total value of the delayed goods per day.

8.3 If the Buyer delays the payment, the Buyer shall pay to the Seller a default penalty of 0.5‰ of the delayed payment per day

9. Transfer

Neither party shall transfer all or part of the rights and obligations hereunder without written approval of the other party.

10. Confidentiality

The parties hereto and their employees, agents, representatives and counsel shall treat the terms and conditions under this Contract and any its supplementary agreements as business secrets and shall not disclose the information to any third party unless upon consent of the other party. Otherwise, the defaulting party shall compensate as much as twice of the direct or indirect losses of the other party.

11. Force majeure

If any party is unable to perform the contract due to any force majeure event, the affected party shall notify the other party within seven days upon the occurrence of such event, and shall present written evidence issued by the relevant authority within fifteen days upon the end of such events and could partially or wholly exempt from the liability in the light of the impact caused by force majeure. Where an event of force majeure occurs after the party's delay in performance, the defaulting party shall not be exempted from its liabilities

12. Integrity Assurance

12.1 It shall be viewed as damage to the Buyer's interest if the Seller and its staff directly or indirectly give, in the name of the company or an individual, a gift of money, valuables, securities or provide an improper interest in otherwise forms to any employee of the Buyer, or if the Seller and its staff conduct carries out a transaction similar to this Contract, in the name of the company or an individual, with any employee of the Buyer or any third person introduced by such employee. The Seller shall compensate as much as twice of the direct or indirect losses incurred by the Buyer by such reason, and shall be liable for the liquidated damages as of 20% of the amount of this Contract per breach (up to RMB 1,000,000).

12.2 The integrity report method for the Buyer: Attorney Xu Changming 13851647666, changmin.xu@chinasunergy.com.

13. Prohibiting commercial fraud

If the Seller breaches the principle of honesty by providing to the Buyer false registration materials, false certificates of qualification or false information, or by hiding the truth to deceive the Buyer or the end user, it shall be liable for the liquidated damages as of 20% of the amount of this Contract (up to RMB 1,000,000). This Article shall not preclude the liabilities of breach undertaken by the Seller according to other provisions hereunder.

14. Dispute resolution

Any and all disputes arising from validity, performance and interpretation and so on of the Contract shall first be resolved by the parties through amicable consultation. In case no settlement can be reached through consultation, the disputes shall be governed by the people's court of first instance with jurisdiction where the Seller is located. All related fees paid for litigation (including attorney fees, travel fees, evidence collection fees, notarization fees and litigation fees, etc) shall be borne by the losing party.

15. Effective and miscellaneous

The Contract shall take effect upon signature and seal by both parties. The printed text of the content hereof shall prevail. In case of any modification, the parties hereto shall confirm the modified text by signature and seal. In case the contract text covers more than one page, seal on the perforation shall be affixed to such pages.

The Contract is in duplicate, with each party holding one counterpart respectively. The two counterparts shall have the same legal effect. The parties hereto shall send the original contract text to each other within three working days as of the date hereof. The fax copy shall have the same effect as the original.

Any matters not covered in this Contract shall be mutually negotiated by both parties and be set forth in the supplementary agreements, which shall have the same legal effect as the Contract.

The Buyer: CEEG (Shanghai) Solar Science & Technology Co., Ltd. /Seal/

Contact person:

Date: April 7, 2008

The Seller: China Sunergy (Nanjing) Co., Ltd.

/Seal/

Contact person:

Date: April 7, 2008

Sales Contract

Contract No.:
Signing Place: Seller's location
Signing Date: Mar. 4, 2008

The Seller: China Sunergy (Nanjing) Co., Ltd.
Add.: No. 123, West Focheng Road, Economy and Technology Development
Zone, Jiangning, Nanjing
Postal code: 211100
Legal representative: Lu Tingxiu
Contact person: Zou Jianhua
Tel.: 025-52766714
Fax: 025-52766767

The Buyer: CEEG (Shanghai) Solar Science & Technology Co., Ltd.
Add.: No.68 West Gangde Road, Songjiang
District, Shanghai
Postal code: 214128
Legal representative: Cai Zhifang
Authorized agent: Tao Qiang
Tel.: 021-57850711
Fax: 021-57850700

Through friendly consultation between both parties and in accordance with the *Contract Law of the People's Republic of China*, the parties hereto agree to enter into the following contractual terms in connection with the purchase of the following goods for mutual observance and performance:

1. Goods summary

2. Time and terms of payment:

After effectiveness of the contract, the Buyer shall remit payment for goods into the account designated by the Seller as prescribed in Article 4.3 (The Seller does not accept any other methods of settlement).

Account at Jiangning Sub-branch of China Merchants Bank: **078002380175610001**.

3. Packing requirements: The goods shall be packed in carton boxes suitable for highway transportation so as to meet the requirements of long-distance and long-time transportation.

4. Term and place of delivery

4.1 Place of delivery: The place of the Seller.

4.2 Should the Buyer ask the Seller to make the delivery on its behalf, the Buyer shall remit the payment for goods, together with corresponding freight and insurance premium to the account designated by the Seller. The transportation risks shall be borne by the Buyer.

4.3 Partial shipment is permitted. The Buyer shall remit the payment for goods of such batch to the account designated by the Seller within three working days upon receipt of the shipping order containing specific power list from the Seller according to actual quantity and amount of the shipment.

4.4 The Seller shall deliver all goods of a batch within seven days upon receipt of 100% payment for such batch from the Buyer.

4.5 The Seller shall deliver VAT (value-added tax) invoice to the Buyer within fifteen days upon delivery of such batch of goods.

5. Quality requirements and technical standards: See Appendix I (i.e. detailed product specification of China Sunergy (Nanjing) Co., Ltd.. The shipment and transportation terms in Article 5.4 thereof are inapplicable).

6. Quantity and quality inspection and objection:

The Buyer shall complete quality inspection as per the standards prescribed hereunder within seven days from the date of picking up the goods. Any quality claims shall be issued by Buyer in writing in three days upon detection, and shall be inspected by a third party agreed upon by both parties. If the Buyer fails to raise a claim within 10 days after delivery, the Seller's products shall be deemed as qualified.. In case of quantity objection, the Buyer shall raise the objection within three days after delivery. After the Buyer raises objection, the Seller shall reply within ten days. Otherwise, it shall be deemed that such objection has been accepted by the Seller.

7. Transfer

Neither party may transfer all or part of rights and obligations hereunder without written approval of the other party.

8. Confidentiality

The parties hereto and their employees, agents, representatives or consultants shall treat all terms and conditions of the Contract and any supplemental agreement thereof as trade secret, which shall not be disclosed to any third party without consent of the other party. Otherwise, the breaching party shall compensate as much as twice of the direct or indirect losses suffered by the other party.

9. Force majeure

If any party hereto is unable to perform the Contract due to the force majeure, such party shall notify the other party in writing within seven days upon occurrence of such event, and shall deliver a written certification issued by the relevant department within fifteen days upon the end of such event, and could be could partially or wholly exempt from the liability in the light of the impact caused by force majeure. Where an event of force majeure occurs after the party's delay in performance, the defaulting party shall not be released from its liabilities.

10. Integrity Assurance

It shall be viewed as damage to the Seller's interest if the Buyer and its staff directly or indirectly give, in the name of the company or an individual, a gift of money, valuables, securities or provide an improper interest in otherwise forms to any employee of the Seller, or the Buyers as well as its staff does, whether in the name of the company or an individual, any transaction similar to that contemplated hereunder with any employee of the Seller or any third party introduced by any employee of the Seller. The breaching party shall compensate as much as twice of the direct or indirect losses incurred by the other party by such reason, as well as the liquidated damages amounting to 20% of the total amount of this Contract per breach (up to RMB 1,000,000).

Method of reporting dishonesty to the Seller: Attorney Xu Changming 13851647666, changing.xu@chinasunergy.com.

11. Dispute resolution

All disputes arising from the validity, performance and interpretation of this Contract shall be first settled through consultation by both parties. In case no settlement can be reached through consultation, both parties agree that the dispute shall be submitted to the people's court of jurisdiction where the Buyer is located. The relevant expenses (including legal cost, travel expenses, notary fees, notarization fees, litigation fees and so on) shall be borne by the losing party.

12. Effective and miscellaneous

12.1 The Contract shall take effect upon seal by both parties or signature by the special authorized agents. In case the contract text covers more than one page, seal on the perforation shall be affixed to such pages.

12.2 The Contract is in duplicate, with each party holding one counterpart respectively. Both counterparts shall have the same legal effect. The parties hereto shall send the original contract text to each other within three working days as of the date hereof. The fax copy shall have the same effect as the original.

12.3 Any matters not covered herein shall be mutually negotiated by both parties and be set forth in the supplementary agreements, which shall have the same legal effect as the Contract.

12.4 In case of conflict between the contents of Appendix I (Detailed product specification) and those hereof, the contents hereof shall prevail.

The Seller: China Sunergy (Nanjing) Co., Ltd.
(special seal for contract)
Signature/seal: /s/
Date:

The Buyer: CEEG (Shanghai) Solar Science &
Technology Co., Ltd.
Signature/seal: /s/
Date:

Contract No.	Date	Goods summary
XS120080006	January 7, 2008	See table I
XS120080071	March 4, 2008	See table II

Table I

Name of goods	Specification & parameter	QTY (MW)	Unit	Unit price (yuan/w)	Total amount
Monocrystalline 125 cells	Range of conversion efficiency 16%	0.5	MW	27.5	About RMB 13,650,000
Monocrystalline 125 cells	Range of conversion efficiency 15.50%~15.75%			27	
Total amount (in words): Around RMB Thirteen Million Six Hundred and Fifty Thousand					
Remarks: The price includes 17% value-added tax.					

Table II

Name of goods	Specification & parameter	QTY (piece)	MW	Unit price (yuan/w)	Total amount
SE Monocrystalline 156 cells	conversion efficiency 17.50%	20,000	83400	30	RMB 2,502,000
SE Monocrystalline 156 cells	Conversion efficiency 17.25%	41,000	168264		RMB 5,047,920
Total Amount	61,000	251,664			7,549,920
Total amount (in words): RMB Seven Million Five Hundred and Forty-nine Thousand nine hundred and twenty only					
Remarks: The price includes 17% value-added tax.					

Long-term Sales Contract

Contract No.: XS120080012

Signing Place: Jiangning District, Nanjing

Signing Date: 10-1-2008

The Seller: China Sunergy (Nanjing) Co., Ltd
 Add: No. 123 West Focheng Road, Jiangning Economy and Technology
 Development Zone, Nanjing
 Postal code: 211100
 Legal representative: Lu Tingxiu
 Agent:
 Tel: 025-52766714
 Tax: 025-52766767

The Buyer: CEEG (Shanghai) Solar Science & Technology Co., Ltd.
 Add: No. 68 West Gangde Road, Songjiang District, Shanghai
 Postal code:
 Legal representative: Cai Zhifang
 Agent:
 Tel: 021-57850711
 Fax: 021-57850700

The Seller and the Buyer agree to execute the Contract in accordance with the following terms and conditions:

1. Goods summary

Name of goods	Specification	Efficiency	Quantity.	Unit price	Total amount (RMB)
Solar cells (including A2, A3 cells)	Monocrystalline 125	17.00% (SE or HP)	2MW	RMB 29.0/W	Around RMB 58,000,000
	Monocrystalline 125	17%~17.25%	6MW	RMB 28/W	Around RMB163,800,000
	Monocrystalline 125	16%~16.75%		RMB 27.0/W	
	Monocrystalline 125	15.50%~15.75%		RMB 27.0/W	
	Monocrystalline 125	15.00%~15.25%		RMB 26.6/W	
	Polycrystalline 156	14.75%	2MW	RMB 27.2/W	Around RMB53,400,000
	Polycrystalline 156	14%~14.5%		RMB 26.6/W	
Total			10MW		Around RMB275,200,000
Total amount (in words)		Around RMB two hundred and seventy-five million, two hundred thousand			

Remarks: 1. The price is fixed from January to March and will be adjusted every three months and includes 17% value-added tax.

2. Contract term: six months (namely, from January 2008 to June 2008)

2. Schedule and terms of payment

2.1 The Buyer shall, within three working days after receiving shipping order containing specific power list from the Seller, remit the payment for goods of that batch into the account designated by the Seller according to the quantity and amount contained in the shipping order. The Seller agrees to grant the Buyer a credit line of RMB20 million as well as a credit term of one month.. When accumulated receivables of the Seller have exceeded RMB20 million or one-month credit term, the Buyer shall initiate payment procedure. Otherwise, the Seller is entitled to terminate delivery and resume performance of delivery obligations after the Buyer makes payment.

2.2 Bank account designated by Seller

Account at Jiangning Sub-branch of China Merchants Bank: **078002380175610001**

3. Packing requirements

The goods shall be packed in carton boxes suitable for highway transportation so as to meet requirements of domestic long-distance and long-time transportation. Packing costs shall be borne by the Seller.

4. Place and term of delivery

4.1 Place of delivery: the Seller's location

4.2 Where the Buyer requires the Seller to handle transportation affairs for it, it shall remit the corresponding freight and insurance premiums into the account designated by the Seller together with the goods payment. The transportation risks shall be borne by the Buyer.

4.3 Delivery schedule

From Jan. 2008 to Jun. 2008

Time of delivery	Delivery quantity (MW/month)
Jan. 2008	1MW (S125:1MW)
Feb. 2008	1MW (S125:1MW)
Mar. 2008	2MW(S125:1MW;M156:0.5MW;SE:0.5MW)
Apr. 2008	2MW(S125:1MW;M156:0.5MW;SE:0.5MW)
May. 2008	2MW(S125:1MW;M156:0.5MW;SE:0.5MW)
Jun. 2008	2MW(S125:1MW;M156:0.5MW;SE:0.5MW)

4.4 The Seller shall deliver the goods pursuant to the delivery schedule after receiving prepayment for each batch of goods and shall provide value-added tax invoice to the Buyer within fifteen days after delivery. Partial shipment is allowed in each month.

5. Quality requirements and technical standards

See Appendix I for quality requirements and technical standards (Article 5.4 thereof is not applicable).

6. Damage

6.1 Damage during transportation

Damage of not more than 0.5% of the cells is allowed on monthly delivery basis.

For damage exceeding such limit due to the Seller's improper packing, the Seller shall be responsible for replacing the damaged cells and shall properly transport and handle the redelivered cells as per the stipulations hereunder. The Seller may bear expenses incurred thereby, if necessary.

The preceding provisions are not applicable to damage during transportation caused by the carrier or any factor beyond control of the Seller.

6.2 Damage during packaging process

Subject to the normal industrial operation standard, the following breakage ratio during the packaging process of the solar cells is allowed:

-Breakage rate of 2% is allowed, in case that the thickness of the solar cell $\geq 220\mu\text{m}$.

For damage exceeding such limit, the Seller shall be responsible for replacing the damaged cells and shall properly transport and handle the redelivered cells as per the stipulations hereunder. The Seller may bear expenses incurred thereby, if necessary.

7. Quantity and quality inspection and objection

The Buyer shall complete inspection of quantity and quality in accordance with the standards herein within seven days after picking up each batch of goods. In case of defects of quantity or quality, the Buyer shall put forward objection in respect thereof within three days. If necessary, the parties hereof agree to entrust a third party recognized by them to carry out the inspection. Products of the Seller shall be deemed qualified in the event that the Buyer fails to raise objection in respect of quantity or quality within ten days after picking up each batch of goods.

8. Force majeure

Where either party hereof is unable to perform the Contract due to a force majeure event, the affected party shall within seven days after occurrence of such event notify the other party in writing and shall submit a written certification issued by a related department within fifteen days after the end of the event. The affected party could be partially or wholly exempted the liability in the light of the impact caused by the force majeure event. Where an event of force majeure occurs after the party's delay in performance, the defaulting party shall not be released from its liabilities.

9. Confidentiality

The parties and their employees, agents, representatives or consultants shall treat all terms and conditions of the Contract and any supplemental agreement thereof as trade secret, which shall not be disclosed to any third party without consent of the other party. Otherwise, the defaulting party shall make compensation to the abiding party, which is twice of the direct or indirect losses suffered by the abiding party.

10. Transfer

Without written consent of the other party, neither party hereof may transfer all or part of the rights and obligations hereunder.

11. Termination

11.1 After the Contract takes effect, neither party may unilaterally rescind the Contract. In the event that one party rescinds the Contract without consent of the other party, it shall be liable to the other party for all losses incurred thereby.

11.2 Termination conditions of the Contract

11.2.1 The Buyer fails to perform its payment obligations hereunder and fails to remedy its nonperformance or breach of obligations within thirty days after receiving written notice from the Seller.

11.2.2 Either party becomes bankrupt, files bankruptcy application or is undergoing corporate reorganization, or either party has filed a similar application, or either party is in liquidation.

11.3 Where the Contract terminates due to justified causes, the Seller shall return all prepayment for the undelivered goods to the Buyer within fifteen days after receiving the contract termination notice submitted according to justified causes.

12. Integrity Assurance

12.1 Where the Buyer or any employee thereof in the name of the company or individual presents monetary gift, precious items or securities to any employee of the Seller directly or indirectly, or provides unjust interests in other guised forms, or in the name of the company or individual carries out transaction similar to the Contract with any employee of the Seller or any third party introduced thereby, their behavior shall be deemed as infringement upon interests of the Seller. The Buyer shall make compensation to the Seller, which is twice of the direct and indirect losses incurred by the Seller therefor. Furthermore, the Buyer shall pay breach penalty to the Seller, which accounts for 20% of the total contract price.

12.2 Method of reporting dishonesty to the Seller:

Attorney Xu Changming 13851647666 lawyerxucm@hotmail.com

13. Dispute resolution

Any and all disputes arising from validity, performance and interpretation and so on of the Contract shall first be resolved by the parties through amicable consultation. In case such consultation fails, the disputes shall be governed by the people's court of first instance with jurisdiction where the Seller is located. All related fees paid for litigation (including attorney fees, travel fees, evidence collection fees, notarization fees and litigation fees, etc) shall be borne by the losing party.

14. Miscellaneous

14.1 The Contract shall take effect upon being sealed by the parties hereof or signature by special authorized agents. Seal on the perforation shall be affixed in the event that the contract text covers more than one page.

14.2 The Contract is in duplicate, with each party holding one counterpart respectively, each of which shall have the same legal effect. The parties hereof shall within three working days after signature of the Contract send the original contract text to each other. A fax copy shall have the same effect as the original.

14.3 In case of any discrepancy between Appendix I and the Contract, the Contract shall prevail. Any matters not covered herein shall be mutually negotiated by both parties and be set forth in the supplementary agreements, which shall have the same legal effect as the Contract.

The Seller:

Signature/seal: /Seal/

Date:

The Buyer:

Signature/seal: /Seal/

Date:

Sales Contract

Contract No.: XS120080200
 Signing Place: Seller's Location
 Signing Date: July 2, 2008

The Seller: China Sunergy (Nanjing) Co., Ltd.

Add: No. 123 West Focheng Road, Jiangning Economy and Technology Development Zone, Nanjing
 Postal code: 211100
 Legal representative: Lu Tingxiu
 Agent:
 Tel: 025-52766714
 Tax: 025-52766767

The Buyer: CEEG (Shanghai) Solar Science & Technology Co., Ltd.

Add: No. 68 West Gangde Road, Songjiang District, Shanghai
 Postal code:
 Legal representative: Cai Zhifang
 Agent:
 Tel: 021-57850711
 Fax: 021-57850700

Through amicable consultation between the two parties for better cooperation with respect to incorporation herein of the quantity of goods not delivered under the contract (Contract No.: XS120080012) executed by the parties on January 10, 2008 and in accordance with the *Contract Law of the People's Republic of China*, the parties agree to enter into the following contractual terms in connection with the purchase of the following goods for mutual observance and performance:

1. Goods summary

1. Goods summary					
Name of goods	Specification	Efficiency	Qty.	Unit price	Total amount (RMB)
Solar cells (including A2, A3 cells)	Monocrystalline 125	17.00%	9MW	RMB29.7/W	Around RMB 261,000,000
	Monocrystalline 125	16.00%~16.75%		RMB28.8/W	
	Monocrystalline 125	15.00%~15.75%		RMB28.6/W	
Total amount (in words)	Around RMB two hundred and sixty-one million				

Remarks: 1. The prices are fixed from July 2008 to September 2008 (see the above table). The prices from October 2008 to December 2008, which is subject to negotiation, will be fixed in supplemental agreements, including 17% value added tax.
 2. Contract term: six months (namely, from July 2008 to December 2008).
 3. In case the Buyer needs cells of other specifications (e.g., monocrystalline 156, multicrystalline 156 and multicrystalline 125), the supplemental agreement shall be implemented after price negotiation. The quantity of the goods thus shipped shall be included in the total quantity of goods delivered each month.

2. Schedule and terms of payment

2.1 The Buyer shall, within three working days after receiving shipping order containing specific power list from the Seller, remit the payment for goods of that batch into the account designated by the Seller according to the quantity and amount contained in the shipping order. The Seller agrees to grant the Buyer a credit line of RMB20 million as well as a credit term of one month. When accumulated receivables of the Seller have exceeded RMB20 million or one-month credit term, the Buyer shall initiate payment procedure. Otherwise, the Seller is entitled to terminate delivery and resume performance of delivery obligations after the Buyer makes payment.

2.2 Bank account designated by Seller

Account at Jiangning Sub-branch of China Merchants Bank: **078002380175610001**

3. Packing requirements

The goods shall be packed in carton boxes suitable for highway transportation so as to meet requirements of domestic long-distance and long-time transportation.

4. Place and term of delivery

4.1 Place of delivery: the Seller's location

4.2 Where the Buyer requires the Seller to handle transportation affairs for it, it shall remit the corresponding freight and insurance premiums into the account designated by the Seller together with the goods payment. The transportation risks shall be covered by the Buyer.

4.3 Delivery schedule

From July 2008 to September 2008

Time of delivery	Delivery quantity (MW/month)
July 2008	1.5MW (20% float per month is allowed)
August 2008	1.5MW (20% float per month is allowed)
September 2008	1.5MW (20% float per month is allowed)
October 2008	1.5MW (20% float per month is allowed)
November 2008	1.5MW (20% float per month is allowed)
December 2008	1.5MW (20% float per month is allowed)

4.4 The Seller shall deliver the goods pursuant to the delivery schedule after receiving prepayment for each batch of goods and shall within thirty days after delivery submit invoice of value-added tax to the Buyer. Partial shipment is allowed in each month.

5. Quality requirements and technical standards

See Appendix I for quality requirements and technical standards (namely, detailed product specification of China Sunergy (Nanjing) Co., Ltd. Article 5.4 thereof is not applicable).

6. Quantity and quality inspection and objection

The Buyer shall complete inspection of quality in accordance with the standards herein within seven days after picking up the goods. Any quality claims shall be issued by Buyer in writing in three days upon detection, and shall be inspected by a third party agreed upon by both parties. If the Buyer fails to raise a claim within ten days after picking up the goods, the Seller's products shall be deemed as qualified. Any quantity claims shall be raised within seven days after picking up the goods. The Seller shall reply within ten days after the claim raised by the Buyer, otherwise shall be deemed as default.

7. Transfer

Without written consent of the other party, neither party hereof may transfer all or part of the rights and obligations hereunder.

8. Confidentiality

The parties and their employees, agents, representatives or consultants shall treat all terms and conditions of the Contract and any supplemental agreement thereof as trade secret, which shall not be disclosed to any third party without consent of the other party. Otherwise, the breaching party shall make compensation to the abiding party, which is twice of the direct or indirect losses suffered by the abiding party.

9. Force majeure

Where either party hereof is unable to perform the Contract due to a force majeure event, the affected party shall within seven days after occurrence of such event notify the other party in writing and shall submit a written certification issued by a related department within fifteen days after the end of the event. The affected party could be partially or wholly exempted the liability in the light of the impact caused by the force majeure event. Where an event of force majeure occurs after the party's delay in performance, the defaulting party shall not be released from its liabilities.

10. Integrity Assurance

Where the Buyer or any employee thereof in the name of the company or individual presents monetary gift, precious items or securities to any employee of the Seller directly or indirectly, or provides unjust interests in other guised forms, or in the name of the company or individual carries out transaction similar to the Contract with any employee of the Seller or any third party introduced thereby, their behavior shall be deemed as infringement upon interests of the Seller. The Buyer shall make compensation to the Seller, which is twice of the direct and indirect losses incurred by the Seller therefor. Furthermore, the Buyer shall pay breach penalty to the Seller, which accounts for 20% of the total contract price. The integrity report method for the Seller: Supervision Committee of China Sunergy (Nanjing) Co., Ltd., 025-52766726 yunie.cheng@chinasunergy.com.

11. Dispute resolution

Any and all disputes arising from validity, performance and interpretation and so on of the Contract shall first be resolved by the parties through amicable consultation. In case such consultation fails, the disputes shall be governed by the people's court of first instance with jurisdiction where the Seller is located. All related fees paid for litigation (including attorney fees, travel fees, evidence collection fees, notarization fees and litigation fees, etc) shall be borne by the losing party.

12. Miscellaneous

12.1 The Contract shall take effect upon being sealed by the parties hereof or signature by special authorized agents. Seal on the perforation shall be affixed in the event that the contract text covers more than one page.

12.2 The Contract is in duplicate, with each party holding one counterpart respectively, each of which shall have the same legal effect. The parties hereof shall within three working days after signature of the Contract send the original contract text to each other. A fax copy shall have the same effect as the original.

12.3 Any matters not covered herein shall be mutually negotiated by both parties and be set forth in the supplementary agreements, which shall have the same legal effect as the Contract.

12.4 In case of any discrepancy between Appendix I (detailed products specifications) and the Contract, the Contract shall prevail.

The Seller: China Sunergy (Nanjing) Co., Ltd.
Signature/seal: /Seal/
Date:

The Buyer:
Signature/seal: /Seal/
Date:

Sales Contract

Contract No.: XS120080238
Signing Place: Seller's location
Signing Date: August 20, 2008

The Seller: China Sunergy (Nanjing)Co., Ltd.
Add.: No. 123, West Focheng Road, Economy and Technology Development Zone, Jiangning, Nanjing
Postal code: 211100
Legal representative: Lu Tingxiu
Contact person: Zou Jianhua
Tel.: 025-52766767
Fax: 025-52766767

The Buyer: CEEG (Shanghai) Solar Science & Technology Co., Ltd.
Add.: No.68West Gangde Road, Songjiang District, Shanghai
Postal code: 214128
Legal representative: Cai Zhifang
Authorized agent: Tao Qiang
Tel.: 021-57850711
Fax: 021-57850700

Through friendly consultation between both parties and in accordance with the *Contract Law of the People's Republic of China*, the parties hereto agree to enter into the following contractual terms in connection with purchase of the following goods for mutual observance and performance:

1. Goods summary					
Name of goods	Specification & parameter	Quantity	Unit	Unit price (yuan/w)	Total amount
Multicrystalline 156 cells (including A, A2, A3)	conversion efficiency 13%	100,000	Piece	25	About RMB 9,204,300
	Range of conversion efficiency 14%~14.25%	About 340,900	Watt	28	
Total amount (in words): Around Renminbi Nine Million Two Hundred and Four Thousand Three Hundred					
Remarks: The price includes 17% value-added tax.					

2. Time and terms of payment:
After the effectiveness of the Contract, the Buyer shall remit payment for goods into the account designated by the Seller as prescribed in Article 4.3 (The Seller does not accept any other methods of settlement).
Account at Jiangning Sub-branch of China Merchants Bank: 078002380175610001.
3. Packing requirements: The goods shall be packed in carton boxes suitable for highway transportation so as to meet the requirements of long-distance and long-time transportation.

4. Term and place of delivery
 - 4.1 Place of delivery: the Seller's location.
 - 4.2 In case the Buyer asks the Seller to arrange the transportation for it, the Buyer shall remit the payment for goods, together with corresponding freight and insurance premium to the account designated by the Seller. The transportation risks shall be borne by the Buyer.
 - 4.3 Partial shipment is permitted. The Buyer shall remit the payment for goods of such batch to the account designated by the Seller within three working days upon receipt of the shipping order containing specific power list from the Seller according to actual quantity and amount of the shipment.
 - 4.4 The Seller shall deliver all goods within seven days upon receipt of 100% payment for such batch from the Buyer.
 - 4.5 The Seller shall deliver VAT (value-added tax) invoice to the Buyer within ten days upon delivery of such batch of goods.
5. Quality requirements and technical standards: See Appendix I (i.e. detailed product specifications of China Sunergy (Nanjing)Co., Ltd., The shipment and transportation terms in Article 5.4 thereof are inapplicable).
6. Quantity and quality inspection and objection:

The Buyer shall complete quantity and quality inspection in accordance with the standards prescribed hereunder within seven days after picking up the goods. Any quality claims shall be issued by Buyer in writing in three days upon detection, and shall be inspected by a third party agreed upon by both parties. If the Buyer fails to raise a quality claim within 10 days after delivery, the Seller's products shall be deemed as qualified. Any quantity claims shall be raised within seven days after picking up the good. Otherwise it shall be deemed that the quantity delivered is in accordance with the stipulations hereof.
7. Transfer

Neither party may transfer all or part of rights and obligations hereunder without written approval of the other party.
8. Confidentiality

The parties and their employees, agents, representatives or consultants shall treat all terms and conditions of the Contract and any supplemental agreement thereof as trade secret, which shall not be disclosed to any third party without consent of the other party. Otherwise, the breaching party shall make compensation to the abiding party, which is twice of the direct or indirect losses suffered by the abiding party.
9. Force majeure

Where either party hereof is unable to perform the Contract due to a force majeure event, the affected party shall within seven days after occurrence of such event notify the other party in writing and shall submit a written certification issued by a related department within fifteen days after the end of the event. The affected party could be partially or wholly exempted the liability in the light of the impact caused by the force majeure event. Where an event of force majeure occurs after the party's delay in performance, the defaulting party shall not be released from its liabilities

10. Integrity Assurance

Where the Buyer or any employee thereof in the name of the company or individual presents monetary gift, precious items or securities to any employee of the Seller directly or indirectly, or provides unjust interests in other guised forms, or in the name of the company or individual carries out transaction similar to the Contract with any employee of the Seller or any third party introduced thereby, their behavior shall be deemed as infringement upon interests of the Seller. The Buyer shall make compensation to the Seller, which is twice of the direct and indirect losses incurred by the Seller therefor. Furthermore, the Buyer shall pay breach penalty to the Seller, which accounts for 20% of the total contract price.

The integrity report method for the Seller: Supervision Committee of China Sunergy (Nanjing) Co., Ltd., 025-52766726 yunie.cheng@chinasunergy.com.

11 Dispute resolution

Any and all disputes arising from validity, performance and interpretation and so on of the Contract shall first be resolved by the parties through amicable consultation. In case such consultation fails, the disputes shall be governed by the people's court of first instance with jurisdiction where the Seller is located. All related fees paid for litigation (including attorney fees, travel fees, evidence collection fees, notarization fees and litigation fees, etc) shall be borne by the losing party.

12 Effective and miscellaneous

12.1 The Contract shall take effect upon signature by both parties or seal by the special authorized agents. In case the contract text covers more than one page, seal on the perforation shall be affixed to such pages.

12.2 The Contract is in duplicate, with each party holding one counterpart respectively. Both counterparts shall have the same legal effect. The parties hereto shall send the original contract text to each other within three working days as of the date hereof. The fax copy shall have the same effect as the original.

12.3 Any matters not covered hereunder shall be mutually negotiated by both parties and be set forth in the supplementary agreements, which shall have the same legal effect as the Contract. In case of conflict between the contents of Appendix I (Detailed product specifications) and those hereof, the contents hereof shall prevail.

The Seller: China Sunergy (Nanjing) Co., Ltd.
/Seal/
Date:

The Buyer: CEEG (Shanghai) Solar Science &
Technology Co., Ltd. /Seal/
Date:

Sales Contract

Contract No.: CG120080303
 Signing Place: Jiangning District, Nanjing
 Signing Date: September 8, 2008

The Buyer: CEEG (Nanjing) New Energy Co., Ltd.
 Add.: No.6 Shuige Road, Jiangning Economy and Technology Development Zone, Nanjing
 Tel.: 025-52095675
 Fax: 021-83275373

The Seller: China Sunergy (Nanjing) Co., Ltd.
 Add.: No. 123, West Focheng Road, Jiangning Economy and Technology Development Zone, Nanjing
 Tel.: 025-52766603
 Fax: 025-52766882

Through friendly consultation between both parties and in accordance with the *Contract Law of the People's Republic of China*, the parties hereto agree to enter into the following contractual terms concerning the sales of the following goods for mutual observance and performance:

1. Product name, specification, quantity, amount and quality standards:

Specification	Appearance	Quantity (pieces)	Unit price (Yuan/ piece)	Sales amount (including tax)	Total amount (including tax)
monocrystalline 125	Gap	2,236	24	53,664	
	Broken corner	16,663	24	399,912	
	Crack\ debris\ perforation	10,922	18	196,596	
	Whole chip available	79,351	35	2,777,285	
monocrystalline 126	Whole chip available	35,028	35	1,225,980	
multicrystalline 125	Gap	147	24	3,528	18,293,543.00
	Broken corner	2,466	24	59,184	
	Whole chip	63,632	35	2,227,120	
multicrystalline 126	Gap	18	24	432	
	Broken corner	4,766	24	114,384	
	Whole chip available	20,749	35	726,215	
multicrystalline 150	Whole chip available	26,139	43	1,123,977	
multicrystalline 156	Broken corner	10,481	39	408,759	
	Crack\ debris\ perforation	755	28	21,140	
	Whole chip available	24,714	55	1,359,270	
monocrystalline 156	Gap	689	39	26,871	
	Broken corner	22,699	39	885,261	
	Crack\ debris\ perforation	1,830	28	51,240	
	Whole chip available	120,595	55	6,632,725	

Remarks: The total quantity is 443,880 and the specific quantity shall be subject to the quantity of goods actually shipped. For technical parameters of silicon wafers, refer to the industry standards agreed upon for nonconforming silicon wafers.

3. Time and terms of payment

3.1 The Buyer shall pay 20% of the goods payment to the account designated by the Seller within two working days after execution hereof and make all the remaining payment within forty-five days after picking up the goods.

3.2 The Seller shall be responsible for providing the Buyer with invoice of 17% value-added tax within ten days after delivery.

4. Packing, transportation and insurance of goods

4.1 Packing shall comply with the transportation requirements of the solar-grade monocrystalline silicon wafers. Any loss arising from improper packing shall be borne by the Seller.

4.2 The Seller shall be responsible for transportation, and shall bear freight and insurance premium.

5. Term and place of delivery

5.1 Term of delivery: The Buyer shall pick up the goods after it remits the payment to the account designated by the Seller. The place of delivery agreed upon by parties hereto is the Seller's factory.

6. Quality inspection and objection

The Buyer shall inspect quantity and quality before picking up the goods. If the type, specifications and technology parameters of the products delivered by the Seller do not conform to that is agreed herein, the Seller agrees to make replacement and supplement corresponding quantity. Objection about quantity and quality shall be raised at the Seller's premises. In case objection is not raised within specified period, it shall be deemed that goods delivered by the Seller conform to stipulations hereunder.

7. Standard of reasonable loss of the subject matter and calculation method It shall be subject to the actual quantity delivered at the Seller's location.

8. Liabilities for breach

8.1 Within the quality inspection period, if the type, specifications and technology parameters of the products delivered by the Seller do not conform to that is agreed herein, the Buyer shall be entitled to payment refund, replacing of quality goods or price reduction according to the specific situation of the products. The Seller shall reply within three days after receiving the Buyer's written disposal opinion, otherwise it shall be deemed to consent to the Buyer's disposal opinion.

8.2 If the Seller delays the delivery, the Seller shall pay to the Buyer a default penalty of 0.05% of the total value of the delayed goods per day.

8.3 If the Buyer delays the payment, the Buyer shall pay to the Seller a default penalty of 0.05% of the delayed payment per day.

9. Transfer

Neither party shall transfer all or part of the rights and obligations hereunder without written consent of the other party.

10. Confidentiality

The parties hereto and their employees, agents, representatives and counsel shall treat the terms and conditions under this Contract and any its supplementary agreements as business secrets and shall not disclose the information to any third party unless upon consent of the other party. Otherwise, the defaulting party shall compensate as much as twice of the direct or indirect losses of the other party.

11. Force majeure

If any party is unable to perform the contract due to any force majeure event, the affected party shall notify the other party within seven days upon the occurrence of such event, and shall present written evidence issued by the relevant authority within fifteen days upon the end of such events and could be partially or wholly exempt from the liability in the light of the impact caused by force majeure. Where an event of force majeure occurs after the party's delay in performance, the defaulting party shall not be exempted from its liabilities.

12. Integrity Assurance

12.1 It shall be viewed as damage to the Buyer's interest if the Seller and its staff directly or indirectly give, in the name of the company or an individual, a gift of money, valuables, securities or provide an improper interest in otherwise forms to any employee of the Buyer, or if the Seller and its staff conduct carries out a transaction similar to this Contract, in the name of the company or an individual, with any employee of the Buyer or any third person introduced by such employee. The Seller shall compensate as much as twice of the direct or indirect losses incurred by the Buyer by such reason, and shall be liable for the liquidated damages as of 20% of the amount of this Contract per breach (up to RMB 1,000,000).

12.2 The integrity report method for the Buyer: Supervision Committee of CHINA SUNERGY (NANJING) CO., LTD. 025-52766726 (Fax) yunie.cheng@chinasunergy.com.

13. Prohibition of commercial fraud

If the Buyer/Seller breaches the principle of honesty by providing to the Buyer/ Seller false registration materials, false certificates of qualification or false information, or by hiding the truth to deceive the Buyer/Seller or the end user, it shall be liable for the liquidated damages as of 20% of the amount of this Contract (up to RMB 1,000,000). This Article shall not preclude the liabilities of breach undertaken by the Buyer/Seller according to other provisions hereunder.

14. Dispute resolution

Any and all disputes arising from validity, performance and interpretation and so on of the Contract shall first be resolved by the parties through amicable consultation. In case no settlement can be reached through consultation, the disputes shall be governed by the people's court of first instance with jurisdiction where the Seller is located. All related fees paid for litigation (including attorney fees, travel fees, evidence collection fees, notarization fees and litigation fees, etc) shall be borne by the losing party.

15. Effective and miscellaneous

15.1 The Contract shall take effect upon signature and seal by both parties. The printed text of the content hereof shall prevail. In case of any modification, the parties hereto shall confirm the modified text by signature and seal. In case the contract text covers more than one page, seal on the perforation shall be affixed to such pages.

15.2 The Contract is in duplicate, with each party holding one counterpart respectively. The two counterparts shall have the same legal effect. The parties hereto shall send the original contract text to each other within three working days as of the date hereof. The fax copy shall have the same effect as the original.

15.3 Any matters not covered in this Contract shall be mutually negotiated by both parties and be set forth in the supplementary agreements, which shall have the same legal effect as the Contract.

The Buyer: CEEG (Nanjing) New Energy Co.,
Ltd. /Seal/
Contact person:
Date: September 8, 2008

The Seller: China Sunergy (Nanjing) Co., Ltd.
/Seal/
Contact person:
Date: September 8, 2008

Form of Sales Contract

Contract No.: _____
 Signing Place: Jiangning District, Nanjing
 Signing Date: _____

The Seller: China Sunergy (Nanjing) Co., Ltd.

Add.: No. 123, West Focheng Road, Economy and
 Technology Development Zone, Jiangning, Nanjing
 Postal code: 211100
 Legal representative: Lu Tingxiu
 Contact person: Chang Tong
 Tel.: 025-52766701
 Fax: 025-52766767

The Buyer: CEEG (Shanghai) Solar Science and
 Technology Co., Ltd.

Add.: No.68 West Gangde Road, Songjiang District,
 Shanghai
 Postal code: 214128
 Legal representative: Cai Zhifang
 Authorized agent: Tao Qiang
 Tel.: 021-57850711
 Fax: 021-57850700

The Buyer and the Seller enter into and abide by this agreement on the following stipulations according to the *Contract Law of the People's Republic of China*:

1. Goods summary

Name of goods	Specification and parameter	Quantity	Unit	Unit price(USD/W) Without 17% of Value added tax ("VAT")	Amount (USD)
Monocrystalline 125×125mm crystal silicon solar cells	Monocrystalline 125*125mm Single cell efficiency: 16.75% Average efficiency:17.25% (SE or HP)	1.25	MW	3.65	4,562,500
In total		1.25	MW	3.65	4,562,500
Total amount (in words): Around RMB thirty six million five hundred thousand (subject to benchmark price of exchange rate between US dollar and RMB issued by Bank of China on the actual payment date). Amount under the Contract shall be settled on the basis of RMB. Unit price of cells in RMB= USD3.65*benchmark price of exchange rate between US dollar and RMB issued by Bank of China on the actual payment date *1.17					
Remark: RMB price including 17% of VAT					

2. Time and terms of payment

2.1 After the effectiveness of the Contract, the Buyer shall remit the payment which accounts for 30% of total price of cells of each shipment into the account designated by the Seller within three days before picking up the goods. The remaining 70% of payment for goods shall be remitted by the Buyer to the account designated by The Seller within 20 days after the shipment.

2.2 If the Buyer receives payment for modules from SUNPOWER in advance after the shipment made by the Seller (the Buyer receives payment for modules from SUNPOWER within 15 days after the shipment made by the Seller), the remaining 70% of payment shall be remitted to the account designated by the Seller within 5 days after the Buyer receives payment for modules from SUNPOWER (other settlement methods are not acceptable).

2.3 If the Buyer fails to make payment in accordance with above agreed terms, the Seller has the right to cease supply of goods until the Buyer makes payment. This agreement shall not be deemed as violation of Article 4.4.

Account designated by the Seller: Jiangning Sub-branch of China Merchants Bank,
A/C No.: 078002380175610001

3. Packing requirements: The goods shall be packed in carton boxes suitable for highway transportation so as to meet requirements for long-distance and long-time transportation.

4. Place and term of delivery

4.1 Place of delivery: the Seller's location

4.2 The Buyer shall be responsible for goods transportation and insurance. If the Buyer asks the Seller to arrange the transportation, freight and risk shall be borne by the Buyer and the Buyer shall cover the insurance.

4.3 _____. Date of subsequent supply: the Seller shall deliver each batch of cells within 45 days upon receipt of silicon materials purchased from SUNPOWER. Subsequent delivery schedule shall be decided by both parties through negotiation in accordance with the schedule of purchase of silicon raw material from SUNPOWER and the Seller's cell production progress.

4.4 Grace period of delivery and liabilities for breach: Grace period of delivery is 14 days following the deadline for delivery prescribed in the Contract. If the Seller fails to make delivery after the grace period, the Seller shall pay liquidated damages at the rate of USD0.01/W per week for delayed goods from the closing date of grace period; however, liquidated damages shall not exceed 5% of total price of the Contract. If the Seller fails to make delivery after the deadline of grace period, the Buyer has the right to purchase cells from other suppliers and not to assure the Seller that it will perform the obligation of purchasing subsequent cells under the Contract, while the Seller shall pay costs and expenses increased by change of the supplier.

4.4 The Seller shall provide related VAT invoices to the Buyer within 15 days after each delivery.

5. Quality requirements and technical standards: See Appendix I (shipment and transportation terms in Article 5.4 thereof are inapplicable).

6. Quantity and quality inspection and objection:

The Buyer shall complete quantity and quality inspection in accordance with the standard prescribed hereunder within seven days after picking up each batch of goods. Any quantity and quality claims shall be issued by Buyer in writing in three days upon detection, and shall be inspected by a third party agreed upon by both parties, if necessary. If the Buyer fails to raise a claim within ten days after picking up the goods, the Seller's products shall be deemed as qualified.

7. Transfer

Neither party may transfer all or part of rights and obligations hereunder without written consent of the other party.

8. Confidentiality

The parties and their employees, agents, representatives or consultants shall treat all terms and conditions of the Contract and any supplemental agreement thereof as trade secret, which shall not be disclosed to any third party without consent of the other party. Otherwise, the breaching party shall make compensation to the abiding party, which is twice of the direct or indirect losses suffered by the abiding party.

9. Force majeure

Where either party hereof is unable to perform the Contract due to a force majeure event, the affected party shall within seven days after occurrence of such event notify the other party in writing and shall submit a written certification issued by a related department within fifteen days after the end of the event. The affected party could be partially or wholly exempted the liability in the light of the impact caused by the force majeure event. Where an event of force majeure occurs after the party's delay in performance, the defaulting party shall not be released from its liabilities.

10. Integrity Assurance

It shall be viewed as damage to other party's interest if either party and its staff directly or indirectly give, in the name of the company or an individual, a gift of money, valuables, securities or provide an improper interest in otherwise forms to any employee of the receiving party, or either of the Buyer and Seller as well as its staff does, whether in the name of the company or an individual, any transaction similar to that contemplated hereunder with any employee of the other party or any third party introduced by any employee of the other party. The breaching party shall compensate as much as twice of the direct or indirect losses incurred by the other party by such reason, as well as the liquidated damages amounting to 20% of the total amount of this Contract per breach (up to 1,000,000).

Integrity reporting method: reporting e-mail: JC@Chinasunergy.com; telephone: 8625-5276 6726.

11. Dispute resolution

Any and all disputes arising from validity, performance and interpretation and so on of the Contract shall first be resolved by the parties through amicable consultation. In case no settlement has been reached, the disputes shall be governed by the people's court of first instance with jurisdiction where the Seller is located. All related fees paid for litigation (including attorney fees, travel fees, evidence collection fees, notarization fees and litigation fees, etc) shall be borne by the losing party.

12. Effective and miscellaneous

12.1 The Contract shall take effect upon signature by both parties or seal by the special authorized agents. In case the contract text covers more than one page, seal on the perforation shall be affixed to such pages.

12.2 The Contract is in duplicate, with each party holding one counterpart respectively. Both counterparts shall have the same legal effect. The parties hereto shall send the original contract text to each other within three working days as of the date hereof. The fax copy shall have the same effect as the original.

12.3 Any matters not mentioned herein shall be mutually negotiated between both parties and be set forth in the supplemental agreements, which shall have the same legal effect as the Contract.

12.4 In case of conflict between the contents of Appendix I (Detailed product specifications) and those hereof, the contents hereof shall prevail.

The Seller: China Sunergy (Nanjing) Co., Ltd. /seal/
Signature/seal:
Date:

The Buyer: CEEG (Shanghai) Solar Science & Technology Co., Ltd. /seal/
Signature/seal:
Date:

Contract No.	Date	Goods summary
XS120080288	November 14, 2008	The first batch of 0.125MW cells shall be delivered before December 12, 2008 after the Seller receives 30% of prepayment from the Buyer.
XS120080298	November 26, 2008	This batch of 0.125MW cells shall be delivered by installments. Initial installment of solar cells shall be delivered before January 1, 2009 after the Buyer makes 30% of prepayment.

Supplemental Agreement

Contract No.: XS120080322

Signing Place: Jiangning District, Nanjing

Through amicable negotiation between the Buyer and the Seller, the relevant terms stipulated in the following contracts (contract numbers:XS120080288 and XS120080298) will be modified as follows :

A. The content in original contracts numbered XS120080288 and XS120080298:

1. Goods summary

Name of goods	Specification and parameter	Quantity	Unit	Unit price(USD/W) Without 17% of Value added tax ("VAT")	Amount (USD)
Monocrystalline 125×125mm crystal silicon solar cells	Monocrystalline 125*125mm Single cell efficiency: 16.75% Average efficiency:17.25% (SE or HP)	1.25	MW	3.65	4,562,500
In total		1.25	MW	3.65	4,562,500
Total amount (in words): Around RMB thirty six million five hundred thousand (subject to benchmark price of exchange rate between US dollar and RMB issued by Bank of China on the actual payment date). Amount under the Contract shall be settled on the basis of RMB. Unit price of cells in RMB= USD3.65*benchmark price of exchange rate between US dollar and RMB issued by Bank of China on the actual payment date *1.17					
Remark: RMB price including 17% of VAT					

The above content shall be modified as follows:

1. Goods summary

Name of goods	Specification and parameter	Quantity	Unit	Unit price(USD/W) Without 17% of Value added tax ("VAT")	Amount (USD)
Monocrystalline 125×125mm crystal silicon solar cells	Monocrystalline 125*125mm Single cell efficiency: 16.75% Average efficiency: 17.25% (SE or HP)	1.25	MW	3.65	4,562,500
In total		1.25	MW	3.65	4,562,500
Unit price of cells in RMB= USD3.65*benchmark price of exchange rate between US dollar and RMB issued by Bank of China on the date when the Buyer prepays 30% of prepayment for each batch of solar cells*1.17					
Remark: RMB price including 17% of VAT					

B. Other terms shall refer to original contracts (the contract numbers are CG120080288 and CG120080298).

C. This agreement shall come into effect upon signature and seal by both parties.

The Seller: China Sunergy (Nanjing) Co., Ltd. /seal/

Signature/seal:

Date:

The Buyer: CEEG (Shanghai) Solar Science & Technology Co., Ltd. /seal/

Signature/seal:

Date:

Creditor's Rights Transfer Contract

Between

CHINA SUNERGY (NANJING) CO., LTD.

(The Transferor)

And CEEG (Nanjing) International Trading Co., Ltd.

(The Transferee)

Date: October 14, 2008 A.D.

The Creditor's Right Transfer (hereinafter referred to as "the Contract") is executed on October 14, 2008 by and between:

CHINA SUNERGY (NANJING) CO., LTD. (hereinafter referred to as "the Transferor"), a limited company incorporated and existing under the laws of the People's Republic of China, with its registered address at No. 88 Shengtai Road, Jiangning Economy and Technology Development Zone, Nanjing; and

CEEG (Nanjing) International Trading Co., Ltd. (hereinafter referred to as "the Transferee"), a limited company incorporated and existing under the laws of the People's Republic of China, with its registered address at No. 107 Shigu Road, Baixia District.

WHEREAS, the Transferor executed *Product Sales Agreement* (See Appendix I) with Phoenix Silicon International Corporation (hereinafter referred to as "PSI") on Sept.5, 2007; PSI is a limited company by shares incorporated and existing under the laws of Taiwan, with its address at 6F, No.6 Li-Hsin Road, Science Park, Hsinchu;

WHEREAS, the Transferor has prepaid USD 6,510,000 to PSI as per *Product Sales Agreement* but PSI is unable to perform the obligation of delivering goods pursuant to the agreement; since PSI is unable to deliver the goods, it is negotiating with the Transferor with respect to the repayment of the prepayment; PSI repaid USD 100,000 to the Transferor in May 2008 and is negotiating about the plan for repaying the remaining USD 6,410,000; and

WHEREAS, the Transferor intends to sell and transfer to the Transferee its Creditor's Rights of USD 6,410,000 towards PSI based on *Product Sale Agreement* and the Transferee intends to buy the Transferor's Creditor's Rights and interests based on *Product Sale Agreement* pursuant to the stipulations and terms herein;

Therefore, the Transferor and the Transferee hereto agree as follows:

1. Creditor's rights to be transferred

In accordance with the stipulations and terms hereunder, the Transferor shall sell, transfer, transmit and deliver its creditor's right, interests and other incidental rights towards PSI, the total sum of which is USD 6,410,000; and the Transferee shall buy and accept the transfer of the abovementioned creditor's rights, interests and other incidental rights (hereinafter referred to as "the Creditor's Rights").

2. Price

The Transferee shall pay USD 6,410,000 to the Transferor as the consideration to assign the Creditor's Rights. The Transferee shall, on the Closing Date (as defined below), remit the consideration to the bank account designated by the Transferor.

3. Representations and warranties of the Transferor

The Transferor hereby represents and warrants with respect to the following matters:

- (1) The Transferor is a limited company incorporated and existing under the laws of the People's Republic of China; the Transferor has the right of legal representation and is entitled to execute the Contract and perform all the obligations hereunder; and
- (2) The Transferor is the owner of the Creditor's Rights of USD 6,410,00 in total, which is transferred and transmitted to the Transferee with the consent of PSI provided that the Transferor doesn't warrant that PIS is able to discharge the Creditor's Rights and is not responsible for collecting the Creditor's Rights from PSI.

4. Representations and warranties of the Transferee

The Transferee hereby represents and warrants with respect to the following matters:

- (1) The Transferee is a limited company incorporated and existing under the laws of the People's Republic of China; the Transferee has the right of legal representation and is entitled to execute the Contract and perform all the obligations hereunder; and
- (2) The Transferee has executed the Contract at its own discretion; whether such discretion is proper is resulted from its own judgment; opinions of professional consultants are sought when necessary.

5. Closing

(1) The closing hereunder (hereinafter referred to as "the Closing") shall be effected on the execution date hereof or within thirty days after the execution date hereof or on the date otherwise agreed upon by the parties in writing (hereinafter referred to as "the Closing Date").

(2) The Transferor shall deliver the following documents to the Transferee at Closing:

- (a) One copy of *Product Sale Agreement*;
- (b) Orders placed by the Transferor pursuant to *Product Sale Agreement*;
- (c) PSI's letter of consent with respect to consent of transfer the Creditor's Rights; and
- (d) The Transferor's notice notifying the Transferee of transfer of the Creditor's Rights.

6. Other rights and obligations

The Transferor agrees to make commercially reasonable efforts to provide information and documents related to the Creditor's Rights so that the Transferee can obtain and exercise the Creditor's Rights and related interests.

7. Fees and tax

The Transferor and Transferee agree that they shall respectively bear legal fees and other fees arising from preparation and execution of the Contract. The Transferor shall bear the stamp duty and other taxes arising from the Contract.

8. Confidentiality

Unless otherwise required by statutes, the Transferor and Transferee shall not share with, divulge or disclose to any third party the contents hereof.

9. Miscellaneous

Amendment of any article hereof shall be invalid unless it is in written form, approved and signed by the Transferor and the Transferee.

10. Applicable law and jurisdiction

The Contract shall be governed by laws of the People's Republic of China. The two parties hereof agree that any and all disputes arising from the Contract shall be submitted to Shanghai Branch of China International Economic and Trade Arbitration Commission for arbitration in accordance with its then current rules and procedure. The arbitration fees shall be borne by the losing party.

11. Counterparts

The Contract is in duplicate, with each party holding one counterpart respectively.

The Transferor:

CHINA SUNERGY (NANJING) CO., LTD. /Seal/

Representative: /s/

The Transferee:

CEEG (Nanjing) International Trading Co., Ltd. /seal/

Representative: /s/

Agreement

No.: QT220080179

Party A: China Electric Equipment Group Corporation

Party B: China Sunergy (Nanjing) Co., Ltd.

Party C: CEEG (Nanjing) New Energy Co., Ltd.

Hereinafter referred to as Party A, Party B and Party C

Due to the expiration of creditor's right and debts of the three parties, and through friendly consultations, the three parties agree to transfer creditor's rights and debts as below.

1. Party A will transfer the creditor's rights that Party B owes to Party C, totaling RMB Nine Million Three Hundred and Twenty-Two Thousand Nine Hundred and Thirty-Six Point Two (9,322,936.20).

2. Party C will offset the creditor's rights transferred by Party A against the debts that Party C owes to Party B.

3. Party B and Party C will negotiate over the balance that Party B owes to Party C after the offset.

This agreement is made in three duplicate copies, one page attachment, which shall be regarded as an accounting certificate for each party.

Party A: China Electric Equipment Group Corporation /s/

December 30, 2008

Party B: China Sunergy (Nanjing) Co., Ltd. /s/

December 30, 2008

Party C: China New Energy (Nanjing) Co., Ltd. /s/

December 30, 2008

Agreement

No.: QT220080180

Party A: CEEG (Nanjing) International trading Co., Ltd.

Party B: China Sunergy (Nanjing) Co., Ltd.

Party C: China New Energy (Nanjing) Co., Ltd.

Hereinafter referred to as Party A, Party B and Party C

Due to the expiration of creditor's right and debts of the three parties, and through friendly consultations, the three parties agree to transfer creditor's right and debts as below.

1. Party A will transfer the creditor's rights that Party B owes to Party C, totaling RMB One Million Seven Hundred and Ninety-Six Thousand Seven Hundred and Eighteen Point Seventeen (1,796,718.17).

2. Party C will offset the creditor's rights transferred by Party A against the debts that Party C owes to Party B.

3. Party B and Party C will negotiate over the balance that Party B owes to Party C after the offset.

This agreement is made in three duplicate copies, one page attachment, which shall be regarded as an accounting certificate for each party.

Party A: CEEG (Nanjing) International trading Co., Ltd. /s/

December 31, 2008

Party B: China Sunergy (Nanjing) Co., Ltd. /s/

December 31, 2008

Party C: China New Energy (Nanjing) Co., Ltd. /s/

December 31, 2008

Equity Transfer Agreement
with respect to China Sunergy (Shanghai) Co., Ltd.
Between
China Electric Equipment Group Corporation
And
China Sunergy (Hong Kong) Co., Ltd.

The Agreement is entered into by the parties in Shanghai on September 1, 2008:

1. The Transferor: China Electric Equipment Group Corporation (hereinafter referred to as the “Transferor”), a company established and existing under the laws of the People’s Republic of China,

2. The Transferee: China Sunergy (Hongkong) Co., Ltd., (hereinafter referred to as the “Transferee”), a company established and existing under the laws of Hong Kong Special Administrative Region of the People’s Republic of China (“China”).

(collectively referred to as the parties or individually as one party)

Brief Introduction

3. Brief introduction of the Transferor

- 1) Name: China Electric Equipment Group Corporation
- 2) Address: 88, Shengtai Road, Jiangning Economic and Technological Development Zone, Nanjing
- 3) Legal representative: Lu Tingxiu

4. Brief introduction of the Transferee

- 1) Name: China Sunergy (Hongkong) Co., Ltd.
- 2) Address: 12th Floor, Ruttonjee House 11, Duddel St Central, Hong Kong
- 3) Legal representative: Lu Tingxiu

Recitals

1. China Sunergy (Shanghai) Co., Ltd. (hereinafter referred to as the “Company”) is a Sino-foreign joint venture enterprise established under pertinent laws of the People’s Republic of China. The legal address of the Company is Plot No. V-25B, Western Science and Technology Park of Songjiang Industrial Zone, Shanghai. The Company was established on November 1, 2007, with a registered capital of USD 29.8 million, and the current paid-in capital is USD 5.969019 million. Now the Transferor holds 5% of shares of the Company.

2. Due to the business strategic adjustment of China Sunergy (Shanghai) Co., Ltd., the Transferor and Transferee agree to transfer 5% of equity of the Company held by the Transferor to the Transferee. In case that the Agreement is approved by the examination and approval authority to take effect under the law, the Equity Transfer Agreement comes into effect as of the date of execution (hereinafter referred to as the "Effective Date of Equity Transfer").

3. Upon transfer of the equity, all the claims and debts of the Company occurred before the equity transfer remain to be borne by the Company. Employees employed by the Company before the equity transfer will continue to be employed by the Company after the equity transfer.

Article 1 Equity Transfer

1 In accordance with the terms and conditions herein, the Transferor will transfer its 5% of equity in the Company to the Transferee at the consideration of USD 299,019.96, and the Transferee will fulfill the capital contribution obligation unfulfilled.

2. The Transferor and Transferee jointly express mutual trust and cooperation, and will cooperate with the Company in processing formalities necessary for examination and approval of the equity transfer and the registration.

Article 2 Profit Distribution and Risk Sharing

The parties hereto agree upon effectiveness of the Agreement under the law:

1. The Transferee will exercise rights and fulfill obligations as the shareholder of the Company pursuant to Company's Articles of Association, including but not limited to sharing profits and risks; and

2. The Transferor will not be entitled to any right, interest and obligation as the shareholder of the Company pursuant Company's Articles of Association.

Article 3 Subsequent Actions

Upon execution of the Transfer Agreement by the Parties hereto:

- A. The Board of the Company shall adopt relevant resolutions to approve modifications of the Articles of Association;
- B. The parties hereto shall submit the Agreement, Modifications of the Articles of Association and Resolutions of the Board of the Company to the examination and approval authority for approval;
- C. The parties shall fulfill their obligations to ensure that the Transferee becomes the shareholder of the Company under the law, including but not limited to obtaining new approval certificate from the examination and approval authority and processing change of industrial and commercial registration.

Article 4 Liability for Breach of Contract

In case of breach of contract by any party, it shall be settled in accordance with provisions of the *Contract Law of the People's Republic of China*.

Article 5 Governing Laws and Settlement of Disputes

1. The Transfer Agreement is legally binding on each party, and is governed by pertinent laws of the People's Republic of China and interpreted by laws of the People's Republic of China.
2. In case of any dispute on the Agreement, the parties hereto shall settle it through friendly consultations. If no settlement is reached by negotiation, the disputes shall be submitted to Jiangsu Nanjing Intermediate Court for adjudication.

Article 6 Effectiveness and Termination and Miscellaneous

1. The Agreement shall be approved by the examination and approval authority after signed by authorized representatives of the parties hereto.
 2. Any modification or supplement to the Agreement, which shall be set forth in a written agreement signed by the parties, comes into effect and becomes legally binding only after approved by the examination and approval authority in China.
 - In case of inability of one party to fulfill obligations hereunder due to the force majeure, upon the consensus and application for approval from relevant examination and approval authority, the parties may terminate the Agreement..
-

3. Terms herein constitute the whole agreement of the parties with respect to the equity transfer.

4. The Agreement is prepared in Chinese in six duplicate copies, with each party holding one, the Company holding two and the examination and approval authority holding two.

In witness whereof, the Transferor and Transferee authorize their respective representatives to sign the Agreement on the date written above.

Transferor: China Electric Equipment Group Corporation /Seal/

Signature: /s/Lu Tingxiu

Name: /s/Lu Tingxiu

Title: Legal representative

Transferee: China Sunergy (Hongkong) Co., Ltd. /Seal/

Signature: /s/Lu Tingxiu

Name: /s/Lu Tingxiu

Title: Legal representative

**Certification by the Chief Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Ruennsheng Allen Wang, certify that:

1. I have reviewed this annual report on Form 20-F of China Sunergy Co., Ltd. (the "Company");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: June 26, 2009

By: /s/Ruennsheng Allen Wang
Name: Ruennsheng Allen Wang
Title: Chief Executive Officer

**Certification by the Chief Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Shiliang Guo, certify that:

1. I have reviewed this annual report on Form 20-F of China Sunergy Co., Ltd. (the "Company");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;

4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and

5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: June 26, 2009

By: /s/Shiliang Guo
Name: Shiliang Guo
Title: Acting Chief Financial Officer

**Certification by the Chief Executive Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of China Sunergy Co., Ltd. (the "Company") on Form 20-F for the year ended December 31, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ruennsheng Allen Wang, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: June 26, 2009

By: /s/Ruennsheng Allen Wang
Name: Ruennsheng Allen Wang
Title: Chief Executive Officer

Certification by the Chief Financial Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report of China Sunergy Co., Ltd. (the "Company") on Form 20-F for the year ended December 31, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Shiliang Guo, Acting Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: June 26, 2009

By: /s/Shiliang Guo
Name: Shiliang Guo
Title: Acting Chief Financial Officer

June 26, 2009

China Sunergy Co., Ltd.
No. 123 Focheng West Road
Jiangning Economic & Technical Development Zone
Nanjing
Jiangsu 211100
People's Republic of China

DIRECT LINE:
E-MAIL:
OUR REF:
YOUR REF:

(852) 2842 9595
Andrew.Lee@conyersdillandpearman.com
AL/yc/294315 (M#871778)

Dear Sirs,

China Sunergy Co., Ltd. (the "Company")
Annual Report on Form 20-F

We hereby consent to the filing of this letter as an exhibit to the Company's annual report on Form 20-F for the year ended December 31, 2008 with the U.S. Securities and Exchange Commission. In giving such consent, we do not thereby admit that we come within the category of persons whose consent is required under Section 7 of the Securities Act, or the Rules and Regulations of the U.S. Securities and Exchange Commission thereunder.

Yours faithfully,

/s/ Conyers Dill & Pearman
Conyers Dill & Pearman

Consent of Jun He Law offices, PRC Counsel

June 26, 2009

CHINA SUNERGY CO., LTD.

No. 123 Focheng West Road
Jiangning Economic & Technical Development Zone,
Nanjing, Jiangsu 211100,
People's Republic of China

Dear Sir or Madam:

We hereby consent to the references to us by CHINA SUNERGY CO., LTD. ("the Company") under the heading "Risks Related to Doing Business in China" in the Annual Report on Form 20-F of the Company for the year ended December 31, 2008.

Yours faithfully,
For and on behalf of

/s/ JUN HE LAW OFFICES
JUN HE LAW OFFICES

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-148125 on Form S-8 and Post-Effective Amendment No. 1 to Registration Statement No. 333-151518 on Form F-3 of our reports dated June 26, 2009, relating to the financial statements and related financial statement schedule of China Sunergy Co., Ltd. and subsidiaries (the "Company") and the effectiveness of the Company's internal control over financial reporting, appearing in this Annual Report on Form 20-F of the Company for the year ended December 31, 2008.

/s/ Deloitte Touche Tohmatsu CPA Ltd.

Shanghai, China
June 26, 2009