

ReneSola Ltd  
Form 20-F  
April 27, 2012

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 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  
<sup>x</sup>1934  
For the fiscal year ended December 31, 2011.**

**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: 001-33911**

**RENESOLA LTD**

**(Exact name of Registrant as specified in its charter)**

N/A

**(Translation of Registrant's name into English)**

**British Virgin Islands**

**(Jurisdiction of incorporation or organization)**

**No. 8 Baoqun Road**

**Yaozhuang Town**

**Jiashan County**

**Zhejiang Province 314117**

**People's Republic of China**

**(Address of principal executive offices)**

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**(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:**

| <b>Title of each class</b>                           | <b>Name of each exchange on which registered</b> |
|--|--|
| <b>American Depositary Shares, each representing</b> | New York Stock Exchange                          |
| <b>two shares, no par value per share</b>            |  |

**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.

**172,613,664 shares, no par value per share, as of December 31, 2011.**

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

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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 used 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

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

Unless otherwise indicated and except where the context otherwise requires, references in this annual report on Form 20-F to:

“we,” “us,” “our company,” “our” or “ReneSola” refer to ReneSola Ltd, a British Virgin Islands company, its predecessor entities and its subsidiaries, and in the context of describing our financial results prior to June 2008, also includes Linzhou Zhongsheng Semiconductor Silicon Material Co., Ltd., or Linzhou Zhongsheng Semiconductor, a then variable interest entity of our company;

“China” or “PRC” refers to the People’s Republic of China, excluding, for the purpose of this annual report on Form 20-F only, Taiwan, and the special administrative regions of Hong Kong and Macau;

all references to “RMB” or “Renminbi” refer to the legal currency of China; all references to “\$,” “dollars” and “U.S. dollars” refer to the legal currency of the United States; all references to “£” and “pounds sterling” refer to the legal currency of the United Kingdom; all references to “€” or “euro” refer to the official currency of the European Union and the currency that is used in certain of its member states;

“ADSs” refers to our American depositary shares, each of which represents two shares, and “ADRs” refers to the American depositary receipts that evidence our ADSs; and

“shares” refers to our shares with no par value.

All discrepancies in any table between the amounts identified as total amounts and the sum of the amounts listed therein are due to rounding.

Consistent with industry practice, we measure our solar wafer manufacturing capacity and production output in watts, or W, or mega watts, or MW, representing 1,000,000 W, of power-generating capacity. We believe MW is a more appropriate unit to measure our manufacturing capacity and production output compared to pieces of wafers, as our solar wafers differ in size, thickness, power output and conversion efficiency. We manufacture both monocrystalline and multicrystalline wafers, and solar cells using these two types of wafers have different conversion efficiencies.

For disclosure of operating data prior to January 1, 2010, we have assumed an average conversion efficiency rate of 16.0% and 15.0% for solar cells using our monocrystalline wafers and multicrystalline wafers, respectively. Based on this conversion efficiency, for wafers produced on or prior to December 31, 2009, we have assumed that (i) each 125

millimeters, or mm, by 125 mm monocrystalline wafer can generate approximately 2.4 W of power, (ii) each 156 mm by 156 mm monocrystalline wafer can generate approximately 3.9 W of power and (iii) each 156 mm by 156 mm multicrystalline wafer can generate approximately 3.7 W of power.

For disclosure of operating data as of and after January 1, 2010 and prior to January 1, 2011, we have assumed an average conversion efficiency rate of 17.4% and 16.0% for solar cells using our monocrystalline wafers and multicrystalline wafers, respectively. Based on this conversion efficiency, for wafers produced on or after January 1, 2010 and prior to January 1, 2011, we have assumed that (i) each 125 mm by 125 mm monocrystalline wafer can generate approximately 2.6 W of power, (ii) each 156 mm by 156 mm monocrystalline wafer can generate approximately 4.2 W of power and (iii) each 156 mm by 156 mm multicrystalline wafer can generate approximately 3.9 W of power.

For disclosure of operating data as of and after January 1, 2011, we have assumed an average conversion efficiency rate of 18.2% and 16.8% for solar cells using our monocrystalline wafers and multicrystalline wafers, respectively. Based on this conversion efficiency, for wafers produced on or after January 1, 2011, we have assumed that (i) each 125 mm by 125 mm monocrystalline wafer can generate approximately 2.7 W of power, (ii) each 156 mm by 156 mm monocrystalline wafer can generate approximately 4.2 W of power and (iii) each 156 mm by 156 mm multicrystalline wafer can generate approximately 4.1 W of power. Assumption of power generation from each wafer may change in the future.



We also measure our ingot manufacturing capacity and production output in MW according to the solar wafers in MW that our current manufacturing processes generally yield.

This annual report on Form 20-F includes our audited consolidated balance sheets as of December 31, 2010 and 2011 and our audited consolidated income statements, consolidated statements of changes in equity and comprehensive income (loss) and consolidated cash flows for each of the three years ended December 31, 2011.

This annual report contains translations of certain Renminbi amounts into U.S. dollars at the rate of RMB6.2939 to \$1.00, the noon buying rate in effect on December 30, 2011 as set forth in the H.10 Statistical Release of the Federal Reserve Bank Board. We make no representation that the Renminbi or dollar amounts referred to in this annual report on Form 20-F could have been or could be converted into dollars or Renminbi, as the case may be, at any particular rate or at all. See “Item 3. Key Information—D. Risk Factors—Risk Related to Doing Business in China—Fluctuations in exchange rates may have a material adverse effect on your investment.” On April 20, 2012, the noon buying rate was RMB6.3080 to \$1.00.

We and certain selling shareholders of our company completed an initial public offering of 10,000,000 ADSs on January 29, 2008 and listed our ADSs on the New York Stock Exchange, or the NYSE, under the symbol “SOL.” On June 23, 2008, we completed a follow-on public offering of 10,350,000 ADSs sold by us and certain selling shareholders.

In August 2006, we placed 33,333,333 shares on the Alternative Investment Market of the London Stock Exchange, or the AIM. In November 2010, with the approval of our board of directors, our shares ceased to trade on the AIM, and our admission to trading on the AIM was cancelled.

On October 5, 2009, we completed a follow-on public offering of 15,500,000 ADSs sold by us.

In 2009, we repurchased RMB713.9 million (\$104.6 million) aggregate principal amount of our RMB928,700,000 U.S. dollar Settled 1.0% Convertible Bonds due March 26, 2012 using a combination of \$84.1 million in cash and the issuance of 4,000,000 shares. We redeemed the remaining balance of \$32 million in the first quarter of 2010.

On March 15, 2011, we completed an offering of \$175 million of convertible senior notes due 2018, with an additional sale of \$25 million on April 7, 2011 pursuant to the over-allotment option exercised by initial purchasers, to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended, or the Securities Act. The convertible senior notes will mature on March 15, 2018. In connection with the pricing of the convertible

senior notes, we entered into a capped call transaction and an additional capped call transaction, which covers, subject to customary anti-dilution adjustments, the number of ADSs underlying the option notes, with an affiliate of one of the initial purchasers of the notes, or the hedge counterparty. The capped call transaction is expected generally to reduce potential dilution to the shares and ADSs upon conversion of the convertible senior notes. The capped call transaction is a separate transaction entered into by us with the hedge counterparty and is not part of the terms of the notes and will not change the holders' rights under the notes. Holders of the convertible senior notes will not have any rights with respect to the capped call transaction. During 2011, we repurchased \$88.4 million aggregate principal amount of our convertible senior notes using \$57.1 million in cash. As of December 31, 2011, the carrying value of our convertible senior notes was \$111.6 million.

In August 2011, our board of directors adopted a shareholder rights plan to protect the best interests of ReneSola and our shareholders and authorized the dividend distribution. One share purchase right was distributed on August 26, 2011, with respect to each share of ReneSola outstanding at the close of business on such date. Initially, the share purchase rights were evidenced by the certificates representing outstanding shares, and no separate share purchase right certificates were distributed. Subject to certain limited exceptions, the share purchase rights will be exercisable at \$20.0 per share purchase right if a person or group acquires 15% or more of ReneSola's voting securities or announces a tender offer for 15% or more of the voting securities, subject to adjustment. Our board of directors will be entitled to redeem the share purchase rights at \$0.0001 per share purchase right at any time before a person or group has acquired 15% or more of ReneSola's voting securities. The share purchase rights are designed to ensure that our shareholders receive fair treatment in the event of any proposed takeover of our company and to encourage anyone seeking to acquire our company to negotiate with our board of directors prior to attempting a takeover. The share purchase rights are not being distributed in response to any specific effort to acquire control of our company.

In August 2011, our board of directors authorized a share repurchase program under which we may repurchase up to \$100 million in aggregate value of our outstanding ordinary shares during a six-month period ended February 20, 2012 on the open market or in privately negotiated transactions. As of December 31, 2011, we had repurchased an aggregate of 645,424 ADSs, representing 1,290,848 ordinary shares, on the open market for a total cash consideration of \$1.9 million.

## 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

#### Our Selected Consolidated Financial Data

The following selected consolidated statements of income data for the years ended December 31, 2009, 2010 and 2011 and the selected consolidated balance sheet data as of December 31, 2010 and 2011 are derived from our audited consolidated financial statements included elsewhere in this annual report. The selected consolidated statements of income data for the years ended December 31, 2007 and 2008 and the consolidated balance sheet data as of December 31, 2007, 2008 and 2009 are derived from our consolidated financial statements, which are not included in this annual report. The selected consolidated condensed financial data should be read in conjunction with, and are qualified in their entirety by reference to, our audited consolidated financial statements and related notes and “Item 5.

Operating and Financial Review and Prospects” included elsewhere in this annual report. Our consolidated financial statements are prepared and presented in accordance with U.S. GAAP. The historical results are not necessarily indicative of results to be expected in any future period.

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For the Year Ended December 31,  
 2007                      2008                      2009                      2010                      2011  
 (in thousands, except percentage, share and per share data)

Consolidated Statement of  
 Income Data

|   |            |             |             |             |            |
|---|------------|-------------|-------------|-------------|------------|
| Net revenues  | \$248,973  | \$670,366   | \$510,405   | \$1,205,579 | \$985,279  |
| Cost of revenues  | (195,477 ) | (684,676 )  | (553,607 )  | (857,615 )  | (889,226 ) |
| Gross profit (loss)   | 53,496     | (14,310 )   | (43,202 )   | 347,964     | 96,053     |
| Operating expenses:   |            |             |             |             |            |
| Sales and marketing   | (584 )     | (620 )      | (5,399 )    | (8,360 )    | (17,233 )  |
| General and administrative  | (8,754 )   | (23,194 )   | (29,084 )   | (43,314 )   | (38,550 )  |
| Research and development  | (1,143 )   | (9,714 )    | (14,507 )   | (36,263 )   | (47,055 )  |
| Impairment loss on property,<br>plant and equipment                         | —          | (763 )      | —           | —           | —          |
| Other operating (expenses)<br>income  | 418        | 84          | 1,633       | (14,083 )   | 18,327     |
| Total operating expenses  | (10,063 )  | (34,207 )   | (47,356 )   | (102,020 )  | (84,511 )  |
| Income (loss) from operations   | 43,433     | (48,516 )   | (90,558 )   | 245,944     | 11,542     |
| Non-operating income<br>(expenses):   |            |             |             |             |            |
| Interest income   | 1,934      | 1,783       | 1,716       | 1,835       | 7,862      |
| Interest expense  | (4,512 )   | (11,869 )   | (17,122 )   | (23,246 )   | (37,190 )  |
| Foreign exchange (losses)<br>gains  | (4,047 )   | (3,097 )    | (1,433 )    | (1,814 )    | 6,612      |
| Gains on repurchase of<br>convertible notes                                 | —          | —           | 7,995       | 6           | 28,350     |
| Gains (losses) on derivatives,<br>net                                       | —          | —           | —           | 6,268       | (15,297 )  |
| Investment (loss)   | —          | —           | —           | —           | (193 )     |
| Other-than-temporary<br>impairment loss on<br>available-for-sale investment | —          | —           | (13,367 )   | —           | (6,207 )   |
| Total non-operating<br>(expenses)   | (6,625 )   | (13,183 )   | (22,211 )   | (16,950 )   | (16,063 )  |
| Income (loss) before income<br>tax, non-controlling interests               | 36,808     | (61,700 )   | (112,770 )  | 228,994     | (4,520 )   |
| Income tax benefit (expenses)   | 6,155      | 2,420       | 41,156      | (59,998 )   | 4,851      |
| Equity in (loss) of investee,<br>net of tax                                 | —          | 5,175       | (291 )      | —           | —          |
| Net income (loss)   | 42,963     | (54,104 )   | (71,904 )   | 168,996     | 331        |
| Net loss attributable to<br>noncontrolling interests                        | (27 )      | (802 )      | —           | —           | (2 )       |
| Net income (loss) attributable<br>to holders of ordinary shares             | \$42,936   | \$(54,906 ) | \$(71,904 ) | \$168,996   | \$333      |
| Earnings (loss) per share:  |            |             |             |             |            |
| Basic   | \$0.43     | \$(0.43 )   | \$(0.49 )   | \$0.98      | \$0.00     |
| Diluted   | \$0.43     | \$(0.43 )   | \$(0.49 )   | \$0.97      | \$0.00     |
| Earnings (loss) per ADS:  |            |             |             |             |            |

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|   |             |   |             |    |             |    |             |   |             |   |
|---|-------------|---|-------------|----|-------------|----|-------------|---|-------------|---|
| Basic   | \$0.86      |   | \$(0.86)    | )  | \$(0.98)    | )  | \$1.96      |   | \$0.00      |   |
| Diluted   | \$0.86      |   | \$(0.86)    | )  | \$(0.98)    | )  | \$1.93      |   | \$0.00      |   |
| Weighted average number of shares used in computing earnings per share: |             |   |             |    |             |    |             |   |             |   |
| Basic   | 100,000,032 |   | 127,116,062 |    | 147,553,679 |    | 172,870,921 |   | 173,496,901 |   |
| Diluted   | 108,221,480 |   | 127,116,062 |    | 147,553,679 |    | 175,111,731 |   | 173,870,162 |   |
| Other Consolidated Financial Data                                       |             |   |             |    |             |    |             |   |             |   |
| Gross margin  | 21.5        | % | (2.1)       | )% | (8.5)       | )% | 28.9        | % | 9.7         | % |
| Operating margin  | 17.4        | % | (7.2)       | )% | (17.7)      | )% | 20.4        | % | 1.2         | % |
| Net margin  | 17.2        | % | (8.2)       | )% | (14.1)      | )% | 14.0        | % | 0.0         | % |
| Selected Consolidated Operating Data                                    |             |   |             |    |             |    |             |   |             |   |
| Solar power products shipped (in MW) <sup>(1)</sup>                     | 124.5       |   | 350.1       |    | 526.6       |    | 1,182.8     |   | 1,294.8     |   |

(1) Includes solar ingots, wafers, cells and modules shipped, as well as solar wafers and modules shipped from processing services.

|   | As of December 31, |             |             |             |             |
|---|--------------------|-------------|-------------|-------------|-------------|
|   | 2007               | 2008        | 2009        | 2010        | 2011        |
|   | (in thousands)     |             |             |             |             |
| Consolidated Balance Sheet Data                         |                    |             |             |             |             |
| Cash and cash equivalents                               | \$53,137           | \$112,334   | \$106,808   | \$290,702   | \$379,039   |
| Inventories   | 110,630            | 193,036     | 137,844     | 170,599     | 154,182     |
| Advances to suppliers—current                           | 53,727             | 36,991      | 12,092      | 26,315      | 16,164      |
| Total current assets                                    | 263,241            | 440,134     | 480,224     | 698,009     | 832,922     |
| Property, plant and equipment, net                      | 136,598            | 341,427     | 702,816     | 801,472     | 980,165     |
| Advances for purchases of property, plant and equipment | 29,648             | 161,705     | 20,840      | 26,930      | 25,867      |
| Advances to suppliers—noncurrent                        | —                  | 45,729      | 8,072       | 13,743      | 17,644      |
| Total assets  | 440,609            | 1,007,788   | 1,284,829   | 1,593,945   | 1,948,976   |
| Short-term borrowings                                   | 71,691             | 191,987     | 358,634     | 400,798     | 570,894     |
| Advances from customers—current                         | 59,626             | 49,284      | 53,852      | 57,396      | 58,238      |
| Total current liabilities                               | 158,376            | 333,137     | 609,851     | 778,247     | 989,377     |
| Total equity  | 134,926            | 382,087     | 396,263     | 586,464     | 601,141     |
| Total liabilities and equity                            | \$440,609          | \$1,007,788 | \$1,284,829 | \$1,593,945 | \$1,948,976 |

B. Capitalization and Indebtedness

Not Applicable.



C. Reasons for the Offer and Use of Proceeds

Not Applicable.

D. Risk Factors

Risks Related To Our Business

Volatile market and industry trends, in particular, changes in supply or demand for solar power products and continued substantial downward pressure on the prices of our products will exert a negative impact on our business operations, revenues and profitability.

Our solar power product prices are based on a variety of factors, including global supply and demand, our in-house polysilicon production and procured polysilicon costs, quality of our products, manufacturing costs of our products and terms of our customer contracts, including sales volumes and terms on which certain customers supply us with polysilicon pursuant to wafer processing arrangements. As the solar power industry is expected to be increasingly competitive, we expect there to be continued downward pressure on pricing along the solar power value chain in the next few years due to anticipated cost reductions across the supply chain and industry improvements in operational efficiency and technology. In addition, expansion of manufacturing capacity in the future by us and our competitors may result in significant excess capacity in solar power products and, as a result, prices may further decline and our utilization rate may decrease.

From late 2008 to the second half of 2009, the global supply of solar power products exceeded market demand due to excess production capacity and weak demand associated with the global economic downturn, which contributed to a decline in the average selling price of solar wafers and other solar power products. Although the solar industry experienced an increase in demand for solar products in 2010 as global economic conditions improved, the prices for solar power products declined in 2011 due to the oversupply of solar power products and Europe's challenging financing environment resulting in weak demand in Europe for most of 2011. While we believe China will be one of the largest markets for solar power products in 2012 and will have an increasing impact on global demand, we expect prices for solar power products to continue to decline in the near future due to increased production efficiencies, reductions in polysilicon costs, potential increases in manufacturing capacity and continued excess capacity in our industry. If the oversupply of solar products continues to exist and the European markets or other markets weaken, or if we are unable to lower our costs in line with the price declines, whether through increasing manufacturing efficiency, securing polysilicon feedstock and consumable supplies at lower costs or through technological advances, our revenues and profitability would be materially and adversely affected.



Historically, we entered into long-term polysilicon purchase agreements with international suppliers. We also entered into long-term wafer sales contracts and wafer processing arrangements with customers. In addition, we entered into module processing arrangements under which customers provide polysilicon and other raw materials to us for processing into modules. In light of the volatility of polysilicon prices and changes in supply and demand for solar power products, our suppliers and our customers may become involved in negotiations or disputes with us regarding terms and conditions of the agreements or arrangements with them, including the quantity and price of the products to be delivered under existing agreements or arrangements. Any negotiation or litigation arising out of these disputes could distract management from the day-to-day operation of our business, subject us to potentially significant legal expenses, and interrupt the sourcing of our polysilicon or the sales of our solar products, which could materially and adversely affect our business and results of operations.

Volatility in polysilicon prices may adversely affect our net income and results of operations.

Polysilicon is an essential raw material in the production of our solar power products. From late 2008 to the second half of 2009, there was an industry-wide excess supply of polysilicon, primarily due to increased supply from both existing polysilicon manufacturers and new entrants and weakened demand from the end market. These factors resulted in a short-term inventory build-up along the solar power value chain and polysilicon spot prices have fallen significantly since late 2008 before they stabilized in 2010. In 2009, 2010 and 2011, we recorded \$71.3 million, \$1.2 million and \$49.0 million in inventory write-down against the net realizable value of inventories as a result of the fluctuations in polysilicon prices, which lead to decreased value of our polysilicon feedstock. Partly as a result of our inventory write-downs, our gross margin dropped to negative 8.5% in 2009 from negative 2.1% in 2008 and to 9.7% in 2011 from 28.9% in 2010. If in the future the price of polysilicon and our finished products are less favorable than those projected by our management, we may be exposed to further inventory write-downs on a net realizable value basis, which may have a material adverse effect on our results of operations.

Our polysilicon project may not achieve the utilization rate or operational efficiency as we planned, which may negatively affect our profit margin. Any problem in our polysilicon manufacturing facilities as a result of operating hazards and natural disasters may limit our ability to manufacture such products.

In 2010, we completed the construction of phase I of a polysilicon manufacturing facility in Meishan, Sichuan Province, through our wholly owned subsidiary, Sichuan ReneSola Silicon Material Co., Ltd., or Sichuan ReneSola, which was established in Sichuan Province in August 2007. We commenced trial production of the first part of phase I of the facility in July 2009 and the second part of phase I in February 2010. We reached a total output of approximately 1,140 metric tons in 2010 and 3,382 metric tons in 2011. Phase I of our polysilicon facility has been in full operation since the beginning of 2011. We expect to commence trial production of phase II of the facility in the second half of 2012. Prior to our operation of the polysilicon manufacturing facility in the Sichuan Province, we did not have any experience in operating polysilicon production facilities. Manufacturing polysilicon is a highly complex chemical process and we may not be able to produce polysilicon of sufficient quantity and quality or at a cost comparable to or lower than those of other polysilicon manufacturers or on schedule to meet our wafer manufacturing requirements. Minor deviations in the manufacturing process can cause substantial decreases in yield and in some cases cause production to be suspended or to yield no output. In addition, our production cost was higher than previously expected due to continuous trial runs, system testing, purchases of trichlorosilane, or TCS, and minimal activated hydrogenation processes.

Phase II of our polysilicon manufacturing facility utilizes a hydrochlorination process to replace the TCS production and thermal hydrogenation process, which requires one less step than the previous process. As a result of it taking longer than we originally expected to obtain the operational license and because this is a new process, we have experienced delays in commencing trial production of phase II and we expect to commence trial production of phase II in the second half of 2012. If our polysilicon production facility experiences any further delay or defect in operations, we may suffer a setback to our raw material procurement strategy. We may also fail to manufacture polysilicon of sufficient quantity, quality or at competitive costs compared to the polysilicon available from the market, thereby making our polysilicon manufacturing facility uneconomical to run, which would negatively impact our profit margin and financial results. If the price of polysilicon and other raw materials rise and we are required to make purchases at higher than anticipated market rates, our profit margin may be further negatively impacted. If our polysilicon production facility does not perform as planned we may be unable to recover our investments or be forced to write down the value of the assets.

Because our polysilicon manufacturing capabilities are concentrated in our manufacturing facilities in Sichuan Province, any problem in our facilities may limit our ability to manufacture such 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 fires, floods, droughts, power losses and similar events beyond our control that would affect our facilities. Operating hazards and natural disasters, such as earthquakes may also cause interruption to our operations, property and/or environmental damage as well as personal injuries, and any of these incidents may have a material adverse impact on our results of operations. Although we carry business interruption insurance, losses incurred or payments required to be made by us due to operating hazards or natural disasters that are not fully insured may have a material adverse effect on our financial condition and results of operations.



Our polysilicon raw material suppliers may fail to supply us with polysilicon in a timely manner, at a favorable price, or with the quantity or quality we require, which may materially and adversely affect our financial condition and results of operations.

We entered into long-term and short-term polysilicon purchase agreements with international suppliers. Any failure by our suppliers in supplying us with polysilicon in a timely manner and with the quantity or quality or at the level of pricing we require may adversely and materially impact our ability to fulfill our obligation in producing and delivering solar power products to our customers in accordance with the sales contracts we entered into with such customers. From time to time, we become involved in negotiations and disputes with certain suppliers that supply us with polysilicon with quality defects or regarding quantity and price. Any negotiation or litigation arising out of these disputes could distract management from the day-to-day operation of our business, subject us to potentially significant legal expenses, and interrupt the sourcing of our polysilicon, which could materially and adversely affect our business and results of operations.

We need a substantial amount of cash to fund our operations. If we fail to obtain additional capital when we require it, our growth prospects and future profitability may be materially and adversely affected.

We require a significant amount of cash to fund our operations. Due to market conditions and other considerations, we have extended credit terms to a limited number of customers. Credit terms may be extended to new customers to secure future purchase commitments from the customers as this has become an industry wide practice.

We will also need capital to fund the expansion of our manufacturing capacity and our research and development activities in order to remain competitive in this market. Future expansions, changes in market conditions or other developments may also cause us to require additional funds. Our ability to obtain external financing in the future is subject to a number of uncertainties, including:

· our future financial condition, operations and reputation;

· general market conditions in our industry; and

· economic, political and other conditions in China and elsewhere.

Weakening of global economic conditions and PRC macroeconomic factors such as credit tightening policies may negatively impact our ability to obtain necessary capital in a timely manner or on commercially acceptable terms. As of December 31, 2011, we had \$379.0 million in cash and cash equivalents, \$58.3 million in restricted cash and

\$715.6 million in bank borrowings, of which approximately \$570.9 million was due within one year. We might not be able to refinance these borrowings in the future as they mature. In the event that we are unable to obtain extensions of these borrowings, or if we are unable to obtain sufficient alternative funding at reasonable terms to make repayments, we will have to repay these borrowings with cash generated by our operating activities. Moreover, future turbulence in global economic conditions and the potential impact on the liquidity of financial institutions may have an adverse effect on our ability to fund our operations and future expansion through borrowings or our ability to borrow on terms that we believe to be reasonable, if at all. Our operations, results of operations and growth prospects may be materially and adversely affected if current global financial crisis persists.

Our financial leverage may hamper our ability to expand and may materially affect our results of operations. Our borrowing levels and the tightening of credit generally in the industry in the PRC may adversely impact our ability to obtain new financing.

We have relied on short-term and long-term borrowings and notes financing to fund a portion of our capital requirements, and expect to continue to do so in the future. We have significant borrowings from Chinese commercial banks. Our borrowings consisted primarily of short-term borrowings, which increased from \$400.8 million as of December 31, 2010 to \$570.9 million as of December 31, 2011, of which \$250.3 million was attributable to trade financings as of December 31, 2011, which increased from \$117.9 million as of December 31, 2010 to satisfy our working capital requirements. Our long-term borrowings also increased from \$121.5 million as of December 31, 2010 to \$144.7 million as of December 31, 2011. In March 2011, we completed an offering of convertible senior notes due 2018 to qualified institutional buyers pursuant to Rule 144A under the Securities Act. As of December 31, 2011, the carrying value of our convertible senior note was \$111.6 million.

The amount of our borrowings could constrain our operational flexibility, including requiring a substantial portion of our cash flows to be set aside to service our debt obligations, increasing our exposure to interest rate fluctuations and limiting our ability to obtain additional financing. Furthermore, the PRC government may pass measures to tighten credit, including trade financing, available in the PRC market. All of the above may impair our ability to obtain financing on favorable terms, or at all. We may not be able to raise necessary funding on favorable terms, or at all, to finance our current liabilities and other debt obligations. If our cash flows and capital resources are insufficient to finance our debt obligations, our business, prospects and financial conditions may be materially and adversely affected.

We expect to incur additional debt obligations to finance our operations and future expansion and, as a result, we will allocate an increasing portion of our cash flow to service these obligations. This could impair our ability to make necessary capital expenditures, develop business opportunities or make strategic acquisitions. Our business may not generate sufficient cash flow from operations in the future to service our debt and make necessary capital expenditures, in which case we may seek additional financing, dispose of certain assets or seek to refinance some or all of our debt. In addition, these alternatives may not be implemented on satisfactory terms, if at all. In the event that we are unable to meet our obligations when they become due or if our creditors take legal action against us for payment, we may have to liquidate our long-term assets to repay our creditors. We may have difficulty converting our long-term assets into current assets in such a situation and may suffer losses from the sale of our long-term assets. This would materially and adversely affect our operations and prevent us from successfully implementing our business strategy.

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 intellectual property rights of third parties. For example, equipment we design may infringe the intellectual property rights of third parties. The defense and assertion 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 against us could subject us to significant liabilities to third parties, including requiring us to seek licenses from third parties, to pay ongoing royalties or to pay monetary and punitive damages or subjecting us to injunctions that prohibit the manufacture and sale of our products or the use of our equipment. 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, which could result in losses and adversely affect our results of operations and reputation.

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

Our solar wafers sold to customers are subsequently made into modules and assembled in solar power systems, which are either connected to the utility grid and generate electricity to feed into the grid or installed to supply electricity to businesses and residents. We also sell solar modules directly to customers. We believe that the near-term growth of the market for on-grid applications continues to depend on the availability and size of government subsidies and economic incentives. If the reduction or elimination of government subsidies and economic incentives are not implemented prudently, such reduction or elimination may adversely affect the growth of this market or result in increased price competition, either of which could cause our revenues to decline.

When upfront system costs are factored into the cost of electricity generation, the cost of solar power substantially exceeds the cost of power generated from conventional means in many markets. As a result, national and local governmental bodies in many countries, most notably in Germany, China, Spain, Italy, the United States and Japan, have provided subsidies and economic incentives in the form of feed-in tariffs, rebates, tax credits and other incentives to end-users, distributors, system integrators and manufacturers of solar power products to promote the use of solar power and to reduce dependence on other forms of energy.

However, as the solar power industry continues to develop, these government subsidies and economic incentives have been reduced and could continue to be reduced or be eliminated altogether. For example, in 2011, a decrease in payment to solar power producers, in the form of feed-in tariffs and other reimbursements, and a reduction in available financing caused a decrease in the growth in a number of solar power projects in the European markets. Although the solar power industry is currently moving towards the economies of scale necessary for solar power to become cost-effective in a non-subsidized market, the reduction or elimination of government subsidies and economic incentives for on-grid solar power applications could result in decreased demand for our products and cause our revenues to decline. Although we expect China to become one of the largest markets for solar power products in 2012, Europe continues to be an important market. As European governments continue to decrease their subsidies, Chinese solar power products may continue to experience excess capacity, which could impact the demand and pricing of our solar power products, either of which could materially and adversely impact our revenues and profitability.

Turbulence in global financial markets and economies may adversely affect the solar industry, the demand for solar power products, and our operating results, financial condition and liquidity.

The demand for solar power products is influenced by macroeconomic factors such as global economic conditions, the supply and the prices of other energy products, such as oil, coal and natural gas, as well as government regulations and policies concerning the electric utility industry. A decrease in prices of fossil fuels, for example, could reduce demand for alternative forms of energy, such as solar power. We are affected by the solar market and industry trends. From late 2008 to the second half of 2009, the global solar power industry experienced a drastic decline in demand due to decreased availability of financing for downstream buyers of solar power products as a result of the global economic crisis. During the same period, increased manufacturing capacity combined with decreased demand for and decreased prices of polysilicon caused a decline in the prices of solar power products. In 2011, payments to solar power producers decreased as governments in Europe, under pressure to reduce sovereign debt levels, reduced subsidies such as feed-in tariffs, which tariffs require public utility companies to pay higher prices for solar power than for power generated through conventional means. These market conditions worsened due to an over-supply of solar power products driven by increased manufacturing capacity, which adversely affected the prices of solar power products.

There may still be great uncertainties in the global credit and lending environment. If the demand for solar power products deteriorates again due to these macroeconomic factors or solar market and industry trends, our liquidity and financial condition, including our ability to refinance maturing liabilities and access the capital markets to meet liquidity needs, and the liquidity and financial condition of our customers may be adversely affected. This would delay and lengthen our cash collection cycles and negatively impact our operating results. Additionally, our share



price may decrease if investors have concerns that our business, financial condition and results of operations will be negatively impacted by a global economic downturn.

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

We sell a substantial portion of our solar wafers to a limited number of customers. In 2011, our top five wafer customers accounted for approximately 41.6% of our wafer sales and 23.0% of our net revenues, and our largest customer accounted for approximately 10.8% of our wafer sales and 6.0% of our net revenues. Sales to our major wafer customers are typically made under long-term sales contracts. Long-term sales contracts typically provide for the sales volume and price of our solar wafers for each year during the contract term. However, the pricing terms may be either fixed or subject to reset in situations where the market benchmark price for solar wafers changes more than a certain percentage from the contracted price. In addition, in 2010, we also entered into one-year and long-term sales contracts which provide for an agreed sales volume at a fixed price. A small portion of our sales are made under long-term framework contracts which provide for variable pricing and volume terms. Since the fourth quarter of 2008, we renegotiated many of our long-term framework contracts, long-term sales contracts and one-year sales contracts with our customers to reflect rapidly changing market conditions. The agreements were renegotiated and amended such that these customers agreed to continue to purchase the quantity under the original agreements but pricing terms are to be adjusted (usually on a monthly basis based on delivery volume) to reflect the market conditions.

While we have further diversified our customer base, including by adding certain new international customers, we anticipate that our dependence on a limited number of customers will continue in the near 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;
- unilateral change of contractual technological specifications by one or more of our customers;
- failure to reach an agreement with our customers on the pricing terms or sales volumes under various contracts;
- 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.

We operate in a highly competitive market 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 solar market is increasingly competitive and continually evolving, which may result in price reductions, reduced profit margins or loss of market share by us. Our competitors include integrated solar power product manufacturers, specialized solar wafer manufacturers, solar wafer manufacturing divisions of large conglomerates, specialized cell and module manufacturers and end-market system integrators. In addition, some polysilicon suppliers have decided to move downstream by establishing ingot and wafer producing capacities and some of our downstream customers have decided to move upstream to produce wafers for their internal use. Many of our competitors have longer operating histories, stronger market positions, larger manufacturing capabilities, greater resources, better brand name recognition and better access to silicon raw materials than we do. Some of our competitors have an established track record in large-scale polysilicon manufacturing and they may have an advantage over us in polysilicon feedstock costs. 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. The key barriers to enter into our industry at present consist of access to cost competitive polysilicon, advanced manufacturing technologies, a competitive cost structure, capital resources and skilled personnel. If these barriers disappear or become more easily surmountable, new competitors may successfully enter our industry. If we fail to compete successfully, our business would suffer and we may lose or be unable to gain market share.

One of the competitive factors in solar power industry is conversion efficiency. Conversion efficiency of solar power products is not only determined by the quality of solar wafers but is also dependent on the solar cell and module production processes and technologies. Therefore, solar wafer manufacturers usually assume the conversion efficiency

of their solar wafers based on the conversion efficiency of solar cells and modules manufactured by their customers, and there is a lack of publicly available information on the conversion efficiency of solar wafers. Accordingly, investors may not be able to obtain a comprehensive view of our competitive position vis-à-vis our competitors.

We may be unable to timely and successfully implement our expansion plan.

As of December 31, 2011, we had 2,000 MW of wafer manufacturing capacity, 240 MW of cell manufacturing capacity and 500 MW of module manufacturing capacity. As of December 31, 2011, we had an annual polysilicon manufacturing capacity of 4,000 metric tons and we expect that our annual polysilicon manufacturing capacity will be increased to 9,500 to 10,000 metric tons by the end of 2012 as a result of the establishment of new polysilicon production facilities with additional capacity of 5,500 to 6,000 metric tons. Furthermore, we plan to significantly increase our module sales operations. Our ability to increase our production capacity and output and increase our module sales operations is subject to significant risks and uncertainties, including:

- the significant amount of capital required to purchase additional equipment or to build additional facilities, which we may be unable to obtain on commercially viable terms or at all;

- failure by our suppliers to make timely and satisfactory deliveries;

- cost overruns and delays as a result of a number of factors, many of which are beyond our control, such as problems with equipment delivery;

- delays or denial of required approvals by relevant government authorities;

- failure to obtain production inputs in sufficient quantities or at acceptable cost;

- failure to execute our expansion plan effectively; and

- failure to control the increase of our operating expenses without a commensurate increase in our revenues as we hire additional sales personnel in connection with the expansion of our module sales operations.

Therefore, we may fail to successfully increase our manufacturing capacity and expand our business as planned, which could adversely affect our business and operations.

Our future success substantially depends on our ability to closely monitor and accurately predict market demand and to efficiently manage our manufacturing capacity to either meet increased demand or avoid under-utilization of our production facilities due to lower-than-expected demand. This exposes us to a number of risks and uncertainties.

We intend to reach a balance between closely matching our manufacturing capacity and production output to market demands for our products. If we are unable to do so, the low utilization rate resulting from our over-expansion of production facilities may result in high production cost, which would adversely affect our profitability. Our failure to accurately predict market demand may also result in our lack of manufacturing capacity required to meet increased demand. Our ability to achieve a balance between the increase in manufacturing capacity and the changes in market demand is subject to significant risks and uncertainties, including:

- the ability to quickly adjust our manufacturing capacity and output while the industry is rapidly evolving;
- the ability to maintain existing customer relationships, attract new customers and expand our market share;

the ability to implement new and upgraded operational and financial systems, procedures and controls to adapt to the strains associated with fast growth and expansion or rapid decrease in demand;

the ability to favorably renegotiate our equipment supply contracts previously entered into for our wafer production in accordance with changes in our expansion plan;

the ability to maintain a financially healthy level of liquidity, and to manage our liquidity if we are unable to obtain additional funds and/or refinance existing debt on commercially viable terms or at all;

the occurrence of construction delays and cost overruns;

the ability to install and test new production equipment on a timely basis;

the delay or denial of required approvals by relevant government authorities; and

any significant diversion of management attention.

If we are unable to successfully manage our manufacturing capacity to respond to market demand, or if we fail to resolve any of the risks and uncertainties described above, we may be unable to expand our business as planned. Therefore, we cannot assure you that we can meet our targeted production costs and consequently stay competitive. Moreover, even if we are able to manage our growth, we may be unable to secure sufficient customer orders, which could adversely affect our business and operations.

We recorded a significant provision against doubtful other receivables in 2009 and we may not be able to recover our return of investment in a former joint venture.

In August 2007, we acquired a 49% equity interest in Linzhou Zhongsheng Semiconductor, a polysilicon manufacturing company located in Henan Province. Linzhou Zhongsheng Steel Co., Ltd., or Linzhou Zhongsheng Steel, held a 51% equity interest in the joint venture. The joint venture started producing polysilicon in early 2008. In September 2008, we sold our 49% equity interest in Linzhou Zhongsheng Semiconductor to Linzhou Zhongsheng Steel, our joint venture partner. The agreement was amended in December 2008 stipulating that of the total consideration of RMB200 million, RMB40 million would be paid in cash, RMB4 million would be treated as credit for existing purchases of polysilicon and RMB156 million would be treated as prepayment, to either be used as a credit through a discount to spot market price against future delivery of polysilicon from the joint venture or be repaid in cash, at our discretion. However, Linzhou Zhongsheng Semiconductor stopped the delivery of polysilicon in early 2009 and continued to fail to fulfill its obligations. We decided to take legal action to collect the remaining amount of the receivable and to make a provision against doubtful other receivables accordingly. As a result, we recorded a provision of approximately \$8.6 million in 2009 against doubtful other receivables. We were advised by our PRC legal counsel, Haiwen & Partners, that this prepayment arrangement is subject to foreign exchange control by the PRC government, and as we have not obtained approvals and registrations from relevant authorities, this may subject us to penalties and such arrangement may be unenforceable in the PRC. As we have not imposed any security over this arrangement, we may not be able to recover the remaining amount of the receivable if Linzhou Zhongsheng Steel fails to honor its obligations under the share transfer agreement, or if we fail to enforce such arrangement under PRC laws and regulations. We initiated arbitration proceedings against Linzhou Zhongsheng Steel and Linzhou Zhongsheng Semiconductor before China International Economic and Trade Arbitration Commission, or CIETAC, for the equity

transfer dispute. CIETAC has rendered its final award in September 2011, requiring Linzhou Zhongsheng Steel to pay us the remaining equity transfer consideration in the amount of RMB137.3 million, which amount was included in the provision against doubtful other receivables we made in 2009 as of the date of this annual report. We have applied to the relevant court in China for enforcement of the arbitral award.

*We are exposed to credit risks of our customers.*

As we expand our module sales operations, we expect to derive more revenues from credit sales, generally with payment schedules due according to negotiated contracts, which have longer credit periods and more flexible terms when compared to our wafer contracts. As a result of the disruptions in the financial markets and other macro-economic challenges which had affected the world economy, our customers may experience difficulties in making timely payment to us. Any inability of customers to pay us may adversely affect our cash flow and earnings.

We incurred impairment losses on our investments in equity securities.

Since October 2009, we have held a minority equity interest in a polysilicon manufacturer, or the investee whose shares are traded on the Toronto Stock Exchange, or TSX. If the fair value of these shares declines below their cost basis and we determine that the decline is permanent, we are required to record an impairment loss for the applicable period. In 2009, due to the rapid decline of the investee's share price as a result of the difficult operating environment for its core business, such as the rapid decline of polysilicon prices, we recorded impairment losses of \$13.4 million. We recorded further impairment losses of \$6.2 million in 2011 due to the same reason. The investee filed for bankruptcy protection under the Companies' Creditors Arrangement Act of Canada, or CCAA, in January 2012. In February 2012, TSX determined to delist the investee's shares due to its failure to meet the continued listing requirements of the TSX as a result of the commencement of proceedings under the CCAA. As a result, we have fully written off the investment in the investee. We may incur additional expenses as a result of impairment of other investments we may make, in the future. Any losses incurred could have a material adverse effect on our financial condition and results of operations.

***If we are unable to effectively manage these risks, our ability to expand our business abroad would be materially and severely impaired.***

In 2011, approximately 60.9% of our net revenues were generated from customers outside of China (excluding Hong Kong). We expanded our international sales efforts in 2009, 2010 and 2011 by focusing on international top tier solar companies with strong global distribution capabilities and initiating relationship with companies with established regional distribution capabilities in our international key markets. We also plan to significantly increase our module sales operations. The marketing, distribution and sales of our solar power products in international markets expose us to a number of risks, including:

fluctuations in currency exchange rates, such as exchange rate volatility between the euro and the U.S. dollar and the continuing trend of appreciation of the Renminbi against the U.S. dollar;

increased costs associated with maintaining marketing efforts in various countries;

difficulty and costs relating to compliance with the different commercial, environmental 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;



the antidumping or countervailing duty or other import restrictive proceedings initiated in the United States or any additional jurisdictions, including the European Union and India, for example, the antidumping and countervailing duty actions filed by solar companies in the United States against imports of Chinese solar panels in 2011;

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

failure to control the increase of our operating expenses without a commensurate increase in our revenues as we hire additional sales personnel in connection with the expansion of our module sales operations.

If we are unable to effectively manage these risks, our ability to expand our business abroad would be materially and severely impaired.

Our expansion into cell and module operations may cause us to compete with our customers.

In May 2009, as a part of our development strategy, we acquired a 100% equity interest in Wuxi Jiacheng Solar Energy Technology Co., Ltd., or JC Solar, for a total cash consideration of RMB140.3 million, including tax paid in connection with the transfer of equity interests. JC Solar is a solar cell and module manufacturer located in Yixing, Jiangsu Province. As of December 31, 2011, we, through JC Solar, had an annual cell production capacity of 240 MW and an annual module production capacity of 500 MW. We may compete directly with our wafer customers as we also sell our module products in the market. As a result, our relationships with those customers may be impaired. If our customers stop purchasing wafers from us due to our competition with them, we may not gain the expected return of investment from the acquisition of JC Solar and may lose our existing customers, and our business and results of operations will be materially and adversely affected.

Any significant claims under the product warranty obligations we assumed during our acquisition of JC Solar may materially and adversely affect our profitability.

Historically, our solar modules were typically sold with a warranty for minimum power output for up to 20 years following the date of sale. We also provided warranties for our solar modules against defects in materials and workmanship for a period of two years from the date of sale. We do not provide similar warranties for our solar wafers. We have sold solar modules since our acquisition of JC Solar in June 2009. In connection with the acquisition of JC Solar, we also assumed all of the product warranty obligations that JC Solar granted to its customers on its module products. JC Solar provides warranties for minimum power output for up to 25 years following the date of sale. JC Solar also provides warranties for solar modules against defects in materials and workmanship for a period of five to ten years from the date of sale. We are obligated to meet the performance requirements in accordance with JC Solar's warranty policy. If we receive significant warranty claims from the customers of JC Solar and the amount of warranty costs accrued exceeds our estimates, we will need to recognize higher warranty costs and our profits may be adversely affected.

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. See “—Problems with product quality or product performance could result in increased costs, damage to our reputation and loss of revenues and market share.” 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.

Restrictive covenants and undertakings under our bank loans may limit the manner in which we operate and an event of default under the loan may adversely affect our operations.

We have entered into several long-term loans with commercial banks in China. These loans contain certain restrictive covenants that limit our ability to, among other things, (i) provide guarantees, pledges or mortgages on our operating assets in any manner that will increase risks to the lenders, (ii) repay shareholders loans or loans from our related parties and (iii) distribute dividends to shareholders. For more information about the loan agreements, see “Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources.” Any breach by us of the various undertakings and covenants in our existing loan agreements will give such banks the right to demand immediate repayment of the outstanding loan amounts. For instance, in a RMB800 million loan agreement with a term of five years, we have undertaken to China Construction Bank that the gross profit margin of our subsidiary, Sichuan ReneSola, will be at or above the lowest gross profit margin of companies in the global polysilicon industry as stated in a report to be provided by one of the big four accounting firms. We believe that because Sichuan ReneSola’s operations were in trial production in 2009, we were not subject to such undertaking in 2009 and the first three quarters of 2010 despite the negative gross margins Sichuan ReneSola recorded in 2009. We have obtained a letter from the bank confirming this understanding. In 2011, the gross margins Sichuan ReneSola recorded was 16.2%, which is higher than the lowest gross profit margin of companies in the global polysilicon industry. However, we cannot assure you whether we will be subject to, or be able to fulfill, such undertaking in the future. Any failure to maintain any of the above covenants or undertakings could result in an acceleration of obligations under the facility agreement, which would have a material adverse effect on our business. In addition, the breach of any of the covenants and undertakings in any one of our loan agreements may trigger the cross-default provisions of some loan agreements entered into by us, thereby giving the lenders the right to accelerate our loan repayment obligations. As a result, we are limited in the manner in which we conduct our business and may be unable to engage in certain business activities or finance our future operations or capital needs.

Our recent and future capacity expansion has and will continue to utilize equipment with customized designs that will be contract manufactured by new suppliers, which subjects us to a number of risks.

Historically, we have purchased all of our furnaces for the production of multicrystalline ingots from foreign equipment suppliers. Since 2010, we collaborated with a domestic equipment supplier in China to develop our own customized multicrystalline furnaces. We have spent considerable resources on the development of these furnaces. Although our new multicrystalline furnaces have achieved satisfactory results to date, these furnaces may not achieve satisfactory results in the future and the equipment supplier may not be able to continue to manufacture and deliver the multicrystalline furnaces we require in a timely manner or meeting our quality and technical requirements. In addition, we may require from time to time additional customized equipment in connection with our business operation and manufacturing capacity expansion, whether in polysilicon production, wafer production, cell production or module production. As such equipment are not readily available from multiple vendors and would be difficult to repair or replace, problems with quality or performance of the equipment or with timely delivery will negatively impact our expansion plans and may result in the failure to grow our revenues or reduce our manufacturing costs as originally intended. Problems with quality or performance of our products as a result of poor equipment performance or failure could result in losses and adversely affect our results of operations and reputation.

Our advance payments to our silicon raw material suppliers expose us to the credit risk of such suppliers, which may materially and adversely affect our financial condition and results of operations.

In order to secure silicon raw materials when the supply of these raw materials was limited, we made advance payments to some of our polysilicon feedstock suppliers. As of December 31, 2009 and 2010, our advances to suppliers amounted to approximately \$20.2 million and \$40.1 million, respectively. In 2011, due to the worldwide oversupply of silicon raw materials, we were not required to make advance payments for our newly signed procurement agreements with suppliers. As of December 31, 2011, the outstanding advance payments in connection with our procurement agreements entered before 2011 amounted to approximately \$33.8 million. We made such advance payments usually without receiving any collateral. To the extent that there were collateral and/or security attached to the advance payments, it is uncertain whether we will be able to enforce the collateral or the security, or if the advance payment can be repaid in full upon enforcement on such collateral or security. Any litigation arising out of the disputes could subject us to potentially significant legal expenses, distract management from the day-to-day operation of our business and expose us to risks for not being able to collect damages awarded to us, all of which could materially and adversely affect our financial condition and results of operations.

We may not be able to recover such advance payments and would suffer further losses should any supplier fail to fulfill its delivery obligations under its supply contract, which would include failure to provide sufficient quantity of raw materials or raw materials of such quality as specified in the contract or should a supplier's stock price be less than the price agreed to settle to our claim. We terminated a polysilicon feedstock purchase agreement with a supplier in 2009 due to its breach of the agreement terms and the supplier issued to us its publicly listed shares that carried a value equivalent to the value of our outstanding prepayment, based on the closing price of the shares on the day of the settlement agreement, as a settlement of its obligations under the agreement. Since these shares were issued to us in

October 2009, their price has fallen significantly and, as a result, we have been required to record an impairment loss in 2009 and 2011. The supplier filed for bankruptcy protection under CCAA in January 2012. As a result, we have fully written off the investment in the supplier. See “—We incurred impairment losses on our investments in equity securities.” Similar claims by us for advance payments in the future would expose us to the credit risks of the suppliers and capital market risks, therefore materially and adversely affect our financial condition and results of operations.

Future acquisitions, investments or alliances may have an adverse effect on our business.

If we are presented with appropriate opportunities, we may acquire or invest in technologies, businesses or assets that are strategically important to our business or form alliances with key players in the solar power industry to further expand our business. Such acquisitions and investments could expose us to potential risks, including risks associated with the assimilation of new operations, technologies and personnel, unforeseen or hidden liabilities, the inability to generate sufficient revenue to offset the costs and expenses of acquisitions, and potential loss of, or harm to, our relationships with employees, customers and suppliers as a result of integration of new businesses. Furthermore, we may not be able to maintain a satisfactory relationship with our partners or handle other risks associated with future alliances, which could adversely affect our business and results of operations. Investments in new businesses may also divert our cash flow from servicing our debt and making necessary capital expenditures. In addition, we may incur impairment losses on our acquisitions and investments in equity securities. We lack sufficient experience in identifying, financing or completing large investments or acquisitions or joint venture transactions. Such transactions and the subsequent integration processes would require significant attention from our management. In addition, we may expand our business into international markets. In our international expansion, we may face economic, regulatory, legal and political risks inherent in having relationships, operations and sales in other jurisdictions, including challenges caused by distance and linguistic and cultural differences, as well as the potential for longer collection periods and for difficulty in collecting accounts receivable and enforcing contractual obligations. Expansion into new markets may also place significant additional burdens on our senior management and our sales and marketing teams. The diversion of our management's attention and any difficulties encountered with respect to the acquisitions, investments, alliances, expansion or in the process of integration could have an adverse effect on our ability to manage our business. Any failure to integrate any acquired or new businesses or joint ventures into our operations successfully and any material liabilities or potential liabilities of any acquired businesses or joint ventures that are not identified by us during our due diligence process for such acquisitions or investments could adversely affect our business and financial condition.

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 market is still in 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 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 continue to 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;

· fluctuations in interest rates, which may affect the effective prices paid for solar power products by end-users who rely on long-term loans to finance their purchases; and

· deregulation of the electric power industry and the broader energy industry.

We have formulated our expansion plan based on the expected growth of the solar market. 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 market is characterized by evolving technologies and customer needs. This requires us to develop enhancements for our products to keep pace with evolving industry standards and changing customer requirements. Currently, we produce wafers, solar cells and solar modules. Some of our competitors may devise production technologies that enable them to produce, at a higher yield and lower cost, larger and thinner wafers with higher quality than our products. In addition, some producers have focused on developing alternative forms of solar power technologies, such as thin-film technologies. 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. Our failure to further refine our products and technology, or 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. 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 experience difficulty in achieving acceptable yields and product performance, or may experience production curtailments or shutdowns.

The technology for the manufacture of solar power products is continuously being modified in an effort to improve yields and product performance. Microscopic impurities such as dust and other contaminants, difficulties in the manufacturing process or unsuccessful adoption of new processing technologies or malfunctions of the equipment or facilities used can lower yields or increase the silicon consumption rate, cause quality control problems, interrupt production or result in losses of products in process. We may also experience floods, droughts, earthquakes, power losses, labor disputes and similar events within or beyond our control that would affect our operations.

Any unplanned transmission line maintenance work with short notices from local electricity transmission line operators may force our production to shut down, limit our ability to manufacture products and to fulfill our commitments to customers on a timely basis. Our polysilicon, wafer and cell manufacturing processes may generate hazardous wastes. Although our technologies and equipment are designed to minimize and eliminate the leakage of such wastes, unexpected accidents may result in environmental consequences, production curtailments, shutdowns or reduced productions, and even cause property damage, personal injuries or deaths. Any such event could result in civil lawsuits or regulatory enforcement proceedings, which in turn could lead to significant liabilities.

Our business depends substantially on the continuing efforts of our 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 our executive officers and key employees, especially Mr. Xianshou Li, our chief executive officer, Mr. Charles Bai, our chief strategy officer, and Mr. Henry Wang, our chief financial officer. 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, in a timely manner, or at all. 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 and us, these agreements may not be enforceable in China, where these executive officers reside, in light of uncertainties with China's legal system. See “—Risks Related To Doing Business In China—Uncertainties with respect to the PRC legal system could adversely affect us.”

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 qualified technical staff or other highly-skilled employees that we will need to achieve our strategic objectives. As 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. In addition, it is typical in the solar industry for highly-skilled employees to enter into employment agreements that contain strict non-competition provisions with their employers. If, as a result of our hiring, a dispute arises involving our employee, his or her former employer and us, such as a dispute over the violation of non-competition provision or other restrictive covenants, it could result in our loss of such key employee and adversely impact our operation and business. Any prolonged litigation may also result in substantial costs and diversion of resources and adversely impact our business and reputation.

Problems with product quality or product performance could result in increased costs, damage to our reputation and loss of revenues and market share.

From time to time, we encounter sales returns due to non-conformity with customers' specifications and are required to replace our products promptly. While in the past we had an insignificant return rate, we cannot assure you that in the future our products will not contain defects that are not detected until after they are shipped or installed. Any proven defects could lead to return or refund of our products under our warranties, cause us to incur additional costs and divert the attention of our personnel from our operations. Similarly, if we fail to maintain the consistent quality of our other products via effective quality control, we may deliver products with defects or other quality problems, which may result in increased costs associated with replacements or other remedial measures. Product defects and the possibility of product defects could also cause significant damage to our market reputation and reduce our product sales and market share.

We face uncertainty with respect to new regulatory standards in the PRC polysilicon industry.

On December 31, 2010, the PRC Ministry of Industry and Information Technology, or the MIIT, the PRC National Development and Reform Commission, or the NDRC, and the PRC Ministry of Environmental Protection jointly promulgated Polysilicon Industry Access Standards, or Circular 137, to establish standards to regulate and direct the development of the polysilicon industry and avoid production surplus and industry oversaturation. Circular 137 sets forth a series of requirements and standards for polysilicon projects including those related to construction and layout, production scale and technical equipment, resource recycling and power consumption, environmental protection and product quality and safety. Companies are required to submit application materials for their currently operating polysilicon projects to the MIIT through local MIIT authorities. The MIIT will, together with other relevant authorities, review the application materials. Any project failing to meet relevant standards may be required to stop its operation.

Our current polysilicon projects are operated through our subsidiary, Sichuan ReneSola, which has already met the standards imposed by Circular 137 according to the circular published by MIIT in December 2011. Our future polysilicon projects are also required to continually meet Circular 137 standards. As a result, we may have less flexibility with respect to the size, production scale, energy consumption and other characteristics of our polysilicon projects, which may adversely affect our operations and expansion plan.

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 ADSs may be adversely impacted.

We are subject to reporting obligations under U.S. securities laws. The U.S. Securities and Exchange Commission, or the SEC, as required by Section 404 of the Sarbanes-Oxley Act of 2002, has adopted rules requiring every public company to include a management report on such company's internal control over financial reporting in its annual report, which contains management's assessment of the effectiveness of the company's internal control over financial reporting. In addition, an independent registered public accounting firm must audit and report on the effectiveness of the company's internal control over financial reporting. Our reporting obligations as a public company have placed, and will continue to place, a significant strain on our management, operational and financial resources and systems for the foreseeable future.

Our management has evaluated the effectiveness of our internal control over financial reporting, as required by Rule 13-a-15(c) of the Exchange Act, and we have concluded that our internal control over financial reporting was effective for our fiscal year ended December 31, 2011. If we fail to maintain the adequacy of our internal controls, our management may conclude that our internal control over financial reporting is not effective in the future. Moreover, effective internal control over financial reporting is necessary for us to produce reliable financial reports and to prevent fraud. As a result, our failure to achieve and maintain effective internal control over financial reporting could result in the loss of investor confidence in the reliability of our financial statements, which in turn could harm our business and negatively impact the market price of our ADSs.

Our 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 patent laws, trade secrets 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 had 72 patents and 131 pending patent applications in China as of December 31, 2011. We cannot assure you that our patent applications will be eventually issued with sufficiently broad coverage to protect our technology and products. As a result, third parties may be able to use 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. In addition, contractual arrangements, such as the confidentiality and non-competition agreements and terms between us and our research and development personnel, afford only limited protection and the actions we may take to protect our trade secrets and other intellectual property may not be adequate. Our failure to protect our intellectual property and proprietary rights may undermine our competitive position. Third parties may infringe or misappropriate our proprietary technologies or other intellectual property and proprietary rights. Policing the unauthorized use of proprietary technology can be difficult and expensive. In particular, the laws and enforcement procedures of the PRC and certain other countries are uncertain or do not protect intellectual property rights to the same extent as do the laws and enforcement procedures of the United States. See “—Risks Related To Doing Business In China—Uncertainties with respect to the PRC legal system could adversely affect us.” We may need to resort to court proceedings to enforce our intellectual property rights in the future. Litigation relating to our intellectual property might result in substantial costs and diversion of resources and management attention away from our business. An adverse determination in any such litigation will impair our intellectual property and proprietary rights and may harm our business, prospects and reputation.

Compliance with environmental regulations can be expensive, and non-compliance with these regulations may result in adverse publicity and potentially significant monetary damages and fines.

As our manufacturing processes, including producing polysilicon, producing ingots, slicing wafers and producing solar cells and modules, generate noise, waste water and gaseous and other industrial wastes, we are required to comply with all applicable regulations regarding protection of the environment. We are in compliance with present environmental protection requirements in all material respects and have all material environmental permits necessary to conduct our business. However, if more stringent regulations are adopted in the future, the cost of compliance with

these new regulations could be substantial. If we fail to comply with present or future environmental regulations, 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.

Our solar module products must comply with the applicable environmental regulations where they are installed, and we may incur expenses to design and manufacture our products so as to comply with such regulations. For example, we increased our expenditures to comply with the European Union's Restriction of Hazardous Substances Directive, which took effect in July 2006, by reducing the amount of lead and other restricted substances used in our solar module products. Furthermore, we may need to comply with the European Union's Waste Electrical and Electronic Equipment Directive if solar modules and products are re-classified as consumer electronics under the directive or if our customers located in other markets demand that they comply with this directive. This would require us to implement manufacturing process changes, such as changing the soldering materials used in panel manufacturing, in order to continue to sell into these markets. As a result, we have begun to require our suppliers of soldering materials to provide certifications from TÜV Rheinland, a globally recognized certification organization. If compliance is unduly expensive or unduly difficult, we may lose market share and our financial results may be adversely affected.

Increasing environmental concerns and climate change risks associated with fossil fuel-based power generation have created political momentum to implement strategies aimed at the reduction of emissions of carbon dioxide and certain other gases commonly referred to as “greenhouse gases.” Renewable energy sources such as solar power help address these environmental concerns, and governments around the world have implemented a variety of policy initiatives to accelerate the development and adoption of solar power. While passage of climate change legislation or other regulatory initiatives that regulate or restrict emissions of greenhouse gases may encourage use of solar power and accordingly increase demand for our products and services, this could cause us to incur additional direct costs in complying with any new environmental regulations during our manufacturing and research and development processes, as well as increased indirect costs resulting from our customers, suppliers or both incurring additional compliance costs that get passed on to us.

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

As the insurance industry in China is still in an early stage of development, the product liability insurance and business interruption insurance available in China offer limited coverage compared to that offered in many other countries. Any business disruption or natural disaster could result in substantial costs and a diversion of resources, which would have an adverse effect on our business and results of operations.

Similar to 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 solar wafers are made into electricity generating devices and our solar modules 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 July 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.

***The audit report included in this annual report are prepared by auditors who are not inspected by the U.S. Public Company Accounting Oversight Board and, as such, you are deprived of the benefits of such inspection.***

Our independent registered public accounting firm that issues the audit reports included in our annual reports filed with the SEC, as auditors of companies that are traded publicly in the United States and a firm registered with the U.S. Public Company Accounting Oversight Board, or the PCAOB, is required by the laws in the United States to undergo regular inspections by the PCAOB to assess its compliance with the laws in the United States and professional standards. Because our auditors are located in the PRC, a jurisdiction where the PCAOB is currently unable to conduct inspections without the approval of the Chinese authorities, our auditors are not currently inspected by the PCAOB.

Inspections of other firms that the PCAOB has conducted outside China have identified deficiencies in those firms' audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future audit quality. This lack of PCAOB inspections in China prevents the PCAOB from regularly evaluating our auditor's audits and its quality control procedures. As a result, investors may be deprived of the benefits of PCAOB inspections.

The inability of the PCAOB to conduct inspections of auditors in China makes it more difficult to evaluate the effectiveness of our auditor's audit procedures or quality control procedures as compared to auditors outside of China that are subject to PCAOB inspections. Investors may lose confidence in our reported financial information and procedures and the quality of our financial statements.

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 shares.

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, 2011. However, the application of the PFIC rules is subject to uncertainty in several respects, and we cannot assure you the U.S. Internal Revenue Service will not take a contrary position. A non-U.S. corporation will be a PFIC for any taxable year if either (i) at least 75% of its gross income for such year is passive income or (ii) 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. A separate determination must be made after the close of each taxable year as to whether we were a PFIC for that year. If we are a PFIC for any taxable year during which a U.S. person holds an ADS or share, certain adverse U.S. federal income tax consequences could apply to such U.S. holder. See “Item 10. Additional Information—E. Taxation—U.S. Federal Income Taxation—Passive foreign investment company.”

#### 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.

We conduct substantially all of our business operations in China. As the solar industry is highly sensitive to business and personal discretionary spending levels, it tends to decline during general economic downturns. Accordingly, our results of operations, financial condition and prospects are subject to a significant degree to economic, political and legal developments in China. China’s economy differs from the economies of most developed countries in many respects, including with respect to the amount of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. While the PRC economy has experienced significant growth in the past decades, growth has been uneven across different regions and among various economic sectors of China. The PRC government has implemented various measures to encourage economic development and guide the allocation of resources. While some of these measures benefit the overall PRC economy, they 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 intricately 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 the PRC government enacts to forestall economic downturns or shore up the PRC economy could affect our business.



The PRC economy has been transitioning from a planned economy to a more market-oriented economy. Although the PRC government has implemented measures since the late 1970s emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of improved corporate governance in business enterprises, a substantial portion of productive assets in China are still owned by the PRC government. In addition, the PRC government continues to play a significant role in regulating industry development by imposing industrial policies. The PRC government also exercises significant control over China's 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. Future actions and policies of the PRC government could materially affect our liquidity and access to capital and our ability to operate our business.

Uncertainties with respect to the PRC legal system could adversely affect us.

We are a holding company, and we conduct our business primarily through our subsidiaries incorporated in China. These subsidiaries include (1) Zhejiang Yuhui Solar Energy Source Co., Ltd., or Zhejiang Yuhui, (2) Sichuan Ruixin Photovoltaic Materials Co, Ltd., or Sichuan Ruixin, (3) Sichuan Ruiyu Photovoltaic Materials Co, Ltd., or Sichuan Ruiyu, (4) Zhejiang Renesola Photovoltaic Materials Co., Ltd., or Zhejiang ReneSola, (5) JC Solar, (6) Jiashan Xujing Real Estate Development Co., Ltd., (7) Zhejiang Ruiyi New Materials Technology Co., Ltd., or Zhejiang Ruiyi, (8) Zhejiang Sciborn New Material Technology Co., Ltd., (9) Sichuan SiLiDe Composite Materials Co., Ltd., (10) Qinghai Yuhui New Energy Co., Ltd., (11) Yuneng Enterprise Consulting (Shanghai) Co., Ltd., (12) Sichuan Renesola and (13) Sichuan OuRuiDa Science Park Co., Ltd. These subsidiaries are generally subject to laws and regulations applicable to foreign investment in China. The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since the late 1970s, PRC legislation and regulations have significantly enhanced the protections afforded to various forms of foreign investments in China. However, since the PRC legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involve uncertainties, which may limit legal protections available to us. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention.

Expiration of, or changes to, current PRC tax incentives that our business enjoys could have a material adverse effect on our results of operations.

The PRC government has provided various incentives to foreign-invested enterprises to encourage foreign investments. Such incentives include reduced tax rates and other measures. As a foreign-invested enterprise in a manufacturing business with an authorized term of operation for more than ten years, Zhejiang Yuhui is entitled to full exemption from enterprise income tax for the years 2005 and 2006 and a 50% reduction during the three succeeding years.

In March 2007, the National People's Congress of China enacted a new Enterprise Income Tax Law, which became effective on January 1, 2008. In December 2007, the State Council of China promulgated the Implementing Regulation of the new Enterprise Income Tax Law, which became effective on January 1, 2008. The new tax law imposes a unified state income tax rate of 25% on all domestic enterprises and foreign-invested enterprises unless they qualify under certain limited exceptions. According to the new Enterprise Income Tax Law and its relevant implementation rules, enterprises that were established before March 16, 2007 and were eligible for preferential tax exemptions or reduction within the specified time under the then effective laws and regulations will continue to enjoy the original preferential tax exemptions or reductions until the expiration of the specified terms, except that the relevant exemption or reduction shall start from January 2008 if the first profitable year for the relevant enterprise is later than January 1, 2008.

Zhejiang Yuhui increased its registered capital from \$1.5 million to \$16.5 million in April 2006, \$28.5 million in September 2006, \$45.0 million in January 2007 and \$102.5 million in August 2007. According to relevant PRC tax regulations before the enactment of the Enterprise Income Tax Law, Zhejiang Yuhui is entitled to a full exemption from enterprise income tax for two years starting from its first profitable year of operation with respect to income from operations attributable to the increased capital and a 50% deduction in income taxes for the following three years, upon written approval from the tax authority. Since Zhejiang Yuhui's capital increase from \$45.0 million to \$102.5 million was registered after March 16, 2007, it has received an approval from the PRC tax authority in Zhejiang Province which provided that income attributable to this registered capital increase would receive preferential tax treatment until December 31, 2007. From January 1, 2011, Zhejiang Yuhui has paid income tax at a rate of 15% as a High and New-tech Enterprise. However, Zhejiang Yuhui's High and New-tech Enterprise Certificate expired on April 16, 2012. We have applied for renewal of Zhejiang Yuhui's High and New-tech Enterprise Certificate and there is no assurance that Zhejiang Yuhui can successfully renew its certificate or if any new law may change the preferential treatment granted to it. Any loss or substantial reduction of the tax benefits enjoyed by us would reduce our net profit.

Moreover, under the new Enterprise Income Tax Law, enterprises organized under the laws of jurisdictions outside of China with their de facto management bodies located within China may be considered PRC resident enterprises and, therefore, subject to PRC enterprise income tax at the rate of 25% on their worldwide income. The Implementing Regulation of the new tax law defines “de facto management body” as an establishment that exerts substantial overall management and control over the operation, personnel, financial affairs, assets and other aspects of the enterprise. If a majority of the members of our management team continues to be located in China, we may be deemed as a PRC tax resident enterprise and, therefore, subject to PRC enterprise income tax at the rate of 25% on our worldwide income except that the dividends we received from our PRC subsidiaries may be exempt from the enterprise income tax to the extent that such dividends are deemed as dividends among PRC resident enterprises. If our current tax benefits expire or otherwise become unavailable to us for any reason, our profitability may be materially or adversely affected. In addition, our PRC subsidiaries, Zhejiang Yuhui and JC Solar, are required to pay value added tax, or VAT, with respect to their respective gross sales proceeds. Prior to July 2007, when exporting products, Zhejiang Yuhui was entitled to a 13% refund of VAT that it had already paid or borne. However, starting July 1, 2007, such VAT refund was reduced to 5%, which materially affects the gross margin of our overseas sales. According to the latest tax regulation, the VAT refund applicable to Zhejiang Yuhui has been reverted to 13% from April 1, 2009. The VAT refund applicable to JC Solar is 17%. Our profitability may be materially and adversely affected if this VAT refund changes significantly and frequently.

Our ability to make distributions and other payments to our shareholders depends to a significant extent upon the distribution of earnings and other payment made by Zhejiang Yuhui.

We conduct substantially all of our operations through Zhejiang Yuhui. Our ability to make distributions or other payments to our shareholders depends on payments from Zhejiang Yuhui. 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. Zhejiang Yuhui is also required to set aside at least 10% of its after-tax profit, if any, to fund certain statutory reserve funds until the accumulative amount of such reserves reaches 50% of its registered capital. These reserves are not distributable as cash dividends. Zhejiang Yuhui 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, when Zhejiang Yuhui incurs debt on its own behalf, the instruments governing the debt may restrict its ability to pay dividends or make other distributions to us. For example, according to certain loan agreements between Zhejiang Yuhui and its banks, Zhejiang Yuhui is not permitted to pay dividends for any given year if it has no after-tax profit or any principal or interest due in that year that has not been paid.

Under the Enterprise Income Tax Law, dividends payable by us and gains on the disposition of our shares or ADSs could be subject to PRC taxation.

Pursuant to the new PRC Enterprise Income Tax Law and its Implementing Regulation, which became effective on January 1, 2008, a 10% withholding tax applies to dividends, interests, rent or royalties payable by a foreign-invested enterprise, such as our PRC subsidiary, to any of its non-resident enterprises investors for PRC enterprise income tax

purposes unless any such non-resident enterprise's jurisdiction of incorporation has a tax treaty with China that provides for a different withholding arrangement. The British Virgin Islands, where our company was incorporated, does not have such a treaty with China. Thus, the Company expects that a 10% withholding tax will apply to dividends paid to the Company by its PRC subsidiaries if the Company is classified as a non-resident enterprise. Circular CaiShui [2008] No.1 jointly issued by the State Administration of Taxation and Minister of Finance on February 22, 2008 further clarifies that dividends distributed by foreign-invested enterprise to foreign investors out of the profits generated before January 1, 2008 are still exempt from withholding tax even if they are paid after January 1, 2008. Our PRC entities' undistributed earnings, generated after January 1, 2008, as of December 31, 2010 will be permanently reinvested to the PRC entities. Therefore, no dividend withholding tax was accrued.

We are incorporated in the British Virgin Islands. Under the new PRC Enterprise Income Tax Law and its Implementing Regulation, an enterprise established outside of the PRC with “de facto management bodies” within the PRC is considered a PRC resident enterprise. The Implementing Regulation defines 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.” Substantially all of our management members are based in the PRC. Accordingly, we may be considered a PRC resident enterprise. If we are determined to be a PRC resident enterprise following the “de facto management bodies” concept, our shareholders and ADS holders who are deemed non-resident enterprise may be subject to the new PRC Enterprise Income Tax Law at the rate of 10% upon the dividends paid by us or the gains on the disposition of our shares or ADSs; similarly, our noteholders who are deemed non-resident enterprise may be subject to the new PRC Enterprise Income Tax Law at the rate of 10% upon the interest of the notes paid by the Company and the gains realized on the conversion, sale, exchange or redemption of such notes.

Fluctuations in exchange rates may have a material adverse effect on your investment.

Our sales in China are denominated in Renminbi, and our export sales are generally denominated in U.S. dollars and euros. Our costs and capital expenditures are largely denominated in Renminbi and foreign currencies, including U.S. dollars, euros and Japanese yen. Fluctuations in exchange rates could affect our net profit margins and could result in foreign exchange losses and operating losses. In addition, our foreign currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert Renminbi into foreign currencies.

The value of the Renminbi against the U.S. dollar, the 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, the Renminbi traded within a narrow band against the U.S. dollar until June 2010, remaining within 1% of its July 2008 high but never exceeding it. In June 2010, the People’s Bank of China announced that the PRC government would reform the Renminbi exchange rate regime and increase the flexibility of the exchange rate. It is difficult to predict how long the current situation may last and when and how it may change again.

In addition, as we rely entirely on dividends paid to us by our operating subsidiaries in China, any significant depreciation of the Renminbi against the U.S. dollar may have a material adverse effect on our revenues and financial condition, and the value of, and any dividends payable on, our shares. For example, to the extent that we need to convert U.S. dollars into Renminbi for our operations, appreciation of the Renminbi against the U.S. dollar would have an adverse effect on the Renminbi amount we receive from the conversion. Conversely, if we decide to convert our Renminbi into U.S. dollars for the purpose of making payments for dividends on our 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 proportion of our revenue is paid to us in euro, fluctuation between the euro and the RMB may

also have a material effect on our results of operations.

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

A significant portion 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 shares or ADSs. Under China's existing foreign exchange regulations, Zhejiang Yuhui is able to pay dividends in foreign currencies, without prior approval from State Administration of Foreign Exchange, or SAFE, by complying with certain procedural requirements. However, we cannot assure you that the PRC government will not take further measures in the future to restrict access to foreign currencies for current account transactions.

Foreign exchange transactions by Zhejiang Yuhui 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 Zhejiang Yuhui borrows foreign currency loans from us or other foreign lenders, these loans must be registered with SAFE, and if we finance it by means of additional capital contributions, these capital contributions must be approved or registered by certain government authorities including SAFE, the Ministry of Commerce or their local counterparts. These limitations could affect the ability of Zhejiang Yuhui to obtain foreign exchange in China, and could affect our business and financial condition.

If we are required to obtain the prior approval of the China Securities Regulatory Commission, or CSRC, for the listing and trading of our ADSs on the NYSE, we may face regulatory actions or other sanctions which may adversely affect our financial condition.

On August 8, 2006, six PRC regulatory agencies, including the CSRC, promulgated a regulation that became effective on September 8, 2006. This regulation, among other things, has some provisions that purport to require that an offshore special purpose vehicle, or SPV, formed for listing purposes and controlled directly or indirectly by PRC companies or individuals shall obtain the approval of the CSRC prior to the listing and trading of such SPV's securities on an overseas stock exchange. On September 21, 2006, the CSRC published on its official website procedures specifying documents and materials required to be submitted to it by SPVs seeking CSRC approval of their overseas listings.

We completed the listing of our ADSs on the NYSE in January 2008 and completed our follow-on offerings in June 2008 and October 2009. We did not seek CSRC approval in connection with our initial public offering or our follow-on offerings. However, 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. Our PRC counsel at the time of listing advised us that because we completed our restructuring for the initial public offering before September 8, 2006, the effective date of the new regulation, it was not and is not necessary for us to submit the application to the CSRC for its approval, and the listing of our ADSs on the NYSE did not require CSRC approval.

If the CSRC or another PRC regulatory agency subsequently determines that CSRC approval was required for the initial public offering or the follow-on offerings, we may face regulatory actions or other sanctions from the CSRC or other PRC regulatory agencies. 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 and the follow-on offerings into the PRC, 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.



If the CSRC later 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.

PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may subject our PRC resident shareholders to personal liability and limit our ability to inject capital into our PRC subsidiary, limit our subsidiary's ability to increase its registered capital, distribute profits to us, or otherwise adversely affect us.

On October 21, 2005, SAFE issued the Notice on Issues Relating to the Administration of Foreign Exchange in Fund-raising and Reverse Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies, or Notice 75, which became effective as of November 1, 2005. SAFE has further issued a series of implementation guidance, including the most recent Notice on Printing and Distributing the Implementing Rules for the Administration of Foreign Exchange in Fund-Raising and Round-trip Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies, or Notice 19, which came into effect on July 1, 2011. According to these regulations, registration with the local SAFE branch is required for PRC residents to establish or to control an offshore company for the purposes of financing that offshore company with assets or equity interests in an onshore enterprise located in the PRC. An amendment to registration or filing with the local SAFE branch by such PRC resident is also required for the injection of equity interests or assets of an onshore enterprise in the offshore company or overseas funds raised by such offshore company, or any other material change involving a change in the capital of the offshore company. Moreover, Notice 75 applies retroactively. As a result, PRC residents who have established or acquired control of offshore companies that have made onshore investments in the PRC in the past were required to complete the relevant registration procedures with the local SAFE branch by March 31, 2006.

We have urged our shareholders who are PRC residents to make the necessary applications and filings as required under these regulations. To our knowledge, our principal shareholders have completed the necessary filings as required under these regulations. In addition, according to rules issued by SAFE, if a PRC resident participates in any stock incentive plan of an overseas publicly-listed company, a qualified PRC domestic agent must, among other things, file on behalf of such participant an application with SAFE to conduct the SAFE registration with respect to such stock incentive plan. We have made filings with the local SAFE branch of Jiashan County in connection with the options we granted to our PRC employees under our 2007 share incentive plan but were told that such registration is not required for now. We will make such filing and registration in accordance with the rules issued by SAFE if required by local SAFE branch. We attempt to comply, and attempt to ensure that our shareholders who are subject to these rules comply with the relevant requirements. However, we cannot provide any assurances that all of our shareholders who are PRC residents will comply with our request to make or obtain any applicable registrations, amend the existing registrations or comply with other requirements required by Notice 75, Notice 19 or other related rules. The failure or inability of our PRC resident shareholders to make any required registrations or comply with other requirements may subject such shareholders to fines and legal sanctions and may also limit our ability to contribute additional capital into or provide loans to our PRC subsidiary, limit our PRC subsidiary's ability to pay dividends or otherwise distribute profits to us, or otherwise adversely affect us.

We face risks related to health epidemics and other outbreaks.

Our business could be adversely affected by the effects of avian flu, severe acute respiratory syndrome, or SARS, swine flu or another epidemic or outbreak. From 2005 to present, there have been reports on the occurrence of avian flu in various parts of China and elsewhere in Asia, including a few confirmed human cases and deaths. In April 2009, an outbreak of swine flu occurred in Mexico and the United States and there have been recent cases in China and elsewhere in Asia. Any prolonged occurrence or recurrence of avian flu, SARS, swine flu or other adverse public health developments in China may have a material adverse effect on our business operations. Our operations may be impacted by a number of health-related factors, including, among other things, quarantines or closures of our facilities, which could severely disrupt our operations, the sickness or death of our key officers and employees, and a general slowdown in the Chinese economy. Any of the foregoing events or other unforeseen consequences of public health problems could adversely affect our business and results of operations. We have not adopted any written preventive measures or contingency plans to combat any future outbreak of avian flu, SARS, swine flu or any other epidemic.

#### Risks Related To Our ADSs, Notes and its Underlying ADSs and Shares

The market price for our ADSs may be volatile; the trading price of our convertible senior notes could be significantly affected by the market price of the ADSs and other factors.

The market price for our ADSs may be volatile and subject to wide fluctuations in response to factors including the following:

- actual or anticipated fluctuations in our operating results;
- our quarterly or annual earnings, or those of other companies in our industry;
- changes in financial estimates by securities research analysts or our ability to meet those estimates;
- changes in the economic performance or market valuations of other solar power companies;
- changes in investors' and analysts' perceptions of our industry, business or related industries;
- changes in accounting standards, policies, guidance, interpretations or principles;

announcements by us or our competitors of new products, patent litigation, issuance of patents, acquisitions, dispositions, strategic partnerships, joint ventures or capital commitments;

· technological breakthroughs in the solar and other renewable energy industries;

· reduction or elimination of government subsidies and economic incentives for the solar power industry;

· potential litigation or administrative investigations;

· addition or departure of key personnel;

· fluctuations of exchange rates between the RMB and U.S. dollar or other foreign currencies;

· release of lock-up or other transfer restrictions on our outstanding ADSs or shares or sales of additional ADSs;

· the operating and stock price performance of other comparable companies;

· general market conditions, fluctuations or other developments affecting us or our industry; and

· general economic conditions and conditions in the credit markets.

You should note that the stock prices of solar power companies have experienced wide fluctuations. Such wide market fluctuations may adversely affect the market price of our ADSs. The market price of the ADSs will likely continue to fluctuate in response to the factors discussed above, many of which are beyond the control. We expect that the trading price of our convertible senior notes will be significantly affected by the market price of our ADSs. This may result in greater volatility in the trading price of the notes than would be expected for nonconvertible debt securities.

The price of the ADSs could also be affected by possible sales of the ADSs by investors who view our convertible senior notes as a more attractive means of equity participation in us and by hedging or arbitrage trading activity that we expect to develop involving the ADSs. This trading activity could, in turn, affect the trading prices of our convertible senior notes.

In addition, the securities market has from time to time experienced significant price and volume fluctuations that are not related to the operating performance of particular companies. Such fluctuations have occurred since 2008, and

have impacted the trading price of our ADSs. Continued market fluctuations may materially and adversely affect the market price of our ADSs.

Our existing principal shareholders have substantial influence over our company, and their interests may not be aligned with the interests of our other shareholders.

Mr. Xianshou Li, our chief executive officer and director, and Mr. Yuncai Wu, our director, held, directly and indirectly, approximately 15.6% and 3.3% of our outstanding share capital, respectively, and exercise voting control over approximately 23.8% and 6.1% of our outstanding share capital, respectively, as of the date of this annual report. As such, Messrs. Li and Wu have 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. For example, holders of a majority of our shares entitled to vote in a duly convened and constituted shareholders' meeting may pass a shareholders' resolution 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 existing shares. Preferred shares could thus be issued with terms that would delay or prevent a change in control or make removal of management more difficult. These actions may be taken even if they are opposed by our other shareholders and holders of our ADSs.

We may need additional capital and may sell additional ADSs or other equity securities or incur indebtedness, which could result in additional dilution to our shareholders or increase our debt service obligations.

We believe that our current cash and cash equivalents, anticipated cash flows from our operations and bank borrowings, existing bank facilities and proceeds from the follow-on offering will be sufficient to meet our anticipated cash needs, including our cash needs for working capital and capital expenditures. We may require additional cash resources due to changed business conditions or other future developments, including any investments or acquisitions we may decide to pursue. If these resources are insufficient to satisfy our cash requirements, we may seek to sell additional equity or debt securities or obtain a credit facility. The sale of additional equity securities could result in additional dilution to our shareholders. The incurrence of indebtedness would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations. We cannot assure you that financing will be available in amounts or on terms acceptable to us, if at all.

Future issuances of shares or ADSs may adversely affect the price of the ADSs.

Sales of our shares or ADSs in the public market and after the convertible senior note offering, or the perception that these sales could occur, could cause the market price of our ADSs to decline or could make it more difficult for us to raise funds through the sale of equity in the future. Likewise, additional equity financings or other issuances of shares or ADSs by us could adversely affect the market price of the ADSs..

We cannot be sure that we will not need to raise additional capital in the future, as a result of continuing or worsening economic conditions or otherwise. If we do need to raise additional capital, there can be no assurance that we will be able to do so on favorable terms or at all. In addition, any such financing could be significantly dilutive to existing shareholders and holders of the ADSs and result in the issuance of securities that have rights, preferences and privileges that are senior to those of the shares and ADSs.

A substantial number of the ADSs are reserved for issuance upon conversion of our convertible senior notes and for the grant of employee stock options pursuant to employee stock option plans. The conversion of some or all of the convertible senior notes will dilute the ownership interests of existing shareholders and holders of the ADSs. The issuance and sale of a substantial number of shares or ADSs, or the perception that such issuances and sales may occur, could adversely affect the trading price of our convertible senior notes and the market price of the shares or ADSs and impair our ability to raise capital through the sale of additional equity securities.

All ADSs sold in our initial public offering and the follow-on offering are freely transferable without restriction or additional registration under the Securities Act. The remaining ADSs outstanding after the initial public offering and the follow-on offering are currently available for sale, subject to volume and other restrictions as applicable under

Rule 144 and Rule 701 of the Securities Act.

As a holder of our ADSs, you may not have the same voting rights as the holders of our shares and may not receive voting materials in time to be able to exercise your right to vote.

Holders of ADSs do not have the same rights as our shareholders and may only exercise the voting rights with respect to the underlying shares in accordance with the provisions of the deposit agreement. When a general meeting is convened, ADS holders may not receive sufficient notice of a shareholders' meeting to permit such holders to withdraw their shares to allow them to cast their vote with respect to any specific matter. If requested in writing by us, the depositary will mail a notice of such a meeting to ADS holders. In addition, the depositary and its agents may not be able to send voting instructions to ADS holders or carry out ADS holders' voting instructions in a timely manner. We will make all reasonable efforts to cause the depositary to extend voting rights to ADS holders in a timely manner, but you may not receive the voting materials in time to ensure that you can convert your notes and instruct the depositary to vote the ADSs issued upon the conversion of your notes. 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 the ADSs you receive upon the conversion of your notes are not voted as you requested. In addition, in your capacity as an ADS holder, you will not be able to call a shareholder meeting.

The depository for our ADSs may give us a discretionary proxy to vote our ordinary shares underlying your ADSs if you do not give voting instructions, which could adversely affect your interests.

Under the deposit agreement for the ADSs, if we asked for your instructions but the depository does not receive your instructions by the cutoff date it sets, the depository will give us a discretionary proxy to vote the ordinary shares underlying your ADSs as to all matters at the shareholders' meeting unless:

- we instructed the depository we do not wish to receive a discretionary proxy;
- we informed the depository that there is substantial opposition to the particular matter; or
- the particular matter would have a material adverse impact on shareholders.

The effect of this discretionary proxy is that if you do not give voting instructions, you cannot prevent the ordinary shares underlying your ADSs from being voted, except in the circumstances described above. This may make it more difficult for shareholders to influence the management of our company. Holders of our ordinary shares are not subject to this discretionary proxy.

You may not be able to participate in rights offerings and may experience dilution of your holdings as a result.

We may from time to time distribute rights to our shareholders, including rights to acquire our securities. However, we cannot make rights available to ADS holders 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 for the ADSs, the depository will not offer those rights available to ADS holders unless the distribution to ADS holders of both the rights and any related securities are either registered under the Securities Act or exempt from registration under the Securities Act with respect to all holders of ADSs. We are under no obligation to file a registration statement with respect to any such rights or underlying securities or to endeavor to cause such a registration statement to be declared effective. In addition, we may not be able to take advantage of any exemptions from registration under the Securities Act. Accordingly, in the event we conduct any rights offering in the future, the depository may not make such rights available to holders of ADSs or may dispose of such rights and make the net proceeds available to such holders. As a result, holders of our ADSs may be unable to participate in our rights offerings and may experience dilution in their holdings.



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

Your ADSs represented by the ADRs and the ADSs you receive upon the conversion of the convertible senior notes are transferable on the books of the depositary. However, the depositary may close its transfer books from time to time when it deems that it is expedient for the performance of its duties. In addition, the depositary may refuse to deliver, transfer or register transfers of ADSs generally when our books or the books of the depositary are closed, or at any time if we or the depositary deem it advisable to do so because of any requirement of law or of any government or governmental body, or under any provision of the deposit agreement, or for any other reason.

Sales of a significant number of the ADSs in the public markets, or the perception of these sales, could depress the market price of the ADSs.

Sales of a substantial number of the ADSs or other equity-related securities in the public markets, including the issuance of ADSs upon conversion of the notes, could depress the market price of the ADSs, and impair our ability to raise capital through the sale of additional equity securities. We and certain of our officers, directors and principal shareholders have agreed not to offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any shares or ADSs or any securities convertible or exchangeable or exercisable for shares or ADSs until 90 days after the date of this offering memorandum, subject to certain exceptions. We cannot predict the effect that future sales of the ADSs or other equity-related securities would have on the market price of the ADSs.

In addition, the existence of the notes may also encourage short selling by market participants because the conversion of the notes could depress the ADS price. The price of the ADSs could be affected by possible sales of the ADSs by investors who view the notes as a more attractive means of equity participation in us and by hedging or arbitrage trading activity, which we expect to occur involving the ADSs. This hedging or arbitrage could, in turn, affect the market price of the notes.

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

Conversion of the convertible senior notes will dilute the ownership interest of existing shareholders and holders of our ADSs, including holders who have previously converted their notes.

On March 15, 2011, we completed an offering of \$175 million of convertible senior notes due 2018, with an additional sale of \$25 million on April 7, 2011 pursuant to the over-allotment option exercised by initial purchasers, to qualified institutional buyers pursuant to Rule 144A under the Securities Act. The convertible senior notes will mature on March 15, 2018. The conversion of some or all of the convertible senior notes will dilute the ownership interests of existing shareholders and holders of the ADSs and may depress the price of the shares or ADSs. In addition, any sales in the public market of the ADSs issuable upon such conversion could adversely affect prevailing market prices of the shares or ADSs.

You may face difficulties in protecting your interests, and your ability to protect your rights through the U.S. federal courts may be limited, because we are incorporated under British Virgin Islands law, conduct substantially all of our operations in China and most of our officers and directors reside outside the United States.

We are incorporated in the British Virgin Islands, and conduct substantially all of our operations in China through our wholly owned subsidiary in China. Most of our officers and directors reside outside the United States, and some or all of the assets of those persons are located outside of the United States. As a result, it may be difficult or impossible for you to bring an original action against us or against these individuals in a British Virgin Islands or China court in the event that you believe that your rights have been infringed under the U.S. federal securities laws or otherwise. It may also be difficult for you to enforce in U.S. courts judgments obtained in U.S. courts based on the civil liability provisions of the U.S. federal securities laws against us and our officers and directors, most of whom are not residents of the United States and the substantial majority of whose assets are located outside of the United States. In addition, there is uncertainty as to whether the courts of the British Virgin Islands or the PRC would recognize or enforce judgments of U.S. courts against us or such persons predicated upon the civil liability provisions of the securities laws of the United States or any state. There is no statutory recognition in the British Virgin Islands of judgments obtained in the United States, although the courts of the British Virgin Islands will generally recognize and enforce a non-penal judgment of a foreign court of competent jurisdiction without retrial on the merits. It is uncertain whether such British

Virgin Islands or PRC courts would be competent to hear original actions brought in the British Virgin Islands or the PRC against us or such persons predicated upon the securities laws of the United States or any state.

Our corporate affairs are governed by our memorandum and articles of association and by the BVI Business Companies Act, 2004 and common law of the British Virgin Islands. The rights of shareholders to take legal action against our directors and us, actions by minority shareholders and the fiduciary responsibilities of our directors to us under British Virgin Islands law are to a large extent governed by the common law of the British Virgin Islands. The common law of the British Virgin Islands is derived in part from comparatively limited judicial precedent in the British Virgin Islands as well as from English common law, which has persuasive, but not binding, authority on a court in the British Virgin Islands. The rights of our shareholders and the fiduciary responsibilities of our directors under British Virgin Islands law are not as clearly established as they would be under statutes or judicial precedents in the United States. In particular, the British Virgin Islands has no securities laws as compared to the United States, and provides significantly less protection to investors. In addition, British Virgin Islands companies may not have standing to initiate a shareholder derivative action before the federal courts of the United States.

As a result of all of the above, our public shareholders may have more difficulty in protecting their interests through actions against our management, directors or major shareholders than would shareholders of a corporation incorporated in a jurisdiction in the United States.

#### ITEM 4. INFORMATION ON THE COMPANY

##### A. History and Development of the Company

Our predecessor, Zhejiang Fengding Construction Material Machinery Manufacturing Co., Ltd., or Fengding Construction, was established as a limited liability company in the PRC in 2003. Following a series of share transfers, Fengding Construction was renamed Zhejiang Yuhui in June 2005 and commenced the solar power business in July 2005.

As companies incorporated overseas can more efficiently and conveniently issue equity securities to overseas investors without going through lengthy PRC governmental approval procedures, ReneSola Ltd was incorporated as a limited liability company in the British Virgin Islands on March 17, 2006. Our choice of the British Virgin Islands as the jurisdiction of incorporation of our company was motivated in part by its relatively well-developed body of corporate law, various tax and other incentives, and its acceptance among internationally recognized securities exchanges as a jurisdiction for companies seeking to list securities. As a limited liability company under the laws of the British Virgin Islands, the liability of our shareholders to our company is limited to (i) any amount unpaid on a share held by the shareholder and (ii) any liability to repay a distribution by our company that was not made in accordance with the laws of the British Virgin Islands. Our principal executive offices are located at No. 8 Baoqun Road, Yaozhuang County, Jiashan Town, Zhejiang Province, People's Republic of China. Our telephone number at this address is (86-573) 8477 3058. Our registered office is located at the offices of Harneys Corporate Services Limited, Craigmuir Chambers, P.O. Box 71, Road Town, Tortola, British Virgin Islands. Our agent for service of process in the United States is CT Corporation System, located at 111 Eighth Avenue, New York, New York 10011.

ReneSola acquired all of the equity interests in Zhejiang Yuhui in April 2006 through a series of transactions that have been accounted for as a reorganization.

In August 2006, we placed 33,333,333 shares on the AIM and raised gross proceeds of approximately \$50.0 million.

In July 2007, we invested in a 51% equity interest in ReneSola (Malaysia) SDN BHD, or ReneSola Malaysia, through ReneSola Singapore Pte. Ltd. ReneSola Malaysia was incorporated in Malaysia in February 2007 to process certain types of reclaimable silicon raw materials sourced overseas that did not meet the import requirements by Chinese

government. We sold our interest in ReneSola Malaysia to our joint venture partner in December 2008 as part of our strategy to use polysilicon as our primary feedstock, instead of reclaimable silicon raw materials, for wafer manufacturing.

In August 2007, we acquired a 49% equity interest in Linzhou Zhongsheng Semiconductor, a polysilicon manufacturing company located in Henan Province. Linzhou Zhongsheng Steel held a 51% equity interest in the joint venture in the form of facilities, equipment and land use rights. We sold our 49% equity interest in the joint venture to Linzhou Zhongsheng Steel in September 2008 because the production cost of the joint venture was expected to be less competitive compared to our wholly owned polysilicon manufacturing facility in Meishan, Sichuan Province. We began building a polysilicon manufacturing facility in Meishan, Sichuan Province through our wholly owned subsidiary, Sichuan ReneSola, which was established in Sichuan Province in August 2007.

In March 2009, we established a wholly owned subsidiary, Yuneng Enterprise Consulting (Shanghai) Co., Ltd., to engage primarily in gathering market information on the solar power industry.

In May 2009, as part of our growth strategy, Zhejiang Yuhui acquired a 100% equity interest in JC Solar for a total cash consideration of RMB140.3 million, including tax paid in connection with the transfer of equity interests. JC Solar is a cell and module manufacturer located in Yixing, Jiangsu Province. JC Solar began cell production in October 2008 and module production in November 2005, and had an annual cell production capacity of 120 MW and an annual module production capacity of 135 MW as of December 31, 2009, the year in which it was acquired by us. It has obtained certification from TÜV Rheinland for monocrystalline solar modules made of 125 mm by 125 mm and 156 mm by 156 mm solar cell. JC Solar offers monocrystalline modules ranging from 40 W to 300 W and multicrystalline modules ranging from 40 W to 290 W in power output, and exports its products primarily to European markets.

In April 2010, we established a wholly owned subsidiary, Zhejiang ReneSola, to engage primarily in the production and sale of crucibles, steel wires and silicon carbon powder.

In August 2010, we established a wholly owned subsidiary, Sichuan Ruiyu. In November 2010, we established a wholly owned subsidiary, Sichuan Ruixin. In November 2010, we established a wholly owned subsidiary, Sichuan Ruisheng Photovoltaic Materials Co., Ltd., or Sichuan Ruisheng, which was subsequently merged into Sichuan ReneSola in November 2011. Sichuan Ruiyu, Sichuan Ruixin and Sichuan Ruisheng were established to engage primarily in sales of monocrystalline and multicrystalline wafers and ingots, steel wires, furnaces and other solar related products. Sichuan Ruixin had not commenced business as of the date of this annual report.

In June 2011, we established a wholly owned subsidiary, Zhejiang Sciborn New Material Technology Co., Ltd., to engage primarily in the research and development of metallic materials, inorganic non-metallic materials, composite materials and polymer materials.

In July 2011, we established a wholly owned subsidiary, Sichuan SiLiDe Composite Materials Co., Ltd., to engage primarily in the production and sale of carbon composite materials.

In August 2011, we established a wholly owned subsidiary, Qinghai Yuhui New Energy Co., Ltd., to engage primarily in the construction and operation of our solar photovoltaic, or PV, project.

In September 2011, we established a wholly owned subsidiary, ReneSola Deutschland GmbH in Germany to expand our business in Europe.

In October 2011, we established a subsidiary, Zhejiang Ruiyi, to engage primarily in the development and sale of new materials, steel sawing wires and other sawing materials. We hold 90% of the equity interests of Zhejiang Ruiyi, the remaining 10% equity interests is collectively held by a number of core employees of Zhejiang Ruiyi. We also established a wholly owned subsidiary, Jiashan Xujing Real Estate Development Co., Ltd., to engage primarily on the development of residence for our employees, and a wholly owned subsidiary, Sichuan OuRuiDa Science Park Co., Ltd. to engage primarily on the development and sale of new materials and new energy.

As of the date of this annual report, we conduct our business through the following key subsidiaries:

- Zhejiang Yuhui, our operating company engaged in wafer production in China;

ReneSola America Inc., or ReneSola America, which was incorporated in the State of Delaware, the United States, in November 2006 to facilitate our procurement of silicon raw materials and product sales in North America;

ReneSola Singapore Pte. Ltd., which was incorporated in Singapore in March 2007 to facilitate our polysilicon procurement and product sales outside of China;

Sichuan ReneSola, which was incorporated in Sichuan Province in August 2007 to engage in the production of polysilicon;

- JC Solar, which we acquired in May 2009 to engage in the production of solar cells and modules; and

Zhejiang ReneSola, which was incorporated in Zhejiang Province in April 2010 to engage in the production and sale of crucibles, steel wires and silicon carbon powder.

In January 2008, we and certain selling shareholders completed our initial public offering of 10,000,000 ADSs listed on the NYSE. In June 2008, we completed a follow-on public offering of 10,350,000 ADSs sold by us and certain selling shareholders.

In 2009, we repurchased RMB713.9 million aggregate principal amount of our RMB928,700,000 U.S. dollar Settled 1.0% Convertible Bonds due March 26, 2012 using a combination of \$84.1 million in cash and the issuance of 4,000,000 shares. We redeemed the remaining balance of \$32 million in the first quarter of 2010.

In October 2009, we completed a follow-on public offering of 15,500,000 ADSs sold by us.

In March 2011, we completed an offering of \$175 million of convertible senior notes due 2018, with an additional sale of \$25 million in April 2011 pursuant to the over-allotment option exercised by initial purchasers, to qualified institutional buyers pursuant to Rule 144A under the Securities Act. The convertible senior notes will mature on March 15, 2018. In connection with the pricing of the notes, we entered into a capped call transaction and an additional capped call transaction, which covers, subject to customary anti-dilution adjustments, the number of ADSs underlying the option notes, with an affiliate of one of the initial purchasers of the notes, or the hedge counterparty. The capped call transaction is expected generally to reduce potential dilution to the shares and ADSs upon conversion of the convertible senior notes. The capped call transaction is a separate transaction entered into by us with the hedge counterparty and is not part of the terms of the notes and will not change the holders' rights under the notes. Holders of the convertible senior notes will not have any rights with respect to the capped call transaction. During 2011, we repurchased \$88.4 million aggregate principal amount of our convertible senior notes using \$57.1 million in cash. As of December 31, 2011, the carrying value of our convertible senior notes was \$111.6 million.

In August 2011, ReneSola's board of directors adopted a shareholder rights plan to protect the best interests of ReneSola and our shareholders and authorized the dividend distribution. One share purchase right was distributed on August 26, 2011, with respect to each share of ReneSola outstanding at the close of business on such date. Initially, the share purchase rights were evidenced by the certificates representing outstanding shares, and no separate share purchase right certificates were distributed. Subject to certain limited exceptions, the share purchase rights will be exercisable at \$20.0 per share purchase right if a person or group acquires 15% or more of ReneSola's voting securities or announces a tender offer for 15% or more of the voting securities, subject to adjustment. Our board of directors will be entitled to redeem the share purchase rights at \$0.0001 per share purchase right at any time before a person or group has acquired 15% or more of ReneSola's voting securities. The share purchase rights are designed to ensure that our shareholders receive fair treatment in the event of any proposed takeover of ReneSola and to encourage anyone seeking to acquire ReneSola to negotiate with the board of directors prior to attempting a takeover. The share purchase rights are not being distributed in response to any specific effort to acquire control of our company.



In August 2011, our board of directors authorized a share repurchase program under which we may repurchase up to \$100 million in aggregate value of our outstanding ordinary shares during a six-month period ended February 20, 2012 on the open market or in privately negotiated transactions. As of December 31, 2011, we had repurchased an aggregate of 645,424 ADSs, representing 1,290,848 ordinary shares, on the open market for a total cash consideration of \$1.9 million.

B.

Business Overview

We are a leading global manufacturer of solar wafers and producer of solar power products based in China. Capitalizing on proprietary technologies, economies of scale, low cost production capabilities, technical innovations and know-how, we leverage our in-house polysilicon, solar cell and solar module manufacturing capabilities to provide our customers with high quality, cost competitive solar power products and processing services. We possess a global network of suppliers and customers that includes some of the leading global manufacturers of solar cells and modules. We have also developed a downstream platform to strengthen our relationships with our customers and gain access to the end-user market.

We have rapidly expanded our manufacturing capacity since we began the production of solar wafers. We believe we possess one of the largest solar wafer manufacturing facilities in China based on production capacity as of December 31, 2011. As of December 31, 2011, we had an annual wafer manufacturing capacity of approximately 2,000 MW, consisting of monocrystalline wafer manufacturing capacity of approximately 400 MW and multicrystalline wafer manufacturing capacity of approximately 1,600 MW. This represents a significant increase from our annual wafer manufacturing capacity of approximately 1,300 MW as of December 31, 2010, consisting of monocrystalline wafer manufacturing capacity of 400 MW and multicrystalline wafer manufacturing capacity of 900 MW. As of December 31, 2011, our cell and module manufacturing capacities were 240 MW and 500 MW, respectively, compared to 240 MW and 400 MW, respectively, as of December 31, 2010. As of December 31, 2011, our polysilicon manufacturing facility in Meishan, Sichuan Province, had an annual manufacturing capacity of 4,000 metric tons, compared to 3,000 metric tons as of December 31, 2010. Our polysilicon manufacturing facility utilizes a closed-loop modified Siemens process for polysilicon production. We plan to expand our polysilicon manufacturing capacity to between 9,500 and 10,000 metric tons by the end of 2012. In addition, as of December 31, 2011, we had monocrystalline ingot manufacturing capacity of 200 MW through processing arrangements with third-party manufacturers.

We sell solar wafers primarily to solar cell and module manufacturers globally. In 2011, a significant portion of our wafer sales were made to companies based in Asia, primarily to leading solar cell and module companies in China, Singapore, Korea and Taiwan. The majority of our module sales in 2011 were made to distributors located in Europe. In addition, we have continued to focus on implementing various cost reduction programs and reduced our silicon consumption rate and non-silicon wafer processing cost. We believe our in-house polysilicon production facility in Meishan, Sichuan Province, enhances our ability to better control our raw material costs across our business and operational segments and provides a reliable polysilicon supply.

Except during the global economic downturn from 2008 to 2009, our shipments have grown rapidly since we began manufacturing solar power products in 2005. In 2009, 2010 and 2011, we shipped 526.6 MW, 1,182.8 MW and 1,294.8 MW of solar power products, respectively. Our net revenues increased from \$510.4 million in 2009 to \$1,205.6 million in 2010 and decreased to \$985.3 million in 2011. We suffered an operating loss of \$90.6 million and a net loss of \$71.9 million in 2009. We had an operating income of \$245.9 million and a net income of \$169.0 million in 2010. We had an operating income of \$11.5 million and a net income of \$0.3 million in 2011.

## Industry Background

Increasing environmental awareness and energy security concerns have resulted in governmental policies and regulations in many countries designed to accelerate the development and adoption of solar power and other renewable energy sources. International environmental protection initiatives, such as the Kyoto Protocol for the reduction of overall carbon dioxide and other gas emissions, have also created momentum for government incentives encouraging solar power and other renewable energy sources. We believe that the near-term growth of the market for on-grid applications continue to depend on the availability and size of government subsidies and economic incentives. Reductions or eliminations of subsidies and economic incentives may adversely affect the growth of this market or

result in increased price competition.

When upfront system costs are factored into the cost of electricity generation, the cost of solar power substantially exceeds the cost of power generated from conventional means in many markets. As a result, national and local governmental bodies in many countries, most notably in Germany, China, Spain, Italy, the United States and Japan have provided government subsidies and economic incentives in the form of feed-in tariffs, rebates, tax credits and other incentives to end-users, distributors, system integrators and manufacturers of solar power products to promote the use of solar energy and to reduce dependence on other forms of energy.

However, as the solar power industry continues to develop, these government subsidies and economic incentives could potentially be reduced or eliminated altogether. For instance, in 2009 and 2010, Germany's government reduced the country's solar energy feed-in tariffs. Germany's government announced in the beginning of 2011 that it expects to further trim solar power subsidies by up to 15% in 2011 as demand for solar power panels continue to thrive in the country. In November 2011, Germany's government announced to require the feed-in-tariffs be reduced 9% a year, depending on the amount of solar installed, effective from January 2012. Based on current indications from the German government, a further reduction in feed-in tariffs may be implemented in 2012. The reduction in government incentives to users of solar power products in Germany may materially and adversely impact the German solar market if such measures are not implemented prudently, which may in turn materially and adversely affect our direct or indirect sales into Germany. In 2010, Italy's government also announced annual reductions to feed-in tariffs beginning in 2011 in an effort to impede overheating of its solar market although Italy later passed legislation to extend their feed-in tariff program for solar energy through 2012 and the feed-in tariff scheme started to slowly decrease each month from June 2011. In Spain, since 2009, continued reductions in the feed-in tariff as a result of the government's spending cut backs have resulted in a weakened solar market.

In the last few years, the Chinese government announced a series of plans and subsidies intended to support the development of the Chinese solar power industry, including open bidding for solar power plant licenses, the Solar Rooftop Plan and the Golden Sun Demonstration Projects. These measures were aimed at developing large-scale solar power plants in rural and remote areas and urban rooftop solar power systems. For instance, in March 2009, the Chinese government announced new rules to offer financial subsidies to assist the construction of PV module applications integrated into buildings in urban and remote areas and establishes and promotes technical standards and key universal technologies relating to the application of PV module products integrated into buildings. To be eligible to receive the subsidies, the installed capacity of a PV module project must be more than 50 KW and the conversion efficiency of monocrystalline products must be higher than 16%. Priority is to be given to PV modules integrated into buildings, projects connected to the power grid and projects for public buildings. In July 2009, the Chinese government announced a new program of incentives for the development of 500 MW of large-scale PV projects throughout the country over two to three years. Under this program, on-grid PV projects of at least 300 KW will be eligible for subsidies of 50%. Projects in remote areas with no access to the electricity grid will be eligible for subsidies of 70%.

In 2010, the PRC government also enacted a revised *Renewable Energy Law* giving clearer guidance to address issues in the existing legislation and affirming the role of the government in organization and planning, as well as switching the purchasing system for renewable energy from a mandatory system to a guaranteed purchase scheme. These guaranteed purchase principles make electricity distributors more willing to purchase renewable energy by more clearly defining the relationship between electricity distributors and power generation businesses in terms of rights and responsibilities. The law also gives guarantees regarding the launch of future on-grid pricing systems or feed-in tariffs for renewable energy. In 2010, newly installed capacity for solar power systems in China reached 400 MW, according to the European Photovoltaic Industry Association. China's 12th Five Year Plan, which was released in early 2011, cited renewable energy sources as focal points for China's development. For renewable energy, the plan has set a goal of 11.4% of primary energy coming from non-fossil fuels in 2015, an increase from a 2020 goal of 8.3% announced in 2010 and aims to reduce cost of domestic solar power and develop the PV industry. Accordingly, the solar industry will continue to be a focus of government support.

## Our Products and Services

We offer monocrystalline and multicrystalline wafers of various sizes and thicknesses. In wafer manufacturing, we are capable of slicing wafers with a thickness less than 180 microns on a large scale. We also offer wafer processing services to certain customers.

In addition, we also offer monocrystalline and multicrystalline solar cells and modules. A solar cell is a device made from a silicon wafer that converts sunlight into electricity by a process known as the PV effect. Solar modules are arrays of interconnected solar cells encased in a weatherproof frame. We currently produce standard solar monocrystalline modules ranging from 40 W to 300 W and multicrystalline modules ranging from 40 W to 300 W in power output, built to general specifications for use in a wide range of residential, commercial, industrial and other solar power generation systems. We also offer cell and module processing services to certain customers.

We also offer our customers after-sales support services such as monthly performance checks on our products. Our research and development, technical management and quality control teams work closely with our customers' counterparties to address our customers' requirements.

## Manufacturing

We manufacture solar wafers, and also offer cells and modules as a manufacturing service. In addition, we also manufacture solar-grade polysilicon.

## Manufacturing Capacity

We have rapidly expanded our manufacturing capacity since we began our production of solar wafers. We believe we operate one of the largest solar wafer manufacturing facilities in China based on production capacity. As of December 31, 2011, we had an annual wafer manufacturing capacity of approximately 2,000 MW consisting of monocrystalline wafer manufacturing capacity of approximately 400 MW and multicrystalline wafer manufacturing capacity of approximately 1,600 MW. This represents an increase from our annual wafer manufacturing capacity of approximately 825 MW and 1,300 MW as of December 31, 2009 and 2010, respectively. We plan to maintain this annual wafer manufacturing capacity in 2012. In addition, as of December 31, 2011, we had monocrystalline ingot manufacturing capacity of 200 MW through processing arrangements with third-party manufacturers.

We have sold solar modules since our acquisition of JC Solar in June 2009. As of December 31, 2011, we had cell and module manufacturing capacities of 240 MW and 500 MW, respectively. This represents an increase from our cell and module manufacturing capacities of 120 MW and 135 MW, respectively, as of December 31, 2009 and 240 MW and 400 MW, respectively, as of December 31, 2010. In 2012, we plan to maintain our annual cell manufacturing capacity and selectively increase our module manufacturing capacity subject to market demands.

We had an annual polysilicon manufacturing capacity of 4,000 metric tons as of December 31, 2011. This represents an increase from our polysilicon manufacturing capacity of 1,500 metric tons and 3,000 metric tons as of December 31, 2009 and 2010, respectively. Our polysilicon manufacturing facility in Meishan, Sichuan Province, commenced trial production of the first part of phase I in July 2009 and second part of phase I in February 2010 and produced an aggregate of 1,140 metric tons and 3,382 metric tons of polysilicon in 2010 and 2011. We expect to commence trial production of phase II in the second half of 2012. We plan to increase our annual polysilicon manufacturing capacity to between 9,500 and 10,000 metric tons by the end of 2012. As a result of our polysilicon manufacturing facility, we believe we have a stable cost-effective supply of polysilicon from in-house production, which complements our existing long-term and short-term polysilicon purchase agreements.

The following table sets forth the manufacturing capacities of our facilities.

| <b>Manufacturing Facilities</b>     | <b>Annual Manufacturing Capacity as of December 31, 2009</b> | <b>Annual Manufacturing Capacity as of December 31, 2010<sup>(1)</sup></b> | <b>Annual Manufacturing Capacity as of December 31, 2011<sup>(2)</sup></b> | <b>Expected Annual Manufacturing Capacity as of December 31, 2012<sup>(2)</sup></b> |     |
|-------------------------------------|--|--|--|---|-----|
| Wafer                               | 825 MW   | 1,300 MW   | 2,000 MW   | 2,000 MW  |     |
| —Monocrystalline Ingots and Wafers  | 325 MW   | 400 MW   | 400 MW   | (3) 400 MW  | (3) |
| —Multicrystalline Ingots and Wafers | 500 MW   | 900 MW   | 1,600 MW   | 1,600 MW  |     |
| Cell                                | 120 MW   | 240 MW   | 240 MW   | 240 MW  |     |
| Module                              | 135 MW   | 400 MW   | 500 MW   | 500 MW or higher  |     |
| Polysilicon                         | 1,500 metric tons  | 3,000 metric tons  | 4,000 metric tons  | 9,500 to 10,000 metric tons   |     |

(1) Calculated based on the adjusted methodology effective January 1, 2010, which is based on an efficiency rate of 17.4% for monocrystalline wafers and 16.0% for multicrystalline wafers.

(2) Calculated based on the adjusted methodology effective January 1, 2011, which is based on an efficiency rate of 18.2% for monocrystalline wafers and 16.8% for multicrystalline wafers.

Only manufacturing capacity of approximately 200 MW was operational as we were in the process of moving the (3) equipment for the other 200 MW of capacity to another facility. Does not include monocrystalline ingot manufacturing capacity of 200 MW used for processing arrangements with third-party manufacturers.

We selectively use automation to enhance the quality and consistency of our finished products and improve efficiency in our manufacturing processes. All of our current monocrystalline furnaces and a portion of our squaring machines were purchased from Chinese and Chinese-foreign joint venture solar power equipment suppliers in order to lower our equipment procurement, transportation and installation costs. Other major equipment is sourced from overseas.

Prior to 2011, we purchased most of our multicrystalline furnaces from foreign equipment suppliers. In 2011, we began to collaborate with domestic equipment makers in China to develop customized multicrystalline furnaces. Our new multicrystalline furnaces require substantially less capital expenditures than those imported and offer improved production efficiency and lower electricity consumption.

Our manufacturing capacities comprise the following:

- ingot production;
- wafer slicing;
- cell production;
- module production; and
- polysilicon production.

#### Ingot Production

To produce multicrystalline ingots, the molten polysilicon is changed into a block through a casting process in the multicrystalline furnaces. Crystallization starts by gradually cooling the crucibles in order to create multicrystalline



ingot blocks. The resulting ingot blocks consist of multiple smaller crystals as opposed to the single crystal of a monocrystalline ingot. The output of a multicrystalline furnace is higher than that of a monocrystalline furnace.

To produce monocrystalline ingots, we place polysilicon into a quartz crucible in a furnace, where the polysilicon is melted. Then, a thin crystal seed is dipped into the molten silicon to determine the crystal orientation. The seed is rotated and then slowly extracted from the molten silicon to form a single crystal as the molten silicon and crucible cool. Once the single crystals have been grown to pre-determined specifications, they are surface-ground to produce ingots. The uniform properties of a single crystal promote the conductivity of electrons, thus yielding higher conversion efficiencies. We have developed a proprietary method for producing more ingots in one heating and cooling cycle by adding silicon raw materials during the melting process. This innovation enables us to increase our yield of ingots, reduce electricity cost and enhance the utilization rate of furnaces and consumables, such as crucibles.

### Wafer Slicing

To produce multicrystalline wafers, multicrystalline ingots are first cut into pre-determined sizes. After a testing process, the multicrystalline ingots are cropped and the usable parts of the ingots are sliced into wafers by wire saws using high-precision cutting techniques. After a cleaning and drying process, the wafers are inspected, packed and shipped.

To produce monocrystalline wafers, monocrystalline ingots are squared by squaring machines after being inspected. Through high-precision cutting techniques, the squared ingots are then sliced into wafers by wire saws using steel wires and silicon carbon powder. After inserting into frames, the wafers are cleaned to remove debris from the previous processes and then dried. Finally, the wafers are inspected before they are packed in boxes and shipped to customers.

### Cell Production

The feedstock of solar cell manufacturing is solar wafers, which are used as the base substrate. The process starts with cleaning and texturing the surface of a wafer, followed by a diffusion process in which an emitter is formed. The front and back sides of the wafer are isolated using the plasma etching technique, and the oxide formed during the diffusion process is removed to form an electrical field. An anti-reflective coating is then applied to the surface of the cell using plasma enhanced chemical vapors to enhance the absorption of sunlight. The front and back sides of the cell are screen printed with metallic inks and the cell then undergoes a fire treatment in order to preserve its mechanical and electrical properties. The cell is then tested and classified in accordance with its parameters.

### Module Production

Solar modules are assembled from interconnected multiple solar cells by taping and stringing the cells into a desired electrical configuration. The interconnected cells are laid out, laminated in a vacuum, cured by heating and then packaged in a protective light-weight aluminum frame. Solar modules are then sealed and weatherproofed to withstand high levels of ultraviolet radiation and moisture.

### Polysilicon Production

We use the modified Siemens process to produce polysilicon. Our manufacturing process is able to recover and recycle exhaust gases throughout the process in our closed-loop manufacturing system.

In phase I of our polysilicon manufacturing facility, the modified Siemens process includes three distinct steps: TCS production, distillation, and deposition. Manufacturing of polysilicon starts with the manufacturing of TCS from metallurgical grade silicon, and liquid chlorine. TCS manufacturing consists of hydrogen chloride and TCS synthesis. During the hydrogen chloride synthesis step, liquid chlorine from a chlorine tank is vaporized to chlorine gas and sent to the hydrogen chloride synthesis furnace, where it reacts with hydrogen to generate hydrogen chloride. The next step is TCS synthesis in which metallurgical grade powder is delivered to a TCS furnace and reacted with hydrogen

chloride gas. Raw TCS is purified through distillation to produce high purity TCS polysilicon feedstock. The unused hydrogen chloride and silicon tetrachloride, a by-product, are also separated from TCS through distillation and condensation and are recycled to produce TCS through hydrogenation. The purified TCS from the distillation process is then vaporized, mixed with hydrogen gas, and then into the deposition reactor. The mixed gas passes over heated silicon slim rods inside the deposition reactor. In the reactor, high purity silicon is deposited on the rod's surface. The constant feeding of TCS and hydrogen gas allows for continuous silicon deposition until it reaches a designed diameter, and produces polysilicon rods.

In phase II of our polysilicon manufacturing facility, we use a hydrochlorination process to replace the TCS production and thermal hydrogenation process, which requires one less step than the previous process. The feedstock of the silicon tetrachloride and hydrogen are first heated to an extremely high temperature in the hydrochlorination unit, and then sent to fluidized bed reactor, where it reacts with silicon powder and catalysts, allowing for high conversion. Gases then go through the cyclone and quencher tower to remove silicon slurry. After going through the cooling system, the gases become a liquid chlorosilane product, which is then sent to a distillation area, and excess gases will be recycled and begin the next cycle. At the distillation unit, TCS will be distilled from the liquid chlorosilane product which is pumped from the hydrochlorination unit to the distillation unit. Next, the process moves to the deposition unit, which is similar to our phase I, but we use a rods furnace to reduce energy consumption. High purity TCS which is produced in the distillation unit will react with hydrogen in this furnace at extremely high temperature to produce polysilicon rods. Byproducts gases will go to our vent gas recovery unit. The byproduct gases are condensed and separated in a dry recovery process. From the byproduct gases, hydrogen is purified in carbon towers and goes back to deposition unit, hydrogen chloride is compressed in the hydrochlorination unit, and liquid chlorosilane is sent back to distillation unit. The recycling allows for a closed-loop manufacturing process.

## Raw Materials

The key raw material for our wafer production is polysilicon. Currently, we use polysilicon as primary feedstock to produce solar wafers. In 2011, polysilicon accounted for approximately 56.5% of our wafer production cost. We procure our raw materials from diversified sources. In 2011, purchases from international suppliers accounted for approximately 79.0% of our total polysilicon purchases. Other raw materials include crucibles, slurry, wires, glass and ethyl vinyl acetate, or EVA, film, which we procure primarily from domestic and international suppliers.

Our top suppliers of polysilicon include Wacker Chemie AG and OCI Company Ltd. Our top five suppliers of polysilicon, excluding those for processing services, collectively accounted for 54.3% of our total polysilicon purchases in 2011. Each of our top two suppliers of polysilicon, excluding those for processing services, accounted for more than 12.7% of our total polysilicon purchases in 2011. We have long-term polysilicon purchasing agreements with two major global polysilicon suppliers under a fixed-volume arrangement for an aggregate supply of 8,701 metric tons of polysilicon with deliveries from 2011 to 2015. We made advance payments to these suppliers under the polysilicon purchasing agreements. In 2011, due to the worldwide oversupply of silicon raw materials, we were not required to make advance payments for our newly signed procurement agreements with suppliers. As of December 31, 2011, the outstanding advance payments in connection with our procurement agreements entered into before 2011 amounted to approximately \$33.8 million.

We complement our existing long-term and short-term polysilicon purchase agreements with our polysilicon manufacturing facility in Meishan, Sichuan Province. To provide a stable, cost-effective supply of polysilicon, we have increased our annual polysilicon manufacturing capacity from 3,000 metric tons at the end of 2010 to 4,000 metric tons at the end of 2011. We aim to increase our annual polysilicon manufacturing capacity to 9,500 to 10,000 metric tons by the end of 2012.

## Sales and Customers

### Wafer Sales

We derived 62.1%, 63.3% and 61.4% of our wafer sales from customers in China (including Hong Kong) in 2009, 2010 and 2011, respectively. In 2010, our top five wafer customers accounted for approximately 48.7% of our wafer sales and 27.6% of our net revenues, and our largest customer accounted for approximately 21.9% of our wafer sales and 12.4% of our net revenues. In 2011, our top five wafer customers accounted for approximately 41.6% of our wafer sales and 23.0% of our net revenues, and our largest customer accounted for approximately 10.8% of our wafer sales and 6.0% of our net revenues. We currently have over 10 long-term wafer contracts for periods of one to five years. Our long-term wafer contracts accounted for shipments of approximately 461.7 MW in 2011.

A substantial portion of our wafer sales, particularly our sales to major customers, are made under long-term sales contracts. Long-term sales contracts typically provide for the sales volume and price of our solar wafers for each year during the contract term. However, the pricing terms are either fixed or subject to reset in situations where the market benchmark price for solar wafers changes more than a certain percentage from the contracted price. In addition, we have entered into one-year sales contracts with some of our customers, which provide for an agreed sales volume at a fixed price, and long-term framework contracts, which provide for variable pricing and volume terms. Some of our customers also make their purchases by purchase orders.

For example, in June 2008, we entered into an agreement with a global solar power company for the supply of approximately 1.5 GW of wafers over an eight-and-half-year period beginning in July 2008. In June 2010, we entered into an agreement with a leading solar cell manufacturer to provide approximately 293 MW of multicrystalline wafers from July 2010 to December 2013 and approximately 141 MW of monocrystalline wafers from October 2010 to December 2013.

We have also entered into wafer processing arrangements with certain customers, under which we process their silicon raw materials into ingots or wafers for a processing fee. The payments we make for the feedstock and the payments our customers make for the solar wafers are generally settled separately, which is in line with market practice. In 2009, we entered into a wafer processing arrangement with an international module manufacturer. Under the terms of the contract, we supplied this module manufacturer with 120 MW of monocrystalline and multicrystalline solar wafers in 2009 and this module manufacturer supplied certain amounts of polysilicon to us. Additionally, in 2010, we entered into three processing arrangements with three international solar power product companies. Under the terms of these agreements, we have agreed to obtain polysilicon from these customers and sell solar wafers to them in return over periods of approximately two years, four years and five years, respectively. We supplied approximately 217.3 MW of solar wafers in 2011.

In 2011, due to the volatility of polysilicon prices and worldwide oversupply of solar power products, we did not enter into new long-term wafer contracts or wafer processing arrangements with customers.

#### Module Sales

We sell our modules primarily to distributors and power plant developers. Our focus on which type of customers depends largely on the demand in the specific markets. In 2011, our top five module customers accounted for 49.3% of our module sales and 19.1% of our total net revenues, and our largest module customer accounted for approximately 14.7% of our module sales and 5.7% of our total net revenues.

We sell our modules through spot orders, short-term contracts with terms of less than one year and framework agreements with terms of generally one year. The prices for spot orders are based on the then market prices and trends. The prices for our framework agreements and most of our short-term contracts are generally determined on a quarterly basis with fixed quantities.

We also enter into processing arrangements under which customers provide polysilicon and other raw materials to us for processing into modules. In the first quarter of 2010, we entered into three module processing contracts to provide an aggregate of 700 MW of solar modules to three major global solar companies over a period of approximately two quarters, three quarters and three years, respectively. As of the date of this annual report, such module processing contracts have not been performed. In 2011, due to the volatility of polysilicon prices and worldwide oversupply of solar power products, we did not enter into new module processing arrangements with customers.

A substantial portion of our sales contracts and processing arrangements require our customers to make a prepayment set at a certain percentage of the total contract value to secure future delivery of our products. Many of these contracts require customers to provide bank guarantees or irrevocable letters of credit to support their purchase commitment in

absence of prepayment.

For information geographical distribution of our products, see “Item 5. Operating and Financial Review and Prospects—A. Operating Results—Overview of Financial Results—Net Revenues.”

#### Quality Control

We apply our quality control system at each stage of our manufacturing process, from raw materials procurement to production and delivery, in order to ensure a consistent quality for our products. We conduct systematic inspections of incoming raw materials, ranging from silicon raw materials to various consumables, such as crucibles, steel wires and silicon carbon powder. We have formulated and adopted guidelines for recycling reclaimable silicon, ingot production and wafer slicing, and continue to devote efforts to developing and improving our inspection measures and standards. Prior to packaging, we conduct a final quality check to ensure that our solar wafers meet all our internal standards and customers’ specifications. We received the ISO 9001: 2000 certification for our quality assurance system for production which we believe demonstrates our technological capabilities and instills customer confidence.

As of December 31, 2011, we had a dedicated team of 604 employees overseeing our quality control processes, and they work collaboratively with our sales team to provide customer support and after-sale services. We emphasize gathering customer feedback for our products and addressing customer concerns in a timely manner.

## Competition

The solar market 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 wafers include:

product quality;

price and cost competitiveness;

manufacturing technologies and efficiency;

strength of customer relationships;

economies of scale; and

reputation.

Our competitors include specialized solar wafer manufacturers such as LDK Solar Co., Ltd., Jiangsu Shunda PV-Tech Co., Ltd., Green Energy Technology Inc., Sino-American Silicon Products Inc., Glory Silicon Technologies Co., Ltd., Giga Solar Materials Corp., Comtec Solar Systems Group Limited and M. SETEK Co., Ltd. Our competitors also include solar wafer manufacturing divisions of integrated solar power product manufacturers, such as SolarWorld AG. In addition, some polysilicon suppliers, such as Renewable Energy Corporation and GCL-Poly Energy Holdings Limited, have decided to develop downstream by acquiring ingot and wafer producing capacities. Many of our competitors have a longer operating history, stronger market position, greater resources, better name recognition and better access to polysilicon than we do. Many of our competitors also have more established distribution networks and larger customer bases. In addition, many of our competitors are developing and are currently producing products based on alternative solar power technologies, such as thin-film technologies, that may reduce solar power products' dependence on solar wafers.

The standard specifications of monocrystalline wafers used by most solar cell manufacturers are wafers in sizes of 125 mm by 125 mm and 156 mm by 156 mm and the standard specifications of multicrystalline wafers are in size of 156 mm by 156 mm. Most China-based wafer manufacturers offer wafers in these two sizes as we do. Due to the lack of sufficient market information, it is difficult for us to ascertain our competitive position vis-à-vis our competitors. For example, conversion efficiency of solar power products is not only determined by the quality of solar wafers but is also dependent on the solar cell and module production processes and technologies. Therefore, solar wafer



manufacturers usually assume the conversion efficiency of their solar wafers based on the conversion efficiency of solar cells and modules manufactured by their customers, and there is a lack of publicly available information on the conversion efficiency of the solar wafers.

#### Environmental Matters

We believe we are in compliance with present environmental protection requirements in all material respects and have all material environmental permits necessary to conduct our business. Our manufacturing processes generate noise, waste water, gaseous wastes and other industrial wastes. We have installed various types of anti-pollution equipment at our premises to reduce, treat, and, where feasible, recycle the wastes generated in our manufacturing processes. We outsource the treatment of some of our wastes to third-party contractors. Our operations are subject to regulation and periodic monitoring by local environmental protection authorities.

Our polysilicon manufacturing facility in Meishan, Sichuan Province is equipped with highly advanced technology and high-end equipment to achieve a fully closed-loop system which can recycle and convert certain waste into products through TCS that can be reused in the production process.

## Insurance

We maintain property insurance policies with insurance companies covering our equipment, facilities, buildings and building improvements. These insurance policies cover losses due to fire, explosion, flood and a wide range of other natural disasters. Insurance coverage for our assets in China amounted to approximately RMB6.9 billion (\$1.1 billion) as of December 31, 2011. We maintain product liability insurance coverage of approximately RMB2.0 billion (\$0.3 billion) as of December 31, 2011. We also maintain equipment breakage insurance of RMB4.9 billion (\$0.8 billion) as of December 31, 2011. We consider our insurance coverage to be in line with other manufacturing companies of similar size in China.

## Regulation

### Renewable Energy Law and Other Government Directives

In February 2005, China enacted its Renewable Energy Law, which became effective on January 1, 2006 and as amended in December 2009. 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, PV 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, the NDRC promulgated two implementation directives under 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 incurred. The directives further allocate the administrative and supervisory authorities among different government agencies at the national and provincial levels and stipulate the responsibilities of electricity grid companies and power generation companies with respect to the implementation of the Renewable Energy Law.

The PRC Ministry of Construction also issued a directive in June 2005, which seeks to expand the use of solar energy in residential and commercial buildings and encourages the increased application of solar energy in different

townships. In addition, the State Council promulgated a directive in July 2005, which sets out specific measures to conserve energy resources.

In March 2009, the PRC Ministry of Finance issued the Provisional Rules to the Administrative Regulations on Subsidy Capital for Application of Solar Photovoltaic Technology in Housing Construction, which are formulated to implement the Renewable Energy Law, realize the State Council's strategic plan on energy conservation and emission reduction, and promote the PV technology application in housing construction. The provisional rules set out the subsidy standard to be RMB20 per watt in 2009 and will be adjusted annually with the development of the industry. Certain criteria, which mainly relate to the minimum scale of the project, minimum conversion rate of the solar power products, and certain industries with preferential granting of the subsidy, shall be met in order to apply for the subsidy.

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 subsidy to be given in 2009 to qualified solar projects at no more than RMB20 per watt for projects involving the integration of solar components into buildings' structural elements and at no more than RMB15 per watt for projects involving the installation of solar components onto building rooftops and wall surfaces. In July 2009 and in March 2011, the PRC Ministry of Finance and the PRC Ministry of Housing and Urban-Rural Development jointly issued the Implementation Plan for Demonstration Cities with Renewable Energy Building Application, the Implementation Plan for Promoting Renewable Energy Building Application in Rural Areas and the Implementation Plan for Further Promoting Renewable Energy Building Application. Pursuant to these plans, the central government will provide subsidies to certain cities and rural areas with renewable energy building applications. In July 2009 and November 2009, the PRC Ministry of Finance, the PRC Ministry of Science & Technology, and the National Energy Bureau jointly issued measures that provide for government subsidies to support the solar power industry.

On December 31, 2010, the MIIT, the NDRC and the PRC Ministry of Environmental Protection jointly promulgated Circular 137, aimed at establishing access standards to regulate and direct the development of the polysilicon industry and avoid production surplus and industry oversaturation. Circular 137 sets forth a series of requirements and standards for a polysilicon project covering aspects including construction and layout, production scale and technical equipment, resource recycling and energy consumption, environmental protection and product quality and safety. Companies are required to submit application documents for current operating polysilicon projects to the MIIT through local MIIT authorities. The MIIT will, together with other relevant authorities, review and examine the application documents. A project failing to meet relevant standards may be required to stop polysilicon production. See “Item 3. Key Information—D. Risk Factors—Risks Related To Our Business—We face uncertainty with respect to new regulatory standards in the PRC polysilicon industry”.

On July 24, 2011, the NDRC issued the Notice re Improvement of On-grid Pricing Policy for Solar Photovoltaics, in which, among other things, the NDRC adopted the following nationwide unified on-grid pricing scheme for non-bidding PV projects: (i) for projects which are approved before July 1, 2011, completed before December 31, 2011 and the price of which has not been approved by the NDRC, the pre-tax on-grid price shall be RMB1.15 per kilowatt hour; (ii) for projects which are approved after July 1, 2011, and for projects which are approved before July 1, 2011 but not completed as to December 31, 2011, the pre-tax on-grid price shall be RMB1 per kilowatt hour, except for Tibet, the pre-tax price shall be RMB1.15 per kilowatt hour. The NDRC may adjust such on-grid pricing scheme based on cost variations, technology development and other relevant factors.

#### Environmental and Safety 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 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, 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. In addition, we are also subject to laws and regulations governing work safety and occupational disease prevention.

We believe we are in compliance with present environmental protection requirements in all material respects and have all material environmental permits necessary to conduct our business. Our operations are subject to regulation and periodic monitoring by local environmental protection and work safety authorities.

In response to concerns suggesting that emissions of certain gases, commonly referred to as “greenhouse gases” (including carbon dioxide and methane) may be contributing to global climate change, China has indicated that it highly commends and supports the Copenhagen Accord, which endorses the continuation of the Kyoto Protocol. In 2009, China has decided to reduce the intensity of carbon dioxide emissions per unit of GDP by 40 to 45 percent by 2020, compared with the levels of 2005. This decision may require changes to the current law and policy. Any such

changes in environmental laws or regulations may have adverse impact on the manufacture, sale and disposal of solar power products and their raw materials, which may in turn adversely affect us, our suppliers and our customers.

## Restriction on Foreign Ownership

The principal regulation governing foreign ownership of solar power businesses in the PRC is the Foreign Investment Industrial Guidance Catalogue issued by NDRC and PRC Ministry of Commerce, effective as of January 30, 2012, or the Catalogue 2012. However, the Catalogue 2012 is a replacement of the Foreign Investment Industrial Guidance Catalogue effective as of December 1, 2007, or the Catalogue 2007. Both Catalogue 2007 and Catalogue 2012 classify the various industries into four categories: encouraged, permitted, restricted and prohibited. Foreign invested companies categorized as “encouraged” are entitled to preferential treatment by the PRC government authorities, including exemption from tariffs on equipment imported for its own use. Zhejiang Yuhui was categorized in the “encouraged” industry under Catalogue 2007 and Catalogue 2012.

## Regulation of Foreign Currency Exchange and Dividend Distribution

*Foreign Currency Exchange.* Foreign currency exchange in China is primarily regulated by:

*PRC Foreign Exchange Administration Regulation* (1996), as amended in 1997 and 2008, or the *Foreign Exchange Administration Regulation*; and

*The Administration Rules of the Settlement, Sale and Payment of Foreign Exchange* (1996), or the *Administration Rules*.

Under the *Foreign Exchange Administration Regulation*, the Renminbi is convertible for current account items, which include, among other things, dividend payments, interest and royalties payments, and trade and service-related foreign exchange transactions. Conversion of Renminbi into foreign currency for capital account items, such as direct investment, loans, investment in securities and repatriation of funds, however, is still subject to the approval of SAFE or its local branches. Under the *Foreign Exchange Administration Regulation*, foreign-invested enterprises may only buy, sell and/or remit foreign currencies at the banks authorized to conduct foreign exchange transactions by complying with certain procedural requirements such as providing valid commercial documents and, in the case of capital account item transactions, only after obtaining approval from SAFE or its local branches. Capital investments directed outside of China by foreign-invested enterprises are also subject to restrictions, which include approvals by the PRC Ministry of Commerce, SAFE or its local branches and the PRC State Reform and Development Commission. Under our current structure, our income will be primarily derived from dividend payments from our operating subsidiaries in China.

On August 29, 2008, SAFE issued the *Circular on the Relevant Operating Issues Concerning the Improvement of the Administration of the Payment and Settlement of Foreign Currency Capital of Foreign-Invested Enterprises*, or

Circular 142, a notice regulating the conversion by a foreign-invested company of foreign currency into Renminbi that restricts how the converted Renminbi may be used. Pursuant to Circular 142, the RMB funds obtained from the settlement of foreign currency-denominated registered capital of a foreign-invested enterprise may only be used for purposes within the business scope as approved by the applicable governmental authority, and cannot be used for equity investments within PRC unless otherwise provided by laws and regulations. In addition, SAFE strengthened its oversight of the flow and use of the RMB capital converted from foreign currency-denominated registered capital of a foreign-invested company. The use of such RMB capital may not be altered from the original purposes for the conversion as reported to SAFE without SAFE's approval, and such RMB capital may not be used to repay RMB loans if the proceeds of such loans have not yet been used. Violations of Circular 142 could result in severe monetary penalties, including substantial fines as set forth in the PRC Foreign Exchange Administration Regulation.

*Dividend Distribution.* Pursuant to the *Foreign Exchange Administration Regulation* and various regulations issued by SAFE or its local branches, and other relevant PRC government authorities, the PRC government imposes controls on the convertibility of the Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China.

The principal regulations governing the distribution of dividends paid by Sino-Foreign equity joint venture enterprises and wholly foreign owned enterprises include:

- PRC *Sino-Foreign Equity Joint Venture Enterprise Law* (1979), or EJV Law, as amended in 1990 and 2001;

*Implementation Rules of the PRC Sino-Foreign Equity Joint Venture Enterprise Law* (1983), as amended in 1986, 1987 and 2001;

- PRC *Wholly Foreign Owned Enterprise Law* (1986), or WFOE Law, as amended in 2000; and

- *Implementation Rules of the PRC Wholly Foreign Owned Enterprise Law* (1990), as amended in 2001.

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

*Regulation of Certain Onshore and Offshore Transactions.* On October 21, 2005, SAFE issued Notice 75, which became effective as of November 1, 2005. SAFE has further issued a series of implementation guidance, including the Notice 19, which came into effect on July 1, 2011. The guidance standardized more specific and stringent supervision on the registration required by the Notice 75. For example, the guidance imposes obligations on onshore subsidiaries of an offshore entity to make true and accurate statements to the local SAFE authorities in case there is any shareholder or beneficial owner of the offshore entity who is a PRC citizen or resident. Untrue statements by the onshore subsidiaries will lead to potential liability for the subsidiaries, and in some instances, for their legal representatives and other liable individuals. According to these regulations, registration with the local SAFE branch is required for PRC residents to establish or to control an offshore company for the purposes of financing that offshore company with assets or equity interests in an onshore enterprise located in the PRC. An amendment to registration or filing with the local SAFE branch by such PRC resident is also required for the injection of equity interests or assets of an onshore enterprise in the offshore company or overseas funds raised by such offshore company, or any other material change involving a change in the capital of the offshore company.

Moreover, Notice 75 applies retroactively. As a result, PRC residents who have established or acquired control of offshore companies that have made onshore investments in the PRC in the past are required to complete the relevant registration procedures with the local SAFE branch by March 31, 2006. Under Notice 75, Notice 19 and the relevant rules, failure to comply with the registration procedures set forth in these regulations may result in restrictions being imposed on the foreign exchange activities of the relevant onshore company, including the increase of its registered capital, the payment of dividends and other distributions to its offshore parent or affiliate and capital inflow from the offshore entity, and may also subject relevant PRC residents to penalties under PRC foreign exchange administration regulations.



PRC residents who have established or acquired control of our company are required to register with SAFE in connection with their investments in us.

## Intellectual Property Rights

### Patent

The PRC has domestic laws for the protection of rights in copyrights, patents, trademarks and trade secrets. The PRC is also a signatory to the world's major intellectual property conventions, including:

- Convention establishing the World Intellectual Property Organization (WIPO Convention) (June 4, 1980);

Paris Convention for the Protection of Industrial Property (March 19, 1985);

Patent Cooperation Treaty (January 1, 1994); and

The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs) (November 11, 2001).

Patents in the PRC are governed by the China Patent Law (March 12, 1984), as amended and its Implementing Regulations (January 19, 1985), as amended.

The PRC is a signatory to the Paris Convention for the Protection of Industrial Property, in accordance with which any person who has duly filed an application for a patent in one signatory country shall enjoy, for the purposes of filing in the other countries, a right of priority during the period fixed in the convention (12 months for inventions and utility models, and 6 months for industrial designs).

The China Patent Law covers three kinds of patents, namely, patents for inventions, utility models and designs. The Chinese patent system adopts the principle of first to file. This means that, where multiple patent applications are filed for the same invention, a patent will be granted only to the party that filed its application first. Consistent with international practice, the PRC only allows the patenting of inventions or utility models that possess the characteristics of novelty, inventiveness and practical applicability. For a design to be patentable, it should not be identical with or similar to any design which has been publicly disclosed in publications in the country or abroad before the date of filing or has been publicly used in the country before the date of filing, and should not be in conflict with any prior right of another.

PRC law provides that anyone wishing to exploit the patent of another must conclude a written licensing contract with the patent holder and pay the patent holder a fee. One rather broad exception to this, however, is where a party possesses the means to exploit a patent for inventions or utility models but cannot obtain a license from the patent holder on reasonable terms and in a reasonable period of time, the PRC State Intellectual Property Office is authorized to grant a compulsory license. A compulsory license can also be granted where a national emergency or any extraordinary state of affairs occurs or where the public interest so requires. The patent holder may appeal such a decision within three months from receiving notification by filing suit in the People's Court.

PRC law defines patent infringement as the exploitation of a patent without the authorization of the patent holder. A patent holder who believes his patent is being infringed may file a civil suit or file a complaint with a local PRC Intellectual Property Administrative Authority, which may order the infringer to stop the infringing acts. A preliminary injunction may be issued by the People's Court upon the patentee's or the interested parties' request before instituting any legal proceedings or during the proceedings. Evidence preservation and property preservation measures are also available both before and during the litigation. Damages in the case of patent infringement is calculated as

either the loss suffered by the patent holder arising from the infringement or the benefit gained by the infringer from the infringement. If it is difficult to ascertain damages in this manner, damages may be determined with reference to the license fee under a contractual license.

## Trademark

The PRC Trademark Law, adopted in 1982 and revised in 1993 and 2001, with its implementation rules adopted in 2002, protects registered trademarks. The Trademark Office of the State Administration of Industry and Commerce handles trademark registrations and grants trademark registrations for a term of ten years.

### C. Organizational Structure

We currently conduct our business through the following key subsidiaries:

- Zhejiang Yuhui, our principal operating company engaged in wafer production in China;

ReneSola America, which was incorporated in the State of Delaware, the United States in November 2006 to facilitate our procurement of silicon raw materials in North America. Since 2010, there has been no operational activities at this subsidiary.

ReneSola Singapore Pte. Ltd., which was incorporated in Singapore in March 2007 as an offshore vehicle to procure polysilicon in international markets;

Sichuan ReneSola, which was incorporated in Sichuan Province in August 2007 to engage in the production of raw materials;

· JC Solar, which we acquired in May 2009 to engage in the production of solar cells and modules; and

Zhejiang ReneSola, which was incorporated in Zhejiang Province in April 2010 to engage in the production and sale of crucibles, steel wires and silicon carbon powder.

In addition to the key subsidiaries above, we also have other subsidiaries incorporated in different jurisdictions. The following diagram illustrates our current corporate structure:

D. Property, Plants and Equipment

We conduct our research, development and manufacturing of solar wafers at our facilities in Jiashan, Zhejiang Province, where we occupy a site area of approximately 413,010 square meters as of December 31, 2011. On this site, there are completed manufacturing facilities and office premises occupying an area of approximately 248,744 square meters. We conduct our research, development and manufacturing of polysilicon at our facilities in Meishan, Sichuan Province, where we occupied a site area of approximately 1,011,155 square meters as of December 31, 2011. Our cell and module manufacturing facilities are located at Yixing, Jiangsu Province, where we had a site area of 179,500 square meters as of December 31, 2011. Except as noted otherwise, we own the facilities completed and under construction and the right to use the relevant land for the durations described below. We also include information relating to the capacity of and major equipment at our facilities below.

| Products                          | Facility No. | Construction Area (square meters) | Duration of Land Use Right  | Annual Manufacturing Capacity as of December 31, |        |                       | Expected Annual Manufacturing Capacity as of December 31, 2012 | Major Equipment                         |
|-----------------------------------|--------------|-----------------------------------|---|--|--------|-----------------------|--|---|
|                                   |              |                                   |   | 2009   | 2010   | 2011                  |  |   |
| Monocrystalline ingots and wafers | 1            | 42,000                            | January 2007 to November 2053 (a plot of 22,000 square meters); May 2006 to November 2053 (a plot of 18,000 square meters); and October 2006 to October 2056 (a plot of 23,000 square meters) | 325 MW   | 400 MW | 400 MW <sup>(1)</sup> | 400 MW <sup>(1)</sup>  | Monocrystalline furnaces, NTC wire saws |
|                                   | 3            | 46,000                            | July 2007 to July 2057  |  |        |                       |  |   |



| Products                           | Facility No. | Construction Area (square meters) | Duration of Land Use Right     | Annual Manufacturing Capacity as of December 31, |                   |                   | Expected Annual Manufacturing Capacity as of December 31, 2012 | Major Equipment   |
|------------------------------------|--------------|-----------------------------------|--------------------------------|--|-------------------|-------------------|--|---|
|                                    |              |                                   |                                | 2009   | 2010              | 2011              |  |   |
| Multicrystalline ingots and wafers | 2            | 27,000                            | January 2007 to December 2056  | 500 MW   | 900 MW            | 1,600 MW          | 1,600 MW   | ALD multicrystalline furnaces, TOKYO ROPE multicrystalline furnaces, Zhejiang Jinggong multicrystalline furnaces, |
|                                    | 4            | 50,000                            | May 2008 to April 2058         |  |                   |                   |  | HCT wire saws and Meyer Burger wire saws  |
| Polysilicon                        | 5            | 75,000                            | August 2008 to August 2058     | 1,500 metric tons                                | 3,000 metric tons | 4,000 metric tons | 9,500 to 10,000 metric tons                                    | Deposition reactors, rectifying tower and hydrogenation reactor   |
| Cells                              | 6            | 42,958                            | February 2008 to December 2056 | 120 MW   | 240 MW            | 240 MW            | 240 MW   | Cell printing, testing and sorting equipment  |
| Modules                            |              |                                   |                                | 135 MW   | 400 MW            | 500 MW            | At least 500 MW  |   |

Only manufacturing capacity of approximately 200 MW was operational as we were in the process of moving the (1) equipment for the other 200 MW of capacity to another facility. Does not include monocrystalline ingot manufacturing capacity of 200 MW through processing arrangements with third-party manufacturers.

We believe that our existing facilities, together with our facilities under construction, are adequate for our expansion plan in 2011.

As of December 31, 2011, short-term borrowings of \$16.7 million and long-term borrowings of \$107.3 million were secured by property, plant and equipment with carrying amounts of \$265.0 million, prepaid land use right of \$15.6 million and accounts receivable of \$7.4 million.

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.



ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

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

A. Operating Results

Overview

We are a leading global manufacturer of solar wafers and producer of solar power products based in China. Capitalizing on proprietary technologies, economies of scale, low cost production capabilities, technical innovations and know-how, we leverage our in-house polysilicon, solar cell and solar module manufacturing capabilities to provide our customers with high quality, cost competitive solar wafer products. We possess a global network of suppliers and customers that include some of the leading global manufacturers of solar cells and modules. We have also developed a downstream platform for sales of cells and modules to strengthen our relationships with our customers and gain access to the end-user market.

We have rapidly expanded our manufacturing capacity since we began the production of solar wafers. We believe we possess one of the largest solar wafer manufacturing facilities in China based on production capacity as of December 31, 2011. As of December 31, 2011, we had an annual wafer manufacturing capacity of approximately 2,000 MW consisting of monocrystalline wafer manufacturing capacity of approximately 400 MW and multicrystalline wafer manufacturing capacity of approximately 1,600 MW. This represents a significant increase from our annual wafer manufacturing capacity of approximately 1,300 MW as of December 31, 2010, consisting of monocrystalline wafer manufacturing capacity of 400 MW and multicrystalline wafer manufacturing capacity of 900 MW. As of December 31, 2011, our cell and module manufacturing capacities were 240 MW and 500 MW, respectively, compared to 240 MW and 400 MW, respectively, as of December 31, 2010. As of December 31, 2011, our polysilicon manufacturing facility in Meishan, Sichuan Province, had an annual manufacturing capacity of 4,000 metric tons, compared to 3,000 metric tons as of December 31, 2010. Our polysilicon manufacturing facility utilizes a closed-loop modified Siemens process for polysilicon production. In addition, as of December 31, 2011, we had monocrystalline ingot manufacturing capacity of 200 MW through processing arrangements with third-party manufacturers.

Except during the global economic downturn from 2008 to 2009, our shipments have grown rapidly since we began manufacturing solar power products in 2005. In 2009, 2010 and 2011, we shipped 526.6 MW, 1,182.8 MW and 1,294.8 MW of solar power products. Our net revenues increased from \$510.4 million in 2009 to \$1,205.6 million in 2010 and decreased to \$985.3 million in 2011. We suffered an operating loss of \$90.6 million and a net loss of \$71.9 million in 2009. We had an operating income of \$245.9 million and a net income of \$169.0 million in 2010. We had an operating income of \$11.5 million and a net income of \$0.3 million in 2011.

Our growth is driven by the industry demand for solar power products, our ability to win market share from our competitors, our ability to manage our manufacturing capacity and production output, and our ability to improve operational efficiencies. The most significant factors that affect the financial performance and results of operations of our solar power products business are:

- industry demand and product pricing;
- manufacturing capabilities;
- advancements in process technologies;
- availability and prices of raw materials; and
- government subsidies and incentives.

## Industry Demand and Product Pricing

Our business and revenue growth largely depends on market demand for solar power products. The demand for solar power products is influenced by macroeconomic factors such as government regulations and support of the solar power industry, the global economic situation, the supply and prices of other energy products, such as oil, coal and natural gas, as well as government regulations and policies on the electric utility industry.

Our product prices are based on a variety of factors, including polysilicon costs, supply and demand conditions globally, the quality of our products, our pricing strategy, and the terms of our customer contracts, including sales volumes, and the terms on which certain customers supply us with silicon raw materials under buy-and-sell arrangements, taking into account the strength and history of our relationship with said customer. In the first three quarters of 2008, the average selling price of our wafers increased due to strong demand. However, excess production capacity and weak industry demand from late 2008 to the fourth quarter of 2009 due to decreased financing availability for downstream customers of solar power products as a result of global economic turbulence and significant decreases in polysilicon prices had resulted in selling price reduction along the solar power value chain. During this period, increased manufacturing capacity in the industry also contributed to a decline in the selling price. As global economic conditions began improving in the second half of 2009, demand for solar power products and the average selling prices for wafer products began to increase during 2010, consistent with the trend of the average selling prices of our own products. However, the overall average selling prices for wafer products in 2010 were still lower than 2009. Despite that the solar industry experienced an increase in demand in 2010 as global economic conditions improved, the prices for solar power products declined in 2011 due to the oversupply of solar power products and Europe's challenging financing environment resulting in weak demand in Europe for most of 2011. We expect solar power product prices to decline in the long term due to increased production efficiencies, reductions in polysilicon costs and decreases in manufacturing costs in our industry. We believe these continued price reductions, together with the lowering of costs throughout most of the solar power value chain, will improve end-user affordability and ultimately increase demand for solar generated electricity.

## Wafer Manufacturing Capability Complemented by Polysilicon, Cell and Module Manufacturing Capabilities

We continue to execute our strategy to enhance our competitive platform built on product quality, cost-effective manufacturing capabilities, technology and brand recognition in our wafer and module business supported by integrated manufacturing of in-house polysilicon and solar cells. We capitalize on increasing demand for our high quality products by leveraging and strengthening our core customer relationships to further drive revenue growth through reducing costs, better quality control and shortening of production cycle. We believe the economies of scale resulting from our increasing manufacturing capacity have enhanced, and will continue to enhance, our cost structure and manufacturing efficiency.

We have rapidly expanded our manufacturing capacity since we began the production of solar wafers. We believe we possess one of the largest solar wafer manufacturing facilities in China based on production capacity as of December 31, 2011. As of December 31, 2011, we had an annual wafer manufacturing capacity of approximately 2,000 MW consisting of monocrystalline wafer manufacturing capacity of approximately 400 MW and multicrystalline wafer manufacturing capacity of approximately 1,600 MW. This represents a significant increase from our annual wafer manufacturing capacity of approximately 1,300 MW as of December 31, 2010, consisting of monocrystalline wafer manufacturing capacity of 400 MW and multicrystalline wafer manufacturing capacity of 900 MW. In addition, as of December 31, 2011, we had monocrystalline ingot manufacturing capacity of 200 MW through processing arrangements with third-party manufacturers.

Our cell and module manufacturing capacities were 240 MW and 500 MW, respectively, as of December 31, 2011, compared with 240 MW and 400 MW, respectively, as of December 31, 2010. In 2011, we satisfied approximately 87.6% of our requirements for solar cells with our in-house production and the remainder was purchased externally or secured through toll services from third party cell manufacturers in order to fill the gap between our cell and module manufacturing capability. As the third party cell manufacturers are usually those which have established relationship with us through our wafer sales, we have the advantage to build on historical relationships to meet our requirements. We plan to maintain our annual module manufacturing capacities in 2012.

Our polysilicon manufacturing facility in Meishan, Sichuan Province, operated through our wholly owned subsidiary, Sichuan ReneSola, had an annual manufacturing capacity of 4,000 metric tons as of December 31, 2011. We ramped up our polysilicon manufacturing facility in two phases. Our polysilicon manufacturing facility commenced trial production of its first part of phase I in July 2009 and second part of phase I in February 2010 and produced an aggregate of 3,382 metric tons of polysilicon in 2011. We expect to commence trial production of its phase II in the second half of 2012. We plan to expand our annual polysilicon manufacturing capacity to between 9,500 and 10,000 metric tons by the end of 2012.

#### Advancements in process technologies

Advancements in our process technologies are important to our financial performance as they improve production yield, reduce manufacturing costs and enhance the quality and performance of our products. We have developed proprietary technologies in our wafer manufacturing processes. For example, we are able to produce more monocrystalline ingots by adding silicon raw materials in the furnaces after each production cycle without waiting for the furnaces to cool. This innovation enables us to increase the yield of our ingots, reduce electricity costs and enhance the utilization rate of our furnaces and consumables, such as crucibles. We have also modified certain manufacturing equipment design in both ingot and wafer slicing production, developed equipment manufactured locally and developed advanced processes, which have resulted in improved production yield and higher quality of wafers. We plan to further reduce our wafer processing cost per watt in the future through, among other things, development of new equipment used to manufacture ingots, optimizing supply chain management, process improvements, improvements in polysilicon production and in house production of certain key consumables.

#### Availability and prices of raw materials

Polysilicon is the primary raw material used to make crystalline silicon solar wafers. The increase in demand for solar power products in the past few years led to an industry-wide polysilicon shortage and significant price increases in polysilicon. Based on our purchase orders, polysilicon prices increased from \$270 per kilogram in 2007 to between \$280 and \$460 per kilogram in most of 2008. To address this shortage, we manufactured solar wafers from a wide range of silicon raw materials, including reclaimable silicon raw materials such as broken wafers and broken cells that are difficult to process but are less expensive than other reclaimable silicon raw materials.

The solar power industry experienced weakened demand from late 2008 to late 2009 as a result of the global economic downturn during the period. With increased industry supply of polysilicon since the fourth quarter of 2008, market polysilicon prices fell rapidly to between \$150 and \$200 per kilogram in the beginning of 2009, and further decreased to between \$50 and \$55 per kilogram in the fourth quarter of 2009, but increased to between \$80 and \$90 per kilogram in the fourth quarter of 2010. The market polysilicon prices decreased to between \$20 and \$50 per kilogram in the fourth quarter of 2011. As a result of greater supply of polysilicon, we believe the cost advantage in the continuing use of reclaimable silicon raw materials quickly diminished. In late 2008, we decided to stop using

reclaimable silicon raw materials as primary feedstock, and started using polysilicon as primary raw materials instead.

We mitigate the risk of volatility in the price of polysilicon affecting our profit margins by sourcing polysilicon from various sources, including long-term supply contracts, short term contracts, customers under processing services and spot purchases in China and internationally. Our short-term and spot purchase contracts and orders generally reflect the prevailing market prices.

In addition, we secure feedstock from some of our customers and sell solar wafers or ingots to them in return. We also provide some of our customers with wafer processing services. These agreements enhance the utilization rate of our manufacturing capacity and mitigate the risk of raw material price increases and strengthen our strategic partnerships with customers.

With the ramp up of our polysilicon manufacturing facility in Meishan, Sichuan Province, we believe our polysilicon manufacturing facility provides us with a stable, in-house and cost-effective supply of polysilicon, which complements our existing long-term and short-term polysilicon purchase agreements.

## Government subsidies and incentives

We believe that growth of the solar market depends largely on the availability and scale of government subsidies and economic incentives. Today, the cost of solar power substantially exceeds the cost of electricity generated from conventional fossil fuels such as coal and natural gas. As a result, national and local governmental bodies in Germany, Spain, Italy, France, North America and Japan, among others, have provided subsidies and economic incentives in the form of feed-in tariffs, rebates, tax credits and other incentives to end-users, distributors, system integrators and manufacturers of solar power products to promote the use of solar energy and to reduce dependence on other forms of energy. These government subsidies and economic incentives have been in the form of capital cost rebates, feed-in tariffs, tax credits, net metering and other incentives to end users, distributors, system integrators and manufacturers of solar power products. The demand for our solar power products, particularly solar modules, in our current, targeted and potential markets is affected significantly by the availability of such government subsidies and economic incentives.

However, government subsidies and economic incentives could be reduced or eliminated altogether. In particular, political changes in a particular country could result in significant reductions or eliminations of subsidies or economic incentives, and the effects of the recent global economic crisis may affect the fiscal ability of governments to offer certain types of incentives such as tax credits at the level previously targeted, if at all. For instance, in 2009 and 2010, Germany's government reduced the country's solar energy feed-in tariffs. Germany's government announced in the beginning of 2011 that it expects to further trim solar power subsidies by up to 15% in 2011 as demand for solar power panels continue to thrive in the country. In November 2011, Germany's government announced to require the feed-in-tariffs be reduced 9% a year, depending on the amount of solar installed, effective from January 2012. Based on current indications from the German government, a further reduction in feed-in tariffs may be implemented in 2012. The reduction in government incentives to users of solar power products in Germany may materially and adversely impact the German solar market if such measures are not implemented prudently, which may in turn materially and adversely affect our direct or indirect sales into Germany. In 2010, Italy's government also announced annual reductions to feed-in tariffs beginning in 2011 in an effort to impede overheating of its solar market although Italy later passed legislation to extend their feed-in tariff program for solar energy through 2012 and the feed-in tariff scheme started to slowly decrease each month from June 2011. In Spain, since 2009, continued reductions in the feed-in tariff as a result of the government's spending cut backs have resulted in a weakened solar market.

A significant reduction in the scope or discontinuation of government subsidies and incentive programs, especially those in our target markets, could cause demand for our products and our revenue to decline, and have a material adverse effect on our business, financial condition, results of operations and prospects.

## Overview of Financial Results

### Net Revenues

Historically, we have derived revenue primarily from sales of solar wafers. We acquired JC Solar in June 2009 to expand downstream into sales of solar cells and modules. Set forth below is the breakdown of our net revenues by product in absolute amount and as a percentage of total net revenues for the periods indicated.

|                              | <b>Year Ended December 31,</b>            |        |             |        | <b>2011</b> |        |
|------------------------------|---|--------|-------------|--------|-------------|--------|
|                              | <b>2009</b>                               |        | <b>2010</b> |        |             |        |
|                              | <b>(in thousands, except percentages)</b> |        |             |        |             |        |
| Net revenues                 |   |        |             |        |             |        |
| Solar wafers <sup>(1)</sup>  | \$452,921                                 | 88.7 % | \$682,530   | 56.6 % | \$623,694   | 63.3 % |
| Solar modules <sup>(2)</sup> | 57,483                                    | 11.3 % | 523,049     | 43.4 % | 361,585     | 36.7 % |
| Total                        | \$510,405                                 | 100.0% | \$1,205,579 | 100.0% | \$985,279   | 100.0% |

Includes approximately \$45,046, nil and nil from sales of solar ingots in the years ended December 31, 2009, 2010 (1) and 2011, respectively, and \$1.7 million, \$8.0 million and \$59.6 million from sales of other materials in the years ended December 31, 2009, 2010 and 2011, respectively.



- (2) Includes approximately \$4.3 million, \$4.0 million and \$0.6 million from sales of solar cells in the years ended December 31, 2009, 2010 and 2011, respectively.

Our net revenues derived from product sales are net of VAT, sales returns and exchanges. Factors affecting our net revenues derived from product sales include our unit sales volume and average selling price. We increased wafer shipment in 2009, 2010 and 2011 due to strong demand for our products, increased production output and increased brand recognition. Although selling prices of our solar wafers decreased in 2009 due to weak market demand and increased competition, the price reduction decelerated towards the end of 2009 due to increased demand as a result of the global economic recovery. The average selling price increased in 2010 due to the recovery in demand for solar power products in the industry. The average selling price decreased in 2011 due to the oversupply of solar power products and Europe's challenging financing environment resulting in weak demand in Europe for most of 2011.

Sales of wafers to our major customers are typically made under long-term sales contracts, supplemented by short term and market spot sales. Long-term sales contracts typically provide for the sales volume and price of our solar wafers for each year of the contract term. However, the pricing terms are either fixed or subject to reset in situations where the market benchmark price for solar wafers changes more than a certain percentage from the contracted price. In addition, we have entered into one-year sales contracts with some of our customers which provide for an agreed sales volume at a fixed price schedule and long-term framework contracts with variable pricing and volume terms. Compared to spot sales contracts, we believe our sales contracts not only provide us with better visibility into future revenues, but also help us enhance relationships with our customers. Generally the prices of our solar wafers are determined near the end of the previous year or at the time when the contracts are entered into. Our sales contracts historically required our customers to make a prepayment depending on their credit status, market demand and the term of the contracts, with the remaining price to be paid before shipment or within a short period after shipment, depending on the customer's credit worthiness and historical relationship with us. Our ability to require prepayment from our customers primarily depends on industry demand and supply. We have over 10 long-term wafer contracts for periods of one to five years. Our long-term wafer contracts accounted for shipments of 461.7 MW in 2011.

We have also entered into wafer processing arrangements with certain customers, under which we process their silicon raw materials into wafers for a processing fee. The payments we make for the feedstock and the payments our customers make for the solar wafers are generally settled separately, which is in line with market practice. In 2009, we entered into a wafer processing arrangement with an international module manufacturer. Under the terms of the contract, we supplied this module manufacturer with 120 MW of monocrystalline and multicrystalline solar wafers in 2009 and this module manufacturer supplied certain amounts of polysilicon to us. Additionally, in 2010, we entered into three processing arrangements with three international solar power product companies. Under the terms of these agreements, we have agreed to obtain polysilicon from these customers and sell solar wafers to them in return over periods of approximately two years, four years and five years. In 2009, 2010 and 2011, service revenue from processing arrangements accounted for approximately 4.9%, 11.4% and 11.6%, respectively, of our revenues generated from wafer sales. We have supplied 217.3 MW of solar wafers in 2011. In 2011, due to the volatility of polysilicon prices and worldwide oversupply of solar power products, we did not enter into new long-term wafer contracts or wafer processing arrangements with customers.

We sell our modules primarily to distributors and power plant developers. Our focus on which type of customers depends largely on the demand in the specific markets. A small number of customers have accounted for a majority of our net sales. In 2011, our top five module customers accounted for 49.3% of our module sales and 19.1% of our total net revenues, and our largest module customer accounted for approximately 14.7% of our module sales and 5.7% of our total net revenues. We sell our modules through spot orders, short-term contracts with terms of less than one year and framework agreements with terms of generally one year. The prices for spot orders are based on the then market prices and trends. The prices for our framework agreements and most of our short-term contracts are generally determined on a quarterly basis with fixed quantities.

We also enter into processing arrangements under which customers provide polysilicon and other raw materials to us for processing into modules. In the first quarter of 2010, we entered into three module processing contracts to provide an aggregate of 700 MW of solar modules to three major global solar companies with periods of approximately two quarters, three quarters and three years, respectively. As of the date of this annual report, such module processing contracts have not been performed. In 2011, due to the volatility of polysilicon prices and worldwide oversupply of solar power products, we did not enter into new module processing arrangements with customers.

### Geographical Distribution

In 2009, 2010 and 2011, a significant portion of our wafer sales were made to companies based in Asia, primarily to leading solar cell and module companies in China, Singapore, South Korea and Taiwan. While we will continue to maintain our customer base in this region, particularly in China, where many leading solar cell and module manufacturers are located and where the central government and some of the regional governments have recently implemented strong policy and fiscal support to the growth of solar power industry, we have also expanded sales to key international markets in Europe and North America.

A majority of our module sales in 2011 were made to distributors located in Europe. Solar power manufacturers like us have capitalized on government and regulatory policies for the promotion of solar power in many jurisdictions. In order to continue growing our sales and to reduce our exposure to any particular market segment, we intend to broaden our geographic presence and customer base. Germany, Italy and Spain remain our most important markets in Europe.

The following table sets forth the breakdown of our net revenues by geographic market, in absolute amount and as a percentage of total net revenues, for the periods indicated.

|                                | Year Ended December 31,                   |         | 2010        |         | 2011      |         |
|--------------------------------|---|---------|-------------|---------|-----------|---------|
|                                | 2009                                      |         |             |         |           |         |
|                                | <b>(in thousands, except percentages)</b> |         |             |         |           |         |
| China (including Hong Kong)    | \$316,158                                 | 61.9 %  | \$462,782   | 38.4 %  | \$385,667 | 39.1 %  |
| Taiwan                         | 66,961                                    | 13.1    | 105,628     | 8.8     | 115,391   | 11.7    |
| Rest of Asia Pacific countries | 21,259                                    | 4.2     | 120,844     | 10.0    | 99,292    | 10.1    |
| Germany                        | 49,253                                    | 9.6     | 180,913     | 15.0    | 110,504   | 11.2    |
| Italy                          | 7,744                                     | 1.5     | 70,270      | 5.8     | 61,615    | 6.3     |
| Spain                          | 6,165                                     | 1.2     | 66,834      | 5.5     | 38,587    | 3.9     |
| Rest of Europe                 | 25,554                                    | 5.0     | 107,045     | 8.9     | 74,921    | 7.6     |
| United States                  | 8,764                                     | 1.7     | 60,415      | 5.0     | 64,694    | 6.6     |
| Others                         | 8,547                                     | 1.7     | 30,848      | 2.6     | 34,608    | 3.5     |
| Total                          | \$510,405                                 | 100.0 % | \$1,205,579 | 100.0 % | \$985,279 | 100.0 % |

Cost of Revenues

Our cost of revenues consists primarily of costs for:

- polysilicon raw materials;
- consumables, including crucibles, steel sawing wires, slurry, glass and EVA film;
- direct labor costs, including salaries and benefits for our manufacturing personnel;
- overhead costs, including equipment maintenance and utilities such as electricity and water used in manufacturing; and
- depreciation of manufacturing facilities and equipment.

All the above costs increased from 2009 to 2011 as we expanded our manufacturing capacity and increased our sales volume. The increase in our polysilicon feedstock costs was attributable to increases in raw material purchase volume from 2009 to 2011. However, polysilicon spot prices started to fall significantly in the fourth quarter of 2008 as a result of the negative impact of the global financial crisis on the solar power industry. As such, the increase in raw material costs in 2009 and 2010 as a result of increased shipment volume was partially offset by reductions in raw material prices. We recorded inventory write-downs of \$71.3 million in 2009 to reflect the decreased value of our feedstock, work in progress and finished goods against the net realizable value of inventories as a result of the significant decline of the market prices for silicon raw materials. In the second half of 2011, the market prices for raw materials, in particular polysilicon raw materials, declined significantly. During the same period, the average selling price of our products and other inventory also declined significantly. As a result, we recorded inventory write-downs of \$49.0 million in 2011 to reflect the decreased value of our feedstock, work in progress and finished goods. We have sold solar modules since our acquisition of JC Solar in June 2009. Module sales are typically carried with a warranty for minimum power output of up to 25 years following the date of sale. We also provided a warranty for our solar modules against defects in materials and workmanship for a period of ten years from the date of sale. We accrued warranty costs from solar module sales of approximately \$2.6 million in 2009, \$5.4 million in 2010 and \$3.9 million in 2011.

#### Gross Margin

Our gross margin is affected by changes in our net revenues and cost of revenues. Our net revenues are determined by the average selling price of our products, as well as MW of products that we are able to sell. Our cost of revenues is affected by our ability to manage raw material costs and our ability to manage our manufacturing processes efficiently. Our gross margin increased from negative 8.5% in 2009 to 28.9% in 2010 primarily due to the upward trend in the selling prices of our products, a relatively smaller amount of inventory write-downs compared to 2009 and our operational improvements. Our gross margin decreased from 28.9% in 2010 to 9.7% in 2011. The decrease was primarily due to the rapidly declining average selling price of our products as a result of the oversupply of solar power products and Europe's challenging financing environment resulting in weak demand in Europe for most of 2011, as well as our inventory write-downs in the third and fourth quarters of 2011.

#### Operating Expenses

Our operating expenses include sales and marketing expenses, general and administrative expenses and research and development expenses.

#### Sales and marketing expenses

Sales and marketing expenses consist primarily of salaries, bonuses and pensions for our sales personnel, commission paid to our sales agents, outbound freight, share-based compensation expenses and benefits, travel and other sales and marketing expenses.

We expect our selling expenses to increase in the near term as we increase our sales efforts, hire additional sales personnel, improve workmanship, and establish a minimum power output warranty for our module products consistent with industry averages, target new markets and initiate additional marketing programs to build our brand.

#### General and administrative expenses

General and administrative expenses consist primarily of salaries, bonuses and benefits for our administrative and management personnel, consulting and professional service fees and travel and related costs of our administrative and management personnel. In 2009, 2010 and 2011, we recognized share-based compensation expenses in connection with certain members of our management team. In 2009 and 2010, our general and administrative expenses increased primarily due to increased salaries and benefits as we hired additional staff to manage our growing business and an increase in professional fees and compliance expenses related to rules and requirements applicable to public companies. In 2011, our general and administrative expenses decreased primarily due to the reversal of certain allowances for accounts receivable as we collected payments from certain of our module customers, partially offset by increased salaries and benefits from increased headcount, as well as share-based compensation expenses for option grants to our personnel.

We expect our general and administrative expenses to increase as we hire additional personnel and advisors and incur expenses including costs to support our growing operations.

#### Research and development expenses

Research and development expenses primarily relate to equipment and raw materials used in our research and development activities, research and development personnel costs, and other costs related to the design, development, testing and enhancement of our products and processes. In 2009, 2010 and 2011, our research and development expenses amounted to approximately \$14.5 million, \$36.3 million and \$47.1 million, respectively. The increase was primarily due to our continued research into improving cell efficiency, low-cost production and developing in-house sources of raw materials.

We expect our research and development expenses increase in the near future as we will continue to expand and promote innovations in our processing technologies of manufacturing polysilicon, ingots, wafers, cells and modules. We plan to hire more research and development personnel and devote greater resources to research and development efforts. We plan to continue to focus on improving manufacturing efficiency and reducing our manufacturing costs by enhancing manufacturing yields, which enable us to deliver higher efficiency products at a lower cost in each segment of our production. In particular, we hope to continue to lower our grams/watt usage. In ingot manufacturing, our research and development efforts will continue to focus on optimizing process improvement and equipment re-configuration to increase productivity of ingot growing. In wafer slicing, our efforts will focus on process improvement to optimize slicing yield through expediting slicing speed and slicing thinner wafers, and optimizing the development and use of diamond steel wire for our own production, as well as potentially for external sales. In wafer manufacturing, we will continue to focus on improving our Virtus wafers, developing low-oxygen concentration wafers and experiment with producing our own carbon composite materials. In cell manufacturing, we will focus on improving cell efficiency through various development projects. In module manufacturing, we will extend our technical know-how in Virtus wafers into manufacturing Virtus modules.

#### Other operating income and expenses

We also recognized other operating income and expenses from the disposal of fixed assets and allowances received from the PRC government to support the solar power industry.

#### Non-operating Income and Expenses

Our non-operating income and expenses consist primarily of interest income, interest expenses, foreign currency exchange gains or losses, gains on repurchase of convertible bonds, gains or losses on derivatives and other-than-temporary impairment loss on available-for-sale investment.

Our interest income represents interest on our cash balance. Our interest expenses relate primarily to our short-term borrowings from banks, less capitalized interest expenses to the extent they relate to our capital expenditures.

Our foreign currency exchange gain or loss results from our net exchange gains and losses on our monetary assets and liabilities denominated in foreign currencies during the relevant period. Our functional currency is the U.S. dollar. Foreign currency transactions have been translated into the functional currency at the exchange rate prevailing on the date of transaction. Foreign currency denominated monetary assets and liabilities are translated into our functional currency at exchange rates prevailing on the balance sheet date. Our reporting currency is the U.S. dollar. Assets and liabilities have been translated into our reporting currency using exchange rates prevailing on the balance sheet date. Income statement items have been translated into our reporting currency using the weighted average exchange rate for the relevant periods. Translation adjustments have been reported as a component of accumulated other comprehensive income in the consolidated balance sheets. In 2009, 2010 and 2011, we had foreign currency exchange losses of \$1.4 million, \$1.8 million and gain of \$6.6 million, respectively.

We recorded nil, gains of \$6.3 million and losses of \$15.3 million on derivative instruments from foreign currency forward exchange contracts, in the years ended December 31, 2009, 2010 and 2011, respectively.



We recorded gains of \$8.0 million, \$5,891 and \$28.3 million in 2009, 2010 and 2011, respectively, on the repurchase of our convertible bonds due to the repurchase price discount.

We recorded an other-than-temporary impairment loss on available-for-sale investment of \$13.4 million in 2009 as a result of the decline in the fair value of our equity interest in a polysilicon manufacturer whose shares were traded on the TSX. This loss was recorded as non-operating expenses. The manufacturer filed for bankruptcy protection under the CCAA in January 2012. In February 2012, TSX determined to delist the manufacturer's shares due to its failure to meet the continued listing requirements of the TSX as a result of the commencement of proceedings under the CCAA. As a result, we recorded an other-than-temporary impairment loss on available-for-sale investment of \$6.2 million in 2011.

## Taxation

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

PRC enterprise income tax is calculated primarily on the basis of taxable income determined under PRC Enterprise Income Tax Law. As a foreign-invested enterprise in a manufacturing business, Zhejiang Yuhui is entitled to a two-year exemption from enterprise income tax starting from its first profitable year of operation, which is 2005, and a 50% deduction for the succeeding three years, which are 2007, 2008 and 2009. To enjoy the above preferential treatment, the authorized operation duration of Zhejiang Yuhui shall be no less than 10 years.

In March 2007, the National People's Congress of China enacted a new Enterprise Income Tax Law, which became effective on January 1, 2008. In December 2007, the State Council of China promulgated the Implementing Regulation of the new Enterprise Income Tax Law, which became effective on January 1, 2008. The new Enterprise Income Tax Law imposes a unified enterprise income tax rate of 25% on all domestic enterprises and foreign-invested enterprises unless they qualify under certain limited exceptions. According to the new Enterprise Income Tax Law and its relevant implementation rules, enterprises that were established before March 16, 2007 and were eligible for preferential tax exemptions or reduction within the specified time under the then effective laws and regulations will continue to enjoy the original preferential tax exemptions or reductions until the expiration of the specified terms, except that the relevant exemption or reduction shall start from January 2008 if the first profitable year for the relevant enterprise is later than January 1, 2008.

Zhejiang Yuhui increased its registered capital from \$1.5 million to \$16.5 million in April 2006, \$28.5 million in September 2006, \$45.0 million in January 2007 and \$102.5 million in August 2007. According to relevant PRC tax regulations before the enactment of the Enterprise Income Tax Law, Zhejiang Yuhui is entitled to a full exemption

from enterprise income tax for two years starting from its first profitable year of operation with respect to income from operations attributable to the increased capital and a 50% deduction in income taxes for the following three years, upon written approval from the tax authority. Since Zhejiang Yuhui's capital increase from \$45.0 million to \$102.5 million was registered after March 16, 2007, it has received an approval from the PRC tax authority in Zhejiang Province which provided that income attributable to this capital increase would receive preferential tax treatment until December 31, 2007.

Under the Provisional Regulation of China on Value Added Tax and its implementing rules, all entities and individuals 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 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 partial or full refund of VAT that it has already paid or borne. Accordingly, we are subject to a 17.0% VAT with respect to our sales of solar wafers in China. Our PRC subsidiaries, Zhejiang Yuhui and JC Solar, are required to pay VAT with respect to their respective gross sales proceeds. Historically, Zhejiang Yuhui was entitled to a 13% refund on VAT that it had already paid or borne with respect to the export of solar wafers. However, starting from July 1, 2007, such VAT refund is reduced to 5%, which materially affects our export of solar wafers. Since April 1, 2009, the VAT refund has reverted to 13%. The VAT refund applicable to JC Solar is 17%. Imported raw materials that are used for manufacturing export products and are deposited in bonded warehouses are exempt from import VAT.

Zhejiang Yuhui was also entitled to tax credits for up to 40% of the purchase price of certain domestic equipment purchases. Such tax credits could be used to offset up to the incremental amount of Zhejiang Yuhui's income tax compared to that of the year before such purchases, and the tax credit could be carried forward for up to seven years. This tax credit is no longer available for any purchase of PRC equipment from January 1, 2008 due to the enactment of the new Enterprise Income Tax Law. If it is more likely than not that some or all of the deferred tax assets will not be realized, we will provide for valuation allowances based on available evidence. As of December 31, 2011, Zhejiang Yuhui had net operating losses carry forward of \$73.9 million, of which \$51.4 million will expire in 2014 and \$22.5 million will expire in 2016.

Zhejiang Yuhui obtained the approval of High and New-Tech Enterprise status in 2009. With this approval, Zhejiang Yuhui is allowed to apply a reduced income tax rate of 15% for the period of three years, i.e. from 2009 to 2011. We elected to utilize the transition relief for Zhejiang Yuhui up until and including 2010, i.e. enjoying the residual tax holiday granted before the effectiveness of new Enterprise Income Tax Law, when calculating enterprise income tax. The blended income tax rate of Zhejiang Yuhui is 1.9%, 12.5%, 12.5% and 23% for 2007, 2008, 2009 and 2010, respectively. In 2011, we elect to use High and New-Tech Enterprise status, which entitles Zhejiang Yuhui to a tax rate of 15%. Zhejiang Yuhui's High and New-tech Enterprise Certificate expired on April 16, 2012. We have applied for renewal of Zhejiang Yuhui's High and New-tech Enterprise Certificate.

ReneSola America is incorporated in the state of Delaware. ReneSola America does not conduct any business activity in Delaware. It is not subject to Delaware State income tax. However, as ReneSola America conducts business activities in the state of Indiana, it is subject to a progressive federal corporate income tax from 15% to 35% and Indiana income tax of 8.5%, which is deductible from federal tax.

ReneSola Singapore Pte. Ltd. is incorporated in the Republic of Singapore. The corporate income tax rate is 17%.

Sichuan ReneSola, Sichuan Ruiyu and Sichuan Ruixin are incorporated in the PRC. The corporate income tax rate is 25%.

#### Disposal of Equity Interest in Linzhou Zhongsheng Semiconductor

In August 2007, we invested in a 49% equity interest in Linzhou Zhongsheng Semiconductor, a polysilicon manufacturing company located in Henan Province. Linzhou Zhongsheng Steel invested 51% equity in the joint venture. Under the joint venture agreement, we are obligated to purchase 90% of the Joint Venture's output, at 97% of the market price, for a period of thirty years. In June 2008, we and Linzhou Zhongsheng Steel amended our joint

venture agreement to reduce our contracted obligation to purchase the output of Linzhou Zhongsheng Semiconductor from 90% to a minimum of 55% at market price with a term of three years, instead of thirty years in the original agreement. We sold our 49% equity interest in the joint venture to Linzhou Zhongsheng Steel in September 2008. We consolidated Linzhou Zhongsheng Semiconductor in our December 31, 2007 balance sheet, as Linzhou Zhongsheng Semiconductor was deemed a variable interest entity with our company as the primary beneficiary. The equity interest of Linzhou Zhongsheng Semiconductor not owned by us was reported as a minority interest on the balance sheet as of December 31, 2007.

As a result of our amendment to the joint venture agreement to reduce our contractual obligation to purchase the output of Linzhou Zhongsheng Semiconductor, Linzhou Zhongsheng Semiconductor was no longer considered a variable interest entity given that we no longer absorbed significant variability of Linzhou Zhongsheng Semiconductor and were no longer the primary beneficiary of Linzhou Zhongsheng Semiconductor. Effective from June 28, 2008, we accounted for our investment in Linzhou Zhongsheng Semiconductor prospectively under the equity method of accounting. Equity method adjustments include our proportionate share of the investee's income or loss, gains or losses resulting from investee capital transactions, adjustments to recognize certain differences between our carrying value and our equity in net assets of the investee at the date of investment, impairments, and other adjustments required by the equity method. Our equity interest in the earnings of Linzhou Zhongsheng Semiconductor was RMB159.7 million prior to the divestiture in September 2008.

We sold our 49% equity interest in Linzhou Zhongsheng Semiconductor to Linzhou Zhongsheng Steel in September 2008 at a total consideration of RMB200 million. The share transfer agreement with Linzhou Zhongsheng Steel was amended in December 2008. The amended agreement stipulates that, of the total consideration of RMB200 million, RMB40 million would be paid in cash, RMB4 million would be treated as credit for existing purchases of polysilicon and RMB156 million would be treated as prepayment, to either be used as a credit through a discount to spot market price against future delivery of polysilicon from the joint venture or be repaid in cash, at our discretion. However, Linzhou Zhongsheng Semiconductor stopped the delivery of polysilicon in early 2009 and continued to fail to fulfill its obligations. We decided to take legal action to collect the remaining amount of the receivable and to record a full provision of \$8.6 million in the fourth quarter of 2009.

We initiated arbitration proceedings against Linzhou Zhongsheng Steel and Linzhou Zhongsheng Semiconductor before CIETAC for the equity transfer dispute. CIETAC has rendered its final award in September 2011, requiring Linzhou Zhongsheng Steel to pay us the remaining equity transfer consideration in the amount of RMB137,260,000. We have applied to the relevant court in China for enforcement of the arbitral award.

#### Critical Accounting Policies

We prepare our financial statements in conformity with U.S. GAAP, which requires us to make judgments, estimates and assumptions. We continually evaluate these estimates and assumptions based on the most recently available information, our own historical experience and various other assumptions that we believe to be reasonable under the circumstances. Since the use of estimates is an integral component of the financial reporting process, actual results could differ from those estimates.

An accounting policy is considered critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time such estimate is made, and if different accounting estimates reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact the consolidated financial statements. We believe that the following accounting policies involve a higher degree of judgment and complexity in their application and require us to make significant accounting estimates. The following descriptions of critical accounting policies, judgments and estimates should be read in conjunction with our consolidated financial statements and other disclosures included in this annual report.

#### Revenue recognition

We recognize revenues when persuasive evidence of an arrangement exists, the products are delivered and title and risk of loss has passed to customers, the price to the buyer is fixed and determinable, and collectability is reasonably assured. Sales agreements typically contain customary product warranties but do not contain any post-shipment

obligations nor any return or credit provisions.

A majority of our contracts provide that products are shipped under free on board, or FOB, terms or cost, insurance and freight, or CIF, terms. Under FOB, we fulfill our obligation when the goods have passed over the ship's rail at the named port of shipment. The customer bears all costs and risks of loss of or damage to the goods from that point. Under CIF, we must pay the costs, insurance and freight necessary to bring the goods to the named port of destination, and bear the risk of loss of or damage to the goods during transit. We recognize revenue when the title of goods and risk of loss or damage is transferred to the customers based on the terms of the sales contracts if other criteria are met.

In 2011, in response to market conditions, we began granting extended credit terms to customers with overall creditworthiness, as determined by our credit assessment. For customers to whom credit terms are extended, we assessed a number of factors to determine whether collection from them is reasonably assured, including past transaction history with them and their credit-worthiness. For a limited number of sales transactions, we require cash payment before delivery of products, and records such receipts as advances from customers.

## Goodwill and Indefinite-life Intangible Assets

We account for goodwill and intangible assets with indefinite lives in accordance with U.S. GAAP, and we conduct our annual impairment testing on May 31 or whenever there are indicators to determine if we will be able to recover all or a portion of the carrying value of goodwill and intangible assets with indefinite lives.

Prior to performing the goodwill impairment testing process for a reporting unit, if there is reason to believe that other non-goodwill related intangible assets may be impaired, these other intangible assets must first be tested for recoverability whereby the gross undiscounted cash flows are determined specific to the asset. For non-goodwill related intangible assets with indefinite lives, a fair value determination is made. If the carrying value of the asset exceeds the fair value, then impairment occurs. The carrying values of these assets are impaired as necessary to provide the appropriate carrying value for the goodwill impairment calculation.

During the fourth quarter of 2011, as a result of the effects of weakening market conditions on our forecasts and a sustained, significant decline in our market capitalization to a level lower than our net book value, we concluded that impairment indicators existed and performed an impairment analysis. Based on the results of the analysis, the estimated fair value of the reporting unit was determined to be higher than the carrying amount. No impairment charges were recognized during the years ended December 31, 2009, 2010 or 2011.

We have one indefinite-life intangible assets relating to the business license acquired in the business combination of Sichuan Aoguang Silicon Industry Co. Ltd. and is initially recorded at its fair value at the acquisition date (which is regarded as its cost). Subsequent to initial recognition, business license with indefinite useful lives that is acquired separately in a business combination is reported at cost less accumulated impairment losses. At the end of each reporting period, we review the carrying amount of the business license to determine whether there is any indication that it has suffered an impairment loss. If such indication exists, fair value of the asset is estimated in order to determine the extent of an impairment loss (if any). If the carrying amount of the business license exceeds its fair value, an impairment loss shall be recognized in an amount equal to that excess.

The application of the impairment test requires judgment, including the identification of reporting units, assignments of assets and liabilities to reporting units and the determination of the fair value of each reporting unit. Further, the impairment test involves the use of accounting estimates and assumptions related to future operating results, including discount rates, and expected future growth rates, among others. The fair values of our reporting units are generally based on discounted cash flow projections that are believed to be reasonable under current and forecasted circumstances, the results of which form the basis for making judgments about carrying values of the reported net assets of our reporting units. Significant changes to these estimates and assumptions could adversely impact our conclusion to these impairment tests.

## Impairment of long-lived assets

We evaluate our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable or that the useful life is shorter than originally estimated. We assess recoverability of the long-lived assets by comparing the carrying amount of the assets to the estimated future undiscounted cash flows expected to result from the use of the assets and their eventual disposition. We recognize an impairment loss in the event the carrying amount exceeds the estimated future undiscounted cash flows attributable to such assets, measured as the difference between the carrying amount of the assets and the fair value of the impaired assets. During the fourth quarter of 2011, as a result of the effects of weakening market conditions on our forecasts and a sustained, significant decline in our market capitalization to a level lower than our net book value, we concluded that circumstances existed and performed recoverability tests. Based on the recoverability tests performed, we determined that no impairment was required. As a result, we did not record any impairment loss of long-lived assets for the years ended December 31, 2009, 2010 or 2011.



## Income tax

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 it is more likely than not that some portion or all of the deferred tax assets will not be realized. This assessment considers, among other matters, the nature, frequency and severity of current and cumulative losses, forecasts of future profitability, the duration of statutory carry forward periods, our experience with operating losses in the China solar power industry, tax planning strategies implemented and other tax planning alternatives. If our operating results are less than currently projected and there is no objectively verifiable evidence to support the realization of our deferred tax asset, additional valuation allowance may be required to further reduce our deferred tax asset. The reduction of the deferred tax asset could increase our income tax expenses and have an adverse effect on our results of operations and tangible net worth in which the allowance is recorded. Current income taxes are provided for in accordance with the laws of the relevant taxing authorities. We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position.

## Inventory

Our inventories are stated at the lower of cost or market 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 market 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 than those anticipated by management, additional inventory write-downs or increases in obsolescence reserves may be required.

On occasion, we enter into firm purchase commitments to acquire materials from our suppliers, which may require us to pay for committed volumes regardless of whether we actually take possession of the materials. We evaluate these agreements whenever market prices decrease such that the commitment price is significantly higher than market. In these instances, we evaluate the need to record a loss, if any, on firm purchase commitments using a lower of cost or market approach consistent with that used to value inventory.

## Investments

Investments in marketable equity securities are classified as trading, available-for-sale, or held-to-maturity. Investments classified as “available-for-sale” are reported at fair value with unrealized gains and losses recorded in other comprehensive income (loss) until they are realized. We determine the realized gains and losses upon the sale of marketable equity securities using the specific identification cost method. Available-for-sale marketable securities are subject to periodic review to determine whether there is any impairment. Investments identified as being impaired are subject to further review to determine if the investment is other than-temporarily impaired, in which case we would write down the investment to reflect the impairment and establish that amount as its new cost basis. We measure the fair value of our marketable securities using quoted prices for securities with similar characteristics and other observable inputs (such as interest rates that are observable at commonly quoted intervals) and we consider the effect of our counterparties’ credit standings in these fair value measurements. Determining the observable market values most relevant to the measurement of the fair value of marketable securities and the other counterparties’ credit risk adjustment, if needed, requires significant judgment. Changes in market conditions can also significantly affect the fair value measurements from period to period and can cause realized values to vary significantly from previous estimates.

#### Allowance for doubtful receivables and advances to suppliers

We maintain allowances for doubtful accounts and advances to suppliers primarily based on the age of receivables or advances and factors surrounding the credit risk of specific customers or suppliers. If there is a deterioration of a major customer or supplier's creditworthiness or actual defaults are higher than our historical experience, we may need to maintain additional allowances.

In order to secure a stable supply of silicon raw materials, we make advance payments to suppliers for raw material supplies. Advances to suppliers for purchases expected within twelve months as of each balance sheet date are recorded as advances to suppliers in current assets. Future balances are recorded in long-term advances to suppliers. As of December 31, 2009, 2010 and 2011, advances to suppliers in current assets were \$12.1 million, \$26.3 million and \$16.2 million, respectively, and long-term advances to suppliers for silicon raw material supplies were \$8.1 million, \$13.7 million and \$17.6 million, respectively. We do not require collateral or other security against our advances to suppliers. We perform ongoing credit evaluations on the financial condition of our suppliers. As a result, our claims for such prepayments are unsecured, which expose us to the suppliers' credit risk.

We establish an allowance for doubtful receivables mainly based on the age of receivables and factors surrounding the credit risk of specific customers. Allowances for doubtful receivables are comprised of allowances for account receivables, allowances for other receivables and allowances for advances to suppliers.

We made provisions for doubtful receivables and other receivables in the aggregate amount of \$9.9 million and \$3.9 million for the years ended December 31, 2009 and 2010, respectively. For the year ended December 31, 2011, we made a reversal of certain allowances for accounts receivable of \$1.4 million as we collected payments from certain of our module customers, which were previously provided for. We made a significant provision for doubtful receivables in 2009 primarily due to Linzhou Zhongsheng Semiconductor's failure in its obligations to deliver polysilicon to us in 2009. See "—Disposal of Equity Interest in Linzhou Zhongsheng Semiconductor" for more information.

#### Fair value measurement

Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (also referred to as an exit price). We utilize a hierarchy for inputs used in measuring fair value that gives the highest priority to observable inputs and the lowest priority to unobservable inputs. Valuation techniques used to measure fair value shall maximize the use of observable inputs.

When available, we measure the fair value of financial instruments based on quoted market prices in active markets, valuation techniques that use observable market-based inputs or unobservable inputs that are corroborated by market data. When observable market prices are not readily available, we generally estimate the fair value using valuation techniques that rely on alternate market data or inputs that are generally less readily observable from objective sources and are estimated based on pertinent information available at the time of the applicable reporting periods.

#### Derivative assets related to foreign currency forward contracts

We use foreign exchange forward contracts to hedge the foreign currency exchange risk inherent in the future cash flows associated with forecasted sales denominated in foreign currencies, mainly in U.S. dollar or euro.

We account for these forward contracts as derivative instruments and recognize all derivative instruments as either assets or liabilities at fair value in other financial assets or other financial liabilities in the consolidated balance sheets. We do not offset the carrying amounts of derivatives with the same counterparty.

In 2010, we began to use foreign currency cash flow hedge accounting with respect to certain foreign-currency forward exchange contracts that we entered into to hedge changes in the cash flow of forecasted foreign currency denominated sales transactions attributable to changes in foreign currency exchange rates. When hedging relationships are highly effective, the effective portion of gain or loss on the derivative cash flow hedges is recorded in accumulated other comprehensive income, net of tax, until the underlying hedged transaction is recognized in the consolidated income statements. The ineffective portion of cash flow hedges, if any, is recognized in income immediately. The effectiveness of designated hedging relationships is tested and documented on at least quarterly basis.

In the fourth quarter of 2011, as the hedged sales transactions were determined to no longer be probable of occurrence, the cash flow hedge accounting was discontinued and accordingly, the entire balance in accumulated other comprehensive income was reclassified into net gain (loss) on derivative instruments. As a result, the loss from change in fair value of derivatives qualified for cash flow hedges reported in accumulated other comprehensive income was nil, \$797,091 and \$1,236,306 as of December 31, 2009, 2010 and 2011, respectively. Of these amounts, nil, \$83,594 and \$1,164,711 were reclassified into revenue upon realization of the hedged transactions in the years ended December 31, 2009, 2010 and 2011, respectively. The balance of \$785,092 recorded in accumulated other comprehensive income was reclassified into net gain (loss) on derivatives. Accordingly, the ending balance recorded in accumulated other comprehensive income was \$713,497 and nil as of December 31, 2010 and 2011, respectively.

Our other derivatives do not qualify for hedge accounting. Accordingly, gains or losses resulting from changes in the values of those derivative instruments are recognized in fair value change on derivatives.

Net (gains) losses on derivative instruments from foreign currency forward exchange contracts was nil, (\$6.3 million) and \$15.3 million in the years ended December 31, 2009, 2010 and 2011, respectively. As of December 31, 2011, we had outstanding foreign exchange forward contracts with a total notional amount of \$130.7 million and they did not qualify for hedge accounting.

As of December 31, 2011, we had \$0.9 million derivative assets and \$0.4 million derivative liabilities in total, none of which qualified for hedge accounting.

## Segment Operations

We grouped our business into two reportable segments:

wafer sales segment, which involves the manufacture and sales of monocrystalline and multicrystalline solar wafers;  
and

- module sales segment, which involves the manufacture and sales of solar cells and modules.

The two segments are evaluated regularly by our chief executive officer to decide how to allocate resources and to assess performance. We do not allocate operating expenses by segment.

We have sold solar modules since our acquisition of JC Solar in June 2009. JC Solar began its cell production in October 2008 and module production in November 2005 and had an annual cell manufacturing capacity of 240 MW and an annual module production capacity of 500 MW as of December 31, 2011. Although sales from our wafer segment will continue to be our dominant business, we believe that sales from our cell and module segment will represent a significant portion of our revenues and gross profit in the future. See “—Results of Operations” for a discussion of period-to-period comparison among the segments.

#### 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.

|   | <b>For the Year Ended December 31,</b> |          |             |         |           |         |
|---|--|----------|-------------|---------|-----------|---------|
|   | 2009                                   |          | 2010        |         | 2011      |         |
|   | (in thousands, except percentages)     |          |             |         |           |         |
| Net revenues  | \$510,405                              | 100.0 %  | \$1,205,579 | 100.0%  | \$985,279 | 100.0%  |
| Cost of revenues  | (553,607)                              | (108.5)  | (857,615 )  | (71.1 ) | (889,226) | (90.3 ) |
| Gross profit (loss)   | (43,202 )                              | (8.5 )   | 347,964     | 28.9    | 96,053    | 9.7     |
| Operating expenses:   |  |          |             |         |           |         |
| Sales and marketing   | (5,399 )                               | (1.1 )   | (8,360 )    | (0.7 )  | (17,233 ) | (1.7 )  |
| General and administrative  | (29,084 )                              | (5.7 )   | (43,314 )   | (3.6 )  | (38,550 ) | (3.9 )  |
| Research and development  | (14,507 )                              | (2.8 )   | (36,263 )   | (3.0 )  | (47,055 ) | (4.8 )  |
| Other operating (expenses) income                                     | 1,633                                  | 0.3      | (14,083 )   | (1.2 )  | 18,327    | 1.9     |
| Total operating expenses  | (47,356 )                              | (9.3 )   | (102,020 )  | (8.5 )  | (84,511 ) | (8.6 )  |
| Income (loss) from operations   | (90,558 )                              | (17.7 )  | 245,944     | 20.4    | 11,542    | 1.2     |
| Non-operating income (expenses):                                      |  |          |             |         |           |         |
| Interest income   | 1,716                                  | 0.3      | 1,835       | 0.2     | 7,862     | 0.8     |
| Interest expense  | (17,122 )                              | (3.4 )   | (23,246 )   | (1.9 )  | (37,190 ) | (3.8 )  |
| Foreign exchange (losses) gains                                       | (1,433 )                               | (0.3 )   | (1,814 )    | (0.2 )  | 6,612     | 0.7     |
| Gain on repurchase of convertible notes                               | 7,995                                  | 1.6      | 6           | 0.0     | 28,350    | 2.9     |
| Gains (losses) on derivatives, net                                    | —                                      | —        | 6,268       | 0.5     | (15,297 ) | (1.6 )  |
| Investment income (loss)  | —                                      | —        | —           | —       | (193 )    | (0.0 )  |
| Other-than-temporary impairment loss on available-for-sale investment | (13,367 )                              | (2.6 )   | —           | —       | (6,207 )  | (0.6 )  |
| Total non-operating (expenses)  | (22,211 )                              | (4.4 )   | (16,950 )   | (1.4 )  | (16,062 ) | (1.6 )  |
| Income (loss) before income tax, non-controlling interests            | (112,770)                              | (22.1 )  | 228,994     | 19.0    | (4,520 )  | (0.5 )  |
| Income tax benefit (expenses)   | 41,156                                 | 8.1      | (59,998 )   | (5.0 )  | 4,851     | 0.5     |
| Equity in (loss) of investee, net of tax                              | (291 )                                 | (0.1 )   | —           | —       | —         | —       |
| Net income (loss)   | (71,904 )                              | (14.1 )  | 168,996     | 14.0    | 331       | 0.0     |
| Net loss attributable to non-controlling interests                    | —                                      | —        | —           | —       | (2 )      | (0.0 )  |
| Net income (loss) attributable to holders of ordinary shares          | \$(71,904 )                            | (14.1 )% | \$168,996   | 14.0 %  | \$333     | 0.0 %   |

## Year Ended December 31, 2011 Compared to Year Ended December 31, 2010

**Net revenues.** Our net revenues decreased from \$1,205.6 million in 2010 to \$985.3 million in 2011 primarily due to a decline in the average selling prices of our products, partially offset by an increase in the volume of our solar power product sales. In 2011, we shipped 1,294.8 MW of solar power products, representing a 9.5% increase from 1,182.8 MW in 2010.

Net revenues were \$623.7 million for our wafer sales segment and \$361.6 million for our modules sales segment in 2011, compared to \$682.5 million for our wafer sales segment and \$523.0 million for our module sales segment in 2010. The decreases in net revenue in both segments were primarily due to the decrease of average selling prices of our solar products as a result of the oversupply of solar power products and Europe's challenging financing environment resulting in weak demand in Europe for most of 2011. Revenues from wafer processing comprised 11.6% of our total wafer sales in 2011.

**Cost of revenues.** Our cost of revenues increased from \$857.6 million in 2010 to \$889.2 million in 2011 primarily due to an increase in the volume of our solar power product sales and an inventory write-down, partially offset by a decrease in polysilicon prices and our operational improvements.

Cost of revenues for our wafer sales segment increased from \$415.1 million in 2010 to \$563.6 million in 2011 primarily due to an increase in the volume of our wafer sales and an inventory write-down, partially offset by our cost reduction initiatives and the declining polysilicon prices. Cost of revenues for our module sales segment decreased from \$442.5 million in 2010 to \$325.6 million in 2011 primarily due to a significant decline in input costs, in particular, the polysilicon costs, and a decline in module processing costs, partially offset by an increase in the volume of our module sales.

**Gross profit (loss).** Gross profit for 2011 was \$96.1 million, compared to a gross profit of \$348.0 million in 2010. Gross margin for 2011 was 9.7%, compared to 28.9% for 2010. The decrease in gross margin was primarily due to the decrease in average selling price of our products as a result of the oversupply of solar power products and Europe's challenging financing environment resulting in weak demand in Europe for most of 2011, as well as our inventory write-downs in the third and fourth quarters of 2011. Such decrease was partially offset by an overall wafer processing cost reduction and a decrease in polysilicon cost.

Gross profit from our wafer sales segment in 2011 was \$60.0 million, compared to a gross profit of \$267.5 million in 2010. Gross margin from our wafer sales segment for 2011 was 9.6%, compared to 39.2% for 2010. Gross profit from our module sales segment decreased from \$80.5 million in 2010 to \$36.0 million in 2011. Gross margin from our module sales segment for 2011 was 10.0%, compared to 15.4% for 2010.

**Sales and marketing expenses.** Sales and marketing expenses increased from \$8.4 million in 2010 to \$17.2 million in 2011 primarily due to higher shipping and handling costs resulting from more shipments to Europe which were then held in storage in Europe pending sale, as well as higher commission costs to sales agents.

**General and administrative expenses.** General and administrative expenses decreased from \$43.3 million in 2010 to \$38.5 million in 2011 primarily due to the reversal of certain allowances for accounts receivable because we collected



payments from certain of our module customers, partially offset by increased salaries and benefits from increased headcount, as well as share-based compensation expenses for option grants to our staff. General and administrative expenses as a percentage of net revenues increased from 3.6% to 3.9% due to lower net revenues.

**Research and development expenses.** Research and development expenses increased from \$36.3 million in 2010 to \$47.1 million in 2011 primarily due to research initiatives aimed at reducing manufacturing costs, developing in-house production of raw materials, improving production and operational efficiencies and improving product conversion efficiencies. Research and development expenses as a percentage of net revenues increased from 3.0% to 4.8%.

**Other operating (expenses) income.** We had an other operating income of \$18.3 million for 2011, compared to an other operating expenses of \$14.1 million in 2010. Other operating income in 2011 consisted primarily of a gain of \$13.5 million arising from the forfeiture of a prepaid deposit due to the breach of a solar wafer contract by one of our customers.

**Interest income and expenses.** Our interest income increased from \$1.8 million in 2010 to \$7.9 million in 2011, primarily due to more cash in interest-bearing bank deposits and higher interest rates earned on bank deposits. Our interest expense increased from \$23.2 million in 2010 to \$37.2 million in 2011, primarily due to increased amount of bank debt and increased lending rates.

**Foreign exchange gain or loss, net.** Our foreign exchange gain for 2011 was \$6.6 million, compared to a foreign exchange loss of \$1.8 million in 2010. The change was primarily due to appreciation of euro against U.S. dollar.

**Other-than-temporary impairment loss on available-for-sale investment.** In 2011, we had an other-than-temporary impairment loss on available-for-sale investment of \$6.2 million, as a result of the write-off of our equity interests in a polysilicon manufacturer whose shares were traded on the TSX.

**Income tax expense (benefit).** Our income tax benefit for 2011 was \$4.9 million, compared to an income tax expense of \$60.0 million in 2010. Our effective tax rates in 2010 and 2011 were 26.2% and negative 107.3%, respectively. Please see footnote 8 to our audited consolidated financial statements included elsewhere in this annual report.

**Net income (loss) attributable to holders of ordinary shares.** As a result of the foregoing, we had a net income attributable to holders of ordinary shares of \$0.3 million in 2011, compared to a net income attributable to holders of ordinary shares of \$169.0 million in 2010.

Year Ended December 31, 2010 Compared to Year Ended December 31, 2009

**Net revenues.** Our net revenues increased significantly from \$510.4 million in 2009 to \$1,205.6 million in 2010 primarily due to an increase in the volume of our solar power product sales, partially offset by a decline in the average selling prices of our products. In 2010, we shipped 1,182.8 MW of solar power products, representing an increase of 124.6% from 526.6 MW in 2009.

Net revenues were \$682.5 million for our wafer sales segment and \$523.0 million for our module sales segment in 2010, compared to \$452.9 million for our wafer sales segment and \$57.5 million for our module sales segment in 2009. The increases in net revenue in both segments were due to the expansion of our business to satisfy greater demand for our solar power products. However, average selling prices of our solar wafers sold to third parties and solar modules decreased in 2010 as compared to 2009, primarily due to general industry trends and decreases in polysilicon prices. Revenues from wafer processing comprised 5.4% of our total wafer sales and revenues from module processing comprised 7.9% of our total module and cell sales in 2010.

**Cost of revenues.** Our cost of revenues increased from \$553.6 million in 2009 to \$857.6 million in 2010 primarily due to our strong solar wafer and module products sales and an increase in polysilicon prices, partially offset by our operational improvements.

Cost of revenues for our wafer sales segment decreased from \$506.9 million in 2009 to \$415.1 million in 2010 primarily due to a rapid decrease in raw material costs in 2010, partially offset by an increase in the shipment volume. Cost of revenues for our module sales segment increased significantly from \$46.7 million in 2009 to \$442.5 million in 2010 primarily due to increases in expenditures in raw materials as a result of the rapid expansion of our solar modules business.

**Gross profit (loss).** Gross profit for 2010 was \$348.0 million, compared to gross loss of \$43.2 million for 2009. Gross margin for 2010 was 28.9%, compared to negative 8.5% for 2009. The increase in gross margin was primarily due to our operational improvements and an increase in polysilicon cost.

Gross profit from our wafer sales segment in 2010 was \$267.5 million, compared to a gross loss of \$54.0 million in 2009. Gross margin from our wafer sales segment for 2010 was 39.2%, compared to negative 11.9% for 2009. Gross profit from our module sales segment increased significantly from \$10.8 million in 2009 to \$80.5 million in 2010 primarily due to the rapid expansion of our solar modules business. Gross margin from our module sales segment for 2010 was 15.4%, compared to 18.8% for 2009.

**Sales and marketing expenses.** Sales and marketing expenses increased from \$5.4 million in 2009 to \$8.4 million in 2010 primarily due to an increase in warranty provision for solar modules as a result of significant increases in the sale of solar modules. Other selling expenses increased due to costs associated with growing our solar power products business, such as for increased marketing efforts and overseas expansion. Selling expenses as a percentage of net revenues decreased from 1.1% to 0.7%.

**General and administrative expenses.** General and administrative expenses increased from \$29.1 million in 2009 to \$43.3 million in 2010 primarily due to increased salaries and benefits from increased headcount and compliance related consulting and professional fees, as well as share-based compensation expenses for option grants to our personnel. General and administrative expenses as a percentage of net revenues decreased from 5.7% to 3.6%.

**Research and development expenses.** Research and development expenses increased from \$14.5 million in 2009 to \$36.3 million in 2010 primarily due to increased headcount for and expenditures in research and development projects to reduce processing cost, enhance the quality of our products and improve the utilization rate of our production equipment. Research and development expenses as a percentage of net revenues increased from 2.8% to 3.0%.

**Other operating (expenses) income.** We had other operating expenses of \$14.1 million for 2010, compared to an other operating income of \$1.6 million in 2009. Other operating expenses primarily comprised \$14.7 million in net losses from the sale of low grade polysilicon to third-parties, offset in part by \$1.3 million in net income from the sale of auxiliary materials to third-parties. Total sales price for these transactions was \$14.2 million and the related cost for these transactions was \$27.6 million. In addition, \$2.0 million in certain other miscellaneous operating expenses, offset in part by \$1.3 million in other operating income, were recorded to this line item.

Prior to the sale of low grade polysilicon to third-parties, it was included in our raw materials inventory balance and was utilized in our production process. In the second half of 2010, we changed our wafer production process in a manner that eliminated the usage of this grade of polysilicon. As such, we decided to sell the remaining inventory balance. We do not have a standard practice of selling raw materials to third parties in bulk.

**Interest income and expenses.** Our interest income increased from \$1.7 million in 2009 to \$1.8 million in 2010, primarily due to more cash in interest-bearing bank deposits. Interest expense increased from \$17.1 million in 2009 to \$23.7 million in 2010, primarily due to increased lending rates.

**Foreign exchange loss, net.** Our foreign exchange loss for 2010 was \$1.8 million, compared to a foreign exchange loss of \$1.4 million in 2009. The change was due to appreciation of the RMB in 2010 against other currencies used in our transactions during 2010, such as the U.S. dollar and euro, and volatility in the value of the euro.

**Other-than-temporary impairment loss on available-for-sale investment.** In 2010 and 2009, we had an other-than-temporary impairment loss on available-for-sale investment of nil and \$13.4 million, respectively, as a result of the decline in the fair value of our available-for-sale equity interest in our investee.

***Income tax expense (benefit).*** Our income tax expense for 2010 was \$60.0 million, compared to an income tax benefit of \$41.2 million in 2009, primarily due to increased profitability. It also includes a write-back of deferred tax assets of \$5.5 million in the fourth quarter of 2010 to adjust deferred tax credits accumulated in 2009. Our effective tax rates in 2009 and 2010 were 36.4% and 26.2%, respectively. Please see footnote 8 to our audited consolidated financial statements included elsewhere in this annual report.

***Net income (loss) attributable to holders of ordinary shares.*** As a result of the foregoing, we had a net income attributable to holders of ordinary shares of \$169.0 million in 2010, compared to a net loss of \$71.9 million in 2009.

B. Liquidity and Capital Resources

## Liquidity and Capital Resources

We have financed our operations primarily through short-term borrowings, long-term borrowings, proceeds from our equity offerings on the NYSE, the proceeds from our convertible bond offerings, and cash generated from operations. As of December 31, 2009, 2010 and 2011, we had \$106.8 million, \$290.7 million and \$379.0 million, respectively, in cash and cash equivalents, and \$547.9 million, \$522.3 million and \$715.6 million, respectively, in outstanding borrowings. In 2009, 2010 and 2011, we had bank credit facilities in the principal amount of \$649.3 million, \$826.6 million and \$1,407.6 million, respectively, of which \$527.1 million, \$580.9 million and \$714.9 million, respectively, had been drawn down. As of December 31, 2009, 2010 and 2011, \$122.2 million, \$245.7 million and \$692.6 million were available under these facilities. From January to April in 2012, we obtained additional bank credit facilities in the principal amount of \$71.5 million, none of which had been drawn down as of the date of this annual report. The bank facilities are renewable annually.

## Short-term borrowings

As of December 31, 2009, 2010 and 2011, we had outstanding short-term borrowings of \$358.6 million, \$400.8 million and \$570.9 million, respectively. These short-term borrowings will expire at various times throughout 2012. Our short-term borrowings outstanding as of December 31, 2009, 2010 and 2011 were denominated in RMB, USD and euro and bore a weighted average interest rate of 4.89%, 4.72% and 5.38%, respectively. From January to April in 2012, we obtained extensions of our short-term borrowings in the principal amount of \$136.6 million. Some of our short-term borrowings are secured by our inventories, facilities and equipment. We have other short-term borrowings guaranteed by Mr. Li, our chief executive officer and director, and his wife. Furthermore, according to certain loan agreements, our operating subsidiary Zhejiang Yuhui is not permitted to pay dividends for any given year in which it has no after-tax profit, or if it has any principal or interest due in that year which has not been paid. Although we have increased our level of short-term bank borrowings to meet our working capital requirements, capital expenditures or other corporate uses, we have not experienced any financial difficulty with respect to repayment of our borrowings.

As of December 31, 2011, \$250.3 million of our outstanding short-term borrowings was trade financing and could be rolled over. We have historically been able to obtain extensions of our short-term credit facilities before they mature. The majority of our short-term borrowings are provided by some of the largest banks in China which remain financially sound. Historically, most of these Chinese banks, when requested, have extended the terms of their credit facilities before the maturity dates of the outstanding borrowings. We believe our ability to extend our short-term credit facilities prior to their maturity remains strong in the current credit environment, and do not believe such conditions will impact our ability to obtain extensions or alternative financing from our Chinese bank lenders. In the event we are unable to obtain extensions of these facilities or alternative funding in the future, we plan to repay these short-term bank borrowings with our cash on hand, short term investments, cash generated by our operating activities as well as other equity or debt issuances.

## Long-term borrowings

As of December 31, 2009, 2010 and 2011, we had outstanding long-term borrowings with maturity dates more than one year in the future of \$189.3 million, \$121.5 million and \$144.7 million, respectively.

We obtained two long-term loans from Industrial and Commercial Bank of China of RMB50 million in March 2009 which was repaid in February 2012 and RMB50 million in March 2009 which was repaid in May 2011. We obtained another four long-term loans from Industrial and Commercial Bank of China of RMB46 million in March 2009, RMB100 million in September 2009, RMB14 million in April 2010 and RMB50 million (\$7.9 million) in May 2011, to be repaid by February 2012, September 2012, March 2012 and May 2013, respectively.

We obtained three long-term loans from Agricultural Bank of China of RMB30 million in February 2009, RMB30 million in March 2009 and RMB27 million in March 2009. In February 2011, we renegotiated these loans into a one-year loan of RMB47 million and a two-year loan of RMB40 million. We obtained another long-term loan from Agricultural Bank of China of RMB13 million in December 2010, to be repaid in November 2012.

We obtained four long-term loans from China Construction Bank of RMB450 million in January 2009, RMB150 million in June 2009, RMB190 million in June 2009 and RMB10 million in June 2009, respectively, under a RMB800 million loan agreement entered into in January with a term of five years. We repaid RMB100 million of these loans in December 2010, RMB180 million in December 2011 and the remainder will be repaid based on the agreed repayment schedule, with the final amount to be repaid in December 2013. These loans are to be used to finance the construction of our polysilicon production facility in Meishan, Sichuan Province. In October 2009, we obtained from China Construction Bank another long-term loan of RMB60 million which was repaid in October 2011. In April 2010, we obtained from China Construction Bank another four long-term loans of RMB30 million, to be repaid in April 2012, and RMB150 million (\$23.8 million) in October 2011, to be repaid in October 2013, RMB10 million (\$1.6 million) in November 2011, to be repaid in October 2013, and RMB50 million (\$7.9 million) in November 2011, to be repaid in November 2013.

We obtained a long-term loan from Standard Chartered Bank of RMB210 million in November 2009 which was repaid in November 2011. This loan was used to purchase polysilicon supplies. In August 2011, we obtained another long-term loan of \$35 million from Standard Chartered Bank, to be repaid in July 2013. The purpose of the loan is to purchase polysilicon supplies.

We obtained a long-term loan from Bank of Jiangsu of RMB125 million in June 2010, of which RMB50 million was due and repaid in December 2011 and the remaining RMB75 million (\$11.9 million) is due in December 2012. We obtained a long-term loan from Bank of China of RMB170 million (\$27.0 million) in April 2011, to be repaid in December 2015.

Interest rates are variable for certain portions of the long-term loans, and are updated every three months, once a year or according to a predetermined schedule based on the applicable benchmark interest rate set by the People's Bank of China. Long-term loans in the amount of \$144.7 million will be due for repayment upon maturity from 2013 to 2015. The weighted average interest rate for our long-term loans was approximately 6.54% in 2011. Some of the above long-term loans are unsecured. Many of the long-term loans, however, provide for one or more of various forms of security, including mortgages over our accounts receivable, inventories, land use rights, property, plant and equipment, and guarantees provided by Mr. Li, our director and chief executive officer, and his family.

Some of our long-term loan agreements contain financial covenants, including maintenance of certain minimum levels of net assets and debt to asset ratio, and restrictive covenants that limit our ability to, among other things, (1) provide guarantees, pledges or mortgages on our operating assets in any manner that will increase risks to the lenders, (2) repay shareholders loans or loans from our related parties, and (3) distribute dividends to shareholders. Our most restrictive covenants require us to maintain minimum levels of net assets and debt to asset ratios of RMB1.3 billion and 75%. In addition, under the terms of our RMB800 million loan agreement with a term of five years with China Construction Bank, we have undertaken to the bank that the gross profit margin of our subsidiary Sichuan ReneSola will be at or above the lowest gross profit margin of companies in the global polysilicon industry as stated in a report to be provided by one of the big-four accounting firms. We believe that because Sichuan ReneSola's operations were still in trial production in 2009, we were not subject to such undertaking in 2010 despite the negative gross profit



margin Sichuan ReneSola recorded in 2009. We have obtained a letter from the bank confirming this understanding. In 2011, the gross profit margin Sichuan ReneSola recorded was 16.2%, higher than the lowest gross profit margin of companies in the global polysilicon industry. Sichuan ReneSola has also undertaken not to sell its products on credit. See “Item 3. Key Information—D. Risk Factors—Risks Related To Our Business—Restrictive covenants and undertakings under our bank loans may limit the manner in which we operate and an event of default under the loan may adversely affect our operations.”

## Issuance of securities

We issued RMB928,700,000 U.S. dollar settled 1% convertible bonds due 2012 in March 2007. The bonds were convertible into our shares at an initial conversion price of £5.88 per share, subject to certain adjustments. The maturity of the convertible bonds was on March 26, 2012 at 105.9% of their principal amount plus accrued interest. We had the option to redeem the bonds at any time on or after March 26, 2009, at a premium giving holders a yield of 2.215% per annum, compounded semi-annually, plus accrued interest. During 2009, we repurchased RMB713.9 million aggregate principal amount of our convertible bonds using a combination of \$84.1 million in cash and the issuance of 4,000,000 shares. We redeemed the remaining balance of \$32.5 million in the first quarter of 2010.

In October 2009, we closed a follow-on public offering of 15.5 million ADSs for a net proceeds of approximately \$68.1 million after deducting discounts and commissions but before offering expenses.

In March 2011, we issued \$175 million convertible senior notes due 2018, with an additional sale of \$25 million aggregate principal amount in April 2011 pursuant to the initial purchasers' over-allotment option. The net proceeds was approximately \$192.8 million and we used part of the net proceeds of this offering to pay the cost of the capped call transaction that we entered into with an affiliate of one of the initial purchasers, whom we refer to as the hedge counterparty, and the remainder for expansion of polysilicon production capacity. The convertible senior notes will be convertible to our ADSs, each representing two shares, no par value, at a conversion rate of 94.8114 ADSs per \$1,000 principal amount of the notes (equivalent to an initial conversion price of approximately \$10.55 per ADS), subject to adjustment under certain circumstances. The convertible senior notes will mature on March 15, 2018. We may not redeem the convertible senior notes prior to the maturity date. The convertible senior note holders will have the right to require us to repurchase for cash all or any portion of their convertible senior notes on March 15, 2016 at a repurchase price equal to 100% of the principal amount of the convertible senior notes to be repurchased, plus accrued and unpaid interest to, but excluding, the repurchase date. In addition, if we undergo a fundamental change, as defined in the offering memorandum, convertible senior note holders may, subject to certain conditions, require us to repurchase all or any portion of their convertible senior notes for cash at a price equal to 100% of the principal amount of the notes to be repurchased, plus accrued and unpaid interest, if any, to, but excluding, the fundamental change repurchase date. The convertible senior notes constitute our senior unsecured obligations, rank senior in right of payment to our existing and future indebtedness that is expressly subordinated in right of payment to the notes, rank equal in right of payment to our existing and future unsecured indebtedness that is not so subordinated, and are effectively junior to any of our secured indebtedness to the extent of the value of the assets securing such indebtedness and structurally junior to all existing and future indebtedness and other obligations (including trade payables and lease obligations) incurred by our subsidiaries. The convertible senior notes and our ADSs issuable upon conversion of the notes, and the shares represented thereby, were issued to qualified institutional buyers pursuant to Rule 144A under the Securities Act. We do not intend to file a shelf registration statement covering the resale of the convertible senior notes or ADSs issuable upon conversion of the convertible senior notes or the shares represented thereby. During 2011, we repurchased \$88.4 million aggregate principal amount of our convertible senior notes using \$57.1 million in cash. As of December 31, 2011, the carrying value of our convertible senior notes was \$111.6 million.

In connection with the pricing of the notes, we entered into a capped call transaction and an additional capped call transaction, which covers, subject to customary anti-dilution adjustments, the number of ADSs underlying the option notes, with the hedge counterparty. The capped call transaction is expected generally to reduce potential dilution to the shares and ADSs upon conversion of the convertible senior notes. The cap price under the additional capped call transaction was subject to customary anti-dilution adjustments. The capped call transaction is a separate transaction entered into by us with the hedge counterparty and is not part of the terms of the notes and will not change the holders' rights under the notes. Holders of the convertible senior notes will not have any rights with respect to the capped call transaction.

## Cash Flows and Working Capital

We have significant working capital commitments because many of our suppliers of silicon raw materials require us to make prepayments in advance of shipment. Due to the volatility of the price of polysilicon, working capital and access to financing to allow for the purchase of silicon raw materials are critical to growing our business. Our short-term borrowings have increased primarily as a result of our need to fund our expanded working capital, including advances to suppliers and increases in our inventory. Our advances to suppliers increased from \$20.2 million as of December 31, 2009 to \$40.1 million as of December 31, 2010 due to the growth of our business, and decreased to \$33.8 million as of December 31, 2011 due to changes in the market for raw materials and changes in contract terms in the industry. In 2012, we plan to manage optimal levels of inventory in order to preserve cash, manage our debt levels and meet our working capital requirements. Under the current market conditions, we do not require collateral or other security against our advances to suppliers. As the result, our claims for such prepayments are unsecured, which exposes us to the suppliers' credit risk. We perform ongoing credit evaluations of the financial condition of its suppliers.

Our accounts receivable decreased from \$108.0 million as of December 31, 2009 to \$81.5 million as of December 31, 2010 and increased to \$129.6 million as of December 31, 2011. The increase in our accounts receivable as of December 31, 2011 compared to December 31, 2010 was primarily due to longer credit terms granted to customers under the current market conditions. The decrease in our accounts receivable as of December 31, 2010 compared to December 31, 2009 was primarily due to the recovery in demand for solar power products, which decreased the need to provide longer credit terms to our customers and increased the number of sales transactions for which we received cash before delivery of products, which are recorded as advances from customers. For customers to whom credit terms are extended, we assess a number of factors to determine whether collection from them is reasonably assured, including past transaction history with them and their credit-worthiness.

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

|  | Year Ended December 31, |           |             |
|--|-------------------------|-----------|-------------|
|  | 2009                    | 2010      | 2011        |
|  | (in thousands)          |           |             |
| Net cash (used in) provided by operating activities    | \$(53,677 )             | \$403,170 | \$(22,058 ) |
| Net cash used in investing activities                  | (257,669)               | (151,271) | (177,467)   |
| Net cash provided by (used in) financing activities    | 305,753                 | (72,813 ) | 273,914     |
| Net increase (decrease) in cash and cash equivalents   | (5,526 )                | 183,894   | 88,337      |
| Cash and cash equivalents at the beginning of the year | 112,334                 | 106,808   | 290,702     |
| Cash and cash equivalents at the end of the year       | \$106,808               | \$290,702 | \$379,039   |

Operating activities

Net cash used in operating activities in 2011 was \$22.1 million, primarily due to (i) an increase in accounts receivables of \$79.5 million due to longer credit terms being granted to customers in light of market condition in 2011, which is characterized by the oversupply of solar power products, (ii) an increase in inventories of \$24.3 million as our business and capacity expanded, and (iii) a decrease in advances from customers of \$27.0 million as we delivered finished goods to our customers and ceased to request prepayments from our customers in 2011 in order to promote sales, partially offset by an inventory write-down of \$49.0 million and higher depreciation in 2011 as our silicon wafer manufacturing capacity expanded.

Net cash provided by operating activities in 2010 was \$403.2 million, primarily due to (i) a net income of \$169.0 million in 2010, (ii) a decrease in accounts receivables of \$26.9 million due to more advanced cash payments and shorter credit terms to customers as the demand for solar power products recovered, (iii) an decrease in deferred tax assets of \$44.3 million, (iv) an increase in accounts payable of \$121.5 million due to longer payment terms granted by our suppliers and more purchases of raw materials as our sales grew and (v) an increase in other current liabilities of \$18.9 million due to our purchases of equipment, offset by an increase in advances to suppliers of \$32.4 million due to an increase in our purchase of silicon raw materials as our business grew and an increase in inventories of \$28.4 million as our business and capacity expanded.

Net cash used in operating activities in 2009 was \$53.7 million, primarily due to (i) an increase in accounts receivables of \$62.7 million due to the significant expansion of our solar wafer sales and longer credit terms to customers in order to promote sales, (ii) an increase in deferred tax assets of \$43.9 million, (iii) an increase in VAT recoverable of \$33.4 million due to the extra VAT credits accumulated as a result of higher raw materials and fixed assets prices applied against our revenues in 2009, and (iv) a decrease in advances from customers of \$23.2 million due to the decline in the average selling prices of our products, offset by in an increase in accounts payable due to longer payment terms granted by our suppliers and a decrease in advances to suppliers due to a decrease in the price of polysilicon.

#### Investing activities

Net cash used in investing activities in 2011 was \$177.5 million, primarily due to property, plant and equipment expenditures comprising mainly of the upgrade and expansion of our wafer manufacturing facilities, development of phase II of our polysilicon production facility in Meishan, Sichuan Province, our new diamond steel wire production facility in Zhejiang Province and our 20MW power plant project in Qinghai Province.

Net cash used in investing activities in 2010 was \$151.3 million, primarily due to property, plant and equipment expenditures comprising mainly of purchases of wafer production equipment, polysilicon production equipment, cell and module production equipment, and construction of related facilities.

Net cash used in investing activities in 2009 was \$257.7 million, primarily due to property, plant and equipment expenditures of \$225.8 million comprising mainly purchases of wafer production equipment, polysilicon production equipment, cell and module production equipment, and construction of related facilities, as well as the acquisition of JC Solar for \$16.8 million.

#### Financing activities

Net cash provided by financing activities was \$273.9 million in 2011, primarily due to (i) proceeds from bank borrowings of \$898.8 million, (ii) proceeds from the issuance of convertible senior notes due 2018 of \$200.0 million, partially offset by the repayment of bank borrowings of \$735.2 million.

Net cash used in financing activities was \$72.8 million in 2010, primarily due to (i) net cash outflow of \$43.2 million from repayment of bank borrowings and new bank borrowings and (ii) the repurchase of our convertible bonds of \$32.7 million.

Net cash provided by financing activities was \$305.8 million in 2009, primarily due to (i) net proceeds from bank borrowing amounting \$321.5 million, and (ii) net proceeds of \$68.4 million from our follow-on offering completed in October 2009, partially offset by the repurchase of our convertible bonds amounting to \$84.1 million.

Additionally, we have \$286 million and \$343.2 million of cash and cash equivalent held by our PRC subsidiaries as of December 31, 2010 and 2011, respectively. If we need to repatriate such amounts to fund our operations or meet our debt obligations, a significant tax liability may result.

As of December 31, 2010 and 2011, our current liabilities exceeded our current assets by \$80.2 million and \$156.5 million, respectively. In addition, we experienced negative cash flows from operations during the year ended December 31, 2011.

We took, or are taking, the following measures to overcome liquidity difficulties: (i) closely monitoring and managing our working capital, which may involve seeking extended payment terms from our suppliers, strengthening the accounts receivable collection, implementing more stringent inventory management procedures and will consider liquidation of accounts receivable by discounting banknotes with the relevant financial institutions, as needed, to ensure the sufficient cash flows from operations are obtained to meet our liquidity requirements; and (ii) obtaining additional debt facilities in order to fund working capital needs, as necessary. Subsequent to December 31, 2011, we have obtained new financings totaling \$208.1 million, which are comprised of \$71.5 million in new credit facilities and \$136.6 million in short-term borrowings, for our working capital needs. Such facilities and short-term borrowings have credit terms of 12 months.

We believe that our current cash and cash equivalents, anticipated cash flows from our operations and bank borrowings will be sufficient to meet our anticipated cash needs in 2012 based on current capital expenditure and operation plans. We may, however, require additional cash due to changing business conditions or other future developments, including any investments or acquisitions we have decided or 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 lending institutions.

#### Restrictions on cash dividends

For a discussion on the ability of our subsidiaries to transfer funds to our company and the impact this has on our ability to meet our cash obligations, see “Item 3. Key Information—D. Risk Factors—Risks Related To Doing Business In China—Our ability to make distributions and other payments to our shareholders depends to a significant extent upon the distribution of earnings and other payment made by Zhejiang Yuhui,” “Item 3. Key Information—D. Risk Factors—Risks Related To Doing Business In China—Under the Enterprise Income Tax Law, dividends payable by us and gains on the disposition of our shares or ADSs could be subject to PRC taxation,” and “Item 4. Information on the Company—B. Business Overview—Regulation—Regulation of Foreign Currency Exchange and Dividend Distribution.”

#### Capital Expenditures

We had capital expenditures of \$225.8 million, \$144.5 million and \$152.7 million in 2009, 2010 and 2011, respectively. We had outstanding advances for purchases of property, plant and equipment of \$20.8 million, \$26.9 million and \$25.9 million as of December 31, 2009, 2010 and 2011, respectively. As of December 31, 2009, 2010 and 2011, commitments outstanding for purchases of property, plant and equipment were \$77.5 million, \$51.2 million and \$139.0 million, respectively. Our capital expenditures were used primarily to build our polysilicon manufacturing plant in Meishan, Sichuan Province, wafer and ingot manufacturing facilities in Jiashan, Zhejiang Province, and cell and module manufacturing plant in Yixing, Jiangsu Province, to build our 20MW power plant project in Qinghai Province, and to purchase production equipment and to acquire land-use rights for each of the plants.



As of December 31, 2011, we had an annual wafer manufacturing capacity of approximately 2,000 MW, consisting of monocrystalline wafer manufacturing capacity of approximately 400 MW and multicrystalline wafer manufacturing capacity of approximately 1,600 MW. We plan to maintain this annual wafer manufacturing capacity in 2012. Our manufacturing capacities for 2012 are calculated using the adjusted methodology, effective January 1, 2011, which is based on an efficiency rate of 18.2% for monocrystalline wafers and 16.8% for multicrystalline wafers.

#### Recent Accounting Pronouncements

In April 2011, the Financial Accounting Standards Board, or FASB issued Accounting Standards Update ("ASU") 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS. This ASU amends current fair value measurement and disclosure guidance to include increased transparency around valuation input and investment categorization. ASU 2011-04 is effective for fiscal years and interim periods beginning after December 15, 2011, with early adoption prohibited. We do not believe that the adoption of ASU 2011-04 in 2012 will have an impact on its consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*. ASU 2011-05 allows an entity to present components of net income and other comprehensive income in one continuous statement, referred to as the statement of comprehensive income, or in two separate, but consecutive statements. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. While the new guidance changes the presentation of comprehensive income, there are no changes to the components that are recognized in net income or other comprehensive income under current accounting guidance. This guidance, which is to be applied retrospectively, is effective for fiscal years and interim periods within those years, beginning after December 15, 2011. In December 2011, the FASB issued ASU 2011-12, *Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*. ASU 2011-12 deferred the effective date of the specific requirement in ASU 2011-05 to present items that are reclassified out of accumulated other comprehensive income to net income alongside their respective components of net income and other comprehensive income. We are evaluating the effect the adoption of these ASUs will have on its consolidated financial statements.

In September 2011, the FASB issued ASU 2011-08, *Intangibles - Goodwill and Other (Topic 350): Testing Goodwill for Impairment*. ASU 2011-08 permits an entity to make a qualitative assessment of whether it is more-likely-than-not that a reporting unit's fair value is less than its carrying value to determine whether it is necessary to perform the two-step goodwill impairment test. If it is determined through the qualitative assessment that a reporting unit's fair value is more-likely-than-not greater than its carrying value, the two-step impairment tests are not required. The qualitative assessment is optional, allowing entities to go directly to the two-step impairment test. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed in fiscal years beginning after December 15, 2011, with early adoption permitted. We do not believe that the adoption of ASU 2011-08 will have an impact on its consolidated financial statements.

In December 2011, the FASB issued ASU 2011-11, *Balance Sheet (Topic 210), Disclosures about Offsetting Assets and Liabilities*, which requires companies to disclose information about financial instruments that have been offset and related arrangements to enable users of their financial statements to understand the effect of those arrangements on their financial position. Companies will be required to provide both net (offset amounts) and gross information in the notes to the financial statements for relevant assets and liabilities that are offset. ASU 2011-11 is effective for fiscal years, and interim periods within those years, beginning on or after January 1, 2013. We will evaluate the effect of the adoption of ASU 2011-11 on its consolidated financial statements in 2013.

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

Research and Development

We focus our research and development efforts on improving our manufacturing efficiency and the quality of our products. As of December 31, 2011, our research and development team consisted of 166 experienced researchers and

engineers. In addition, some of our manufacturing employees regularly participate in our research and development programs. A part of our research and development is conducted at our solar power technology development center, which is outfitted with advanced equipment for the research of solar power.

We have developed a variety of proprietary methods for producing ingots and wafers, including a special chemical doping formula for wafers to produce high-efficiency, low-degradation solar cells, a new casting process for multicrystalline solar wafers to increase solar cell conversion efficiency, and a customized monocrystalline hot-zone using simulation technology to reduce oxygen content and power consumption for high efficiency and low degradation. We have also developed our own in-house diamond steel wires, which can improve solar wafer manufacturing processes through the use of resin-plated diamond steel wires. We are also in the process of developing our own in-house carbon composite manufacturing capabilities. Other notable improvements include our increase in the utilization of recycled slurry and our use of unique bi-directional cutting technology to reduce steel wire consumption. These and other innovations enable us to increase the yield of our ingots, reduce our electricity costs and enhance the utilization rate of our furnaces and consumables, such as graphite, carbon fiber, steel wire and slurry.

In January 2011, we announced the development of the Virtus Wafer, a new multicrystalline wafer that improves solar cell efficiency. The Virtus Wafer, which has been endorsed by several leading global solar cell manufacturers, achieves an average cell conversion efficiency rate of 17.5%, more than 1% higher than the industry-standard cell conversion efficiency rate for cells using multicrystalline wafers. We started the production of the Virtus Wafer in the first half of 2011 and substantially converted all our multicrystalline wafer capacity to manufacturing Virtus Wafers. We plan on extending our capabilities in producing the Virtus wafers into Virtus modules.

We plan to continue to devote substantial resources to research and development in order to further improve our manufacturing processes, reduce manufacturing costs and increase product performance. We plan to focus our research and development in the following areas:

*Solar wafer manufacturing.* We will continue to reduce the cost of manufacturing solar wafers by, among other improvements, speeding up the ingot-pulling speed, optimizing our manufacturing equipment and process routine, upgrading from manual programs to semi-automatic or automatic programs, increasing the purity of the ingots we produce, slicing thinner wafers, reducing wafer breakage rates, and enhancing the processes to reduce quality control cost.

*Polysilicon production.* We are seeking to continue to fine-tune the closed-loop modified Siemens process system at our phase I Meishan polysilicon manufacturing facility to reduce production costs. We are attempting to further reduce production costs by shortening the overall processing time, revising the TCS production process, and improving the recycling conversion ratio for converting by-products into TCS. In addition, we will seek to improve our phase II Meishan polysilicon facility once it is operational.

*Solar cell manufacturing.* We will continue to develop technologies to manufacture high-conversion efficiency solar cells with improved performance. As of December 31, 2011, we were able to achieve conversion efficiency rates of 18.2% for monocrystalline cells and 16.8% for multicrystalline cells manufactured using our solar wafers.

*Solar module manufacturing.* We will continue to improve the process of module manufacturing by shortening the lamination time to reduce time and power consumption. We will also improve the structure of the module frame to reduce the adhesive sealant on the front side of the module and reduce the time for cleaning the module. We will consider using tempered glass with anti-reflecting film on the module to increase the module efficiency.

We have spent considerable resources on improving our equipment by collaborating with a domestic equipment maker in China for the first time to develop a customized multicrystalline furnace.

In each of the three years ended December 31, 2009, 2010 and 2011, our research and development expenses were approximately \$14.5 million, \$36.3 million and \$47.1 million, respectively.

## Intellectual Property

As of December 31, 2011, we had 72 patents and 131 pending patent applications in China. These patents and patent applications relate to the technologies utilized in our manufacturing processes. We intend to continue to assess appropriate opportunities for patent protection of critical aspects of our technologies. Our patents and our pending patent applications relate to improvements of the recycling, sorting and purification of silicon raw materials, ingot casting and wafer slicing processes.

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 take security measures to protect these elements. All of our research and development personnel have entered into confidentiality agreements with us. These agreements address intellectual property protection issues and require our employees to assign to us all of the inventions, designs and technologies that they develop when utilizing our resources or when performing their employment-related duties.

We filed trademark registration applications for “ReneSola” and relevant designs with the PRC Trademark Office and U.S. Patent and Trademark Office in 2006, and with the Korean Intellectual Property Office, the Japan Patent Office and EU Office of Harmonization for the Internal Market in 2007. The trademark of “ReneSola” has been separately registered with the EU office of Harmonization for the Internal Market on January 10, 2007 for a period of ten years, with the Japan Patent Office on June 22, 2007 for a period of 10 years, with the Korean Intellectual Property Office on October 8, 2008 and December 13, 2008 for two applications of different commodity category, respectively, both for a period of 10 years, with the U.S. Patent and Trademark Office on October 28, 2008 for a period of 10 years and with the PRC Trademark office on May 21, 2009 for a period of 10 years.

D. Trend Information

Other than as disclosed elsewhere in this annual report, we are not aware of any trends, uncertainties, demands, commitments or events for the period from January 1, 2011 to December 31, 2011 that are reasonably likely to have a material adverse effect on our net revenues, income, profitability, liquidity or capital resources, or that would cause reported financial information not necessarily to be indicative of future operating results or financial conditions.

E. Off-balance Sheet Arrangements

As of December 31, 2011, we did not have any off-balance sheet arrangements that had or were reasonably likely to have a current or future effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

F. Tabular Disclosure of Contractual Obligations

The following table sets forth our contractual obligations as of December 31, 2011:

| Contractual Obligations                                      | Payments Due by Period |                     |              |           |
|--|------------------------|---------------------|--------------|-----------|
|  | Total                  | Less than<br>1 year | 1-3<br>years | 3-5 years |
|  | (in thousands)         |                     |              |           |
| Long-term borrowings <sup>(1)</sup>                          | 262,600                | 104,670             | 130,236      | 27,964    |
| Purchase obligations for equipment and others <sup>(2)</sup> | 138,689                | 138,393             | 296          | —         |
| Purchase obligations for raw materials <sup>(3)</sup>        | 216,231                | 119,073             | 97,158       | —         |
| Convertible senior notes                                     | 126,388                | 4,604               | 9,209        | 112,575   |
| Total  | 743,908                | 366,740             | 236,899      | 140,269   |

- (1) Include estimated interest payable under contract terms.
- (2) Includes commitments to purchase production equipment and payment obligations under construction contracts.
- (3) Includes commitments to purchase silicon raw materials under certain long-term supply agreements with overseas suppliers in 2010.

For information relating to our long-term loans, including their maturity profiles and provisions that accelerate repayment obligations, see “—B. Liquidity and Capital Resources.”

In addition, we are required to purchase 4,200 metric tons of polysilicon with deliveries from 2012 to 2015 according to our long-term polysilicon purchasing agreements with certain polysilicon suppliers. The purchase price is subject to adjustment to reflect the prevailing market price at the transactions date. Based on the polysilicon market price as of December 31, 2011, the estimate purchase commitment is \$117.8 million.

G. Safe Harbor

We make “forward-looking statements” throughout this annual report, such as our expected manufacturing capacity in 2012 and our estimated average selling prices of our wafer products in 2012. 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, what “will” or “could” happen, and other similar statements), you must remember that our expectations may not be correct, even though we believe that they are reasonable. We do not guarantee that the transactions and events described in this annual report will happen as described or that they will happen at all. You should read this annual report completely and with the understanding that actual future results may be materially different from what we expect. The forward-looking statements made in this annual report relate only to events as of the date on which the statements are made. We undertake no obligation, beyond that required by law, to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made, even though our situation will change in the future.

Whether actual results will conform to 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 may occur which will affect our results. “Item 3. Key Information—D. Risk Factors” describes the principal contingencies and uncertainties to which we believe we are subject. You should not place undue reliance on these forward-looking statements.

## ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management

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

| <b>Directors and Executive Officers</b> | <b>Age</b> | <b>Position/Title</b>                |
|---|------------|--------------------------------------|
| Martin Bloom                            | 60         | Chairman, Independent Director       |
| Xianshou Li                             | 43         | Director and Chief Executive Officer |
| Yunca Wu                                | 44         | Director                             |
| Jing Wang                               | 64         | Independent Director                 |
| Tan Wee Seng                            | 56         | Independent Director                 |
| Charles Xiaoshu Bai                     | 50         | Chief Strategy Officer               |
| Henry Wang                              | 38         | Chief Financial Officer              |
| Xiaoliang Liang                         | 39         | President of the China region        |
| Stephen Huang                           | 45         | President of the Asia-Pacific region |



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|                     |    |                                  |
|---------------------|----|----------------------------------|
| Jijun Shi           | 50 | President of the European region |
| Kevin Chen          | 38 | President of the America region  |
| Zhidong Zheng       | 44 | Senior Vice President            |
| Tim Jia             | 47 | Vice President                   |
| Robin Liu           | 40 | Vice President                   |
| John Ding           | 40 | Vice President                   |
| Tony (Anthony) Hung | 36 | Vice President                   |
| Charles Ding        | 44 | Vice President                   |

## Directors

*Mr. Martin Bloom* has been our independent director since July 2006 and has served as our chairman of the board since September 2006. Mr. Bloom is currently the managing director of Emblem Ventures, an investment company established in 1956 where he has been a director since 1976. Mr. Bloom also served as a co-chairman of the China UK Venture Capital Joint Working Group from January 2005. Mr. Bloom was a former corporate strategist at Unilever and has over 35 years experience in strategic partnering, technology commercialization and business strategy. From 1996 to 1997, he worked for Coopers & Lybrand (now PwC) as project manager of the International Business and Industrial Secondments (IBIS) Scheme, a technology transfer scheme between the United Kingdom and Japan on behalf of the United Kingdom's Department of Trade & Industry. Mr. Bloom has a bachelor's degree with honors in economics from the University of Southampton and a master's degree in history of science jointly from Imperial College and University College, London. Mr. Bloom is a member of the audit committee, compensation committee and corporate governance and nominating committee of our board of directors.

*Mr. Xianshou Li* has been our director and chief executive officer since March 2005. Prior to founding our solar power business in 2005, Mr. Li founded Yuhuan Solar Energy Source Co., Ltd., a manufacturer of solar cell and module products for both commercial and residential applications and served as its chairman since its inception. Mr. Li also served as the general manager of Yuhuan County Solar Energy Co., Ltd., a manufacturer of mini solar panels and solar cell modules from 2002 to 2006. He worked as a government official in the Yuhuan County Culture Bureau from 1997 to 2000. Mr. Li received his bachelor's degree in industrial engineering management from Zhejiang Industrial University in 1991.

*Mr. Yuncai Wu* has been our director since March 2005 and served as our vice president from November 2007 to April 2010. He was our chief operating officer from May 2006 to October 2007. Mr. Wu has been a director of Zhejiang Yuhuan Solar Energy Source Co., Ltd. since its inception in 2004. Mr. Wu worked with the Yuhuan County Government from 1999 to 2005, first as a section chief in Industrial and Economic Committee from 1999 to 2001 and then as a section chief in the Bureau of Economic and Trade from 2001 to 2005. Mr. Wu received his bachelor's degree in computer science from Zhejiang University in 1988.

*Mr. Jing Wang* has been our independent director since June 2006. Mr. Wang is currently the chief economist at Minsheng Bank. He is also an adviser for the United Nations Development Program. He currently serves as an independent director at Tianjin Binhai Energy & Development Co., Ltd., an energy company listed on the Shenzhen Stock Exchange in China, and Tianjin Marine Shipping Co., Ltd., a shipping company listed on the Shanghai Stock Exchange in China. From 2001 to 2003, he was the general manager of Tianjin Investment Company, a company that invests in the energy sector. From 1999 to 2001, he was a deputy director of Securities and Futures Administrative Office of Tianjin. Mr. Wang received his bachelor's degree in finance from the Tianjin University of Finance & Economics in 1982 and his master's degree in international finance from the University of Paris in 1983. Mr. Wang is a member of the audit committee, compensation committee and corporate governance and nominating committee of our board of directors.

*Mr. Tan Wee Seng* has been our independent director since April 2009. Mr. Tan has over 30 years of financial, operation and business management experience and has also held various senior management positions in a number of multi-national corporations. Mr. Tan is an independent director of 7 Days Group Holdings Limited, a company listed on the NYSE. Mr. Tan is also a non-executive director of Sa Sa International Holdings Limited, Xtep International Holdings Limited and an independent non-executive officer of Biostime International Holdings Ltd, all listed on the Main Board of the Hong Kong Stock Exchange. From 2003 to 2008, Mr. Tan served in various executive roles, including as executive director, chief financial officer and company secretary for Li Ning Company Limited, a company listed on the Main Board of the Hong Kong Stock Exchange. From 1999 to 2002, Mr. Tan was the senior vice president of Reuters for the China, Mongolia and North Korea regions, and the chief representative of Reuters in China. Prior to that, he served as the managing director of a Reuters subsidiary, AFE Computer Services Limited in Hong Kong, as director of Infocast Pty Limited, a Reuters subsidiary in Australia, and as the regional finance manager of Reuters East Asia. Mr. Tan is a fellow member of the Chartered Institute of Management Accountants in the United Kingdom and a fellow member of the Hong Kong Institute of Directors. Mr. Tan is a member of the audit committee and corporate governance and nominating committee of our board of directors.

## Executive Officers

*Mr. Charles Xiaoshu Bai* has been our chief strategy officer since April 2010. He served as our chief financial officer from May 2006 to March 2010. Prior to joining us, Mr. Bai worked for over 16 years with investment banks and multinational companies. From 2003 to 2005, he worked as the chief financial officer of Fenet Software. From 2001 to 2002, he worked as a vice president of Tractebel Asia Co., Ltd., an energy company based in Thailand. From 1997 to 2001, Mr. Bai worked as a finance director of Ogden Energy Asia Pacific Co., Ltd., an energy company based in Hong Kong. At Tractebel and Ogden, Mr. Bai successfully completed a number of cross border mergers and acquisitions and project finance transactions. He was an associate director of Deutsche Bank in Hong Kong from 1995 to 1997 specializing in project and export finance. Mr. Bai received his bachelor's degree in economics from China Southwestern University of Finance and Economics in 1983 and his MBA degree from International Institute for Management Development in Switzerland in 1989.

*Mr. Henry Wang* has been our chief financial officer since July 2011. Mr. Wang first joined us in January 2010 and served as our vice president of finance from April 2010 to June 2011. He has over 19 years of experience in financial services with extensive experience in accounting and mergers and acquisitions, of which 16 years were served for the public trade US companies. Mr. Wang has rich experience over financial accounting, reporting and internal control. Prior to his appointment as our chief financial officer, Mr. Wang was responsible for and has continued to be responsible for corporate financial and accounting, internal control, cost control and cash flow management initiatives. Prior to joining us, Mr. Wang served as a vice president of finance for YRC Worldwide Inc's China ground transportation business unit from 2008 to 2010 and a financial controller for the China branch of Expeditors International Incorporation from 2004 to 2008. Mr. Wang also worked in various roles in the manufacturing industry for 11 years in both multinational and domestic companies. Mr. Wang holds CPA and CIA certifications and received his bachelor's degree in law from Shanghai Jiaotong University and MBA from The Open University of Hong Kong.

*Mr. Xiaoliang Liang* has been our president of the China region since March 2012. Mr. Liang has a diverse business development and engineering background with over seven years developing renewable energy and electric power. Prior to joining us, he was the director of project development at AES China, where he led its wind power project development business and worked on hydro and thermal power project developments in China, from 2010 to 2011. From 2006 to 2010, he served as a business director at Gamesa Energy, where he led a team in developing more than 2 GW of wind farms in northern and eastern China. Mr. Liang also worked as an engineer at China International Water and Electric Corporation from 2003 to 2006. He received his master's degree from North China University of Water Resources and Electric Power in 1998 and a bachelor's degree from Tsinghua University in 1995.

*Mr. Stephen Huang* has been our president of the Asia-Pacific region since January 2012. Mr. Huang served as our vice president of wafer sales from April 2010 to December 2011. Prior to joining us, he worked in Topco Scientific Co., Ltd. as a vice president of business group from 2001 to 2009 and various sales and managerial positions from 1994 to 2000. Mr. Huang has over 18 years of managerial and sales experience, including 15 years in the solar industry. Mr. Huang received his bachelor's degree in Agricultural Economics from Taiwan University in 1989.

*Mr. Jijun Shi* has been our president of the European region since January 2012. Mr. Shi has more than 25 years of managerial experience in Europe including over 5 years of experience in the solar industry. Prior to joining us, Mr. Shi worked as the China manager at PAIRAN elektronik GmbH from 2008 to 2009. From 1998 to 2008, he worked as the manager of China at Hasbach Prüfanlagentechnik GmbH. Mr. Shi received his bachelor's degree in German from Guangzhou Foreign Language Institute in 1983, his master's degree in German from Shanghai Tongji University in 1986 and another master's degree from Johann Wolfgang von Goethe University in 1998.

*Mr. Kevin Chen* has been our president of the America region since February 2012. From 2010 to 2012, he was the director of project development in Trina Solar, where he was leading the solar power plant development business in America. From 2005 to 2010, he was developing the solar PV program for Southern California Edison, where he was a project manager of business planning and development. In addition to solar, he had developed a variety of business opportunities with different energy resources for Southern California Edison. From 2000 to 2005, Mr. Chen worked at GE Energy, where he delivered several large-scale projects to international utilities in electrical transmission and distribution systems, as well as completed product development for electrical system. Mr. Chen received his MBA from University of California at Los Angeles in 2009, his master's degree in electric power from Iowa State University in 2000 and his bachelor's degree in Southeast University in 1996.

*Mr. Zhidong Zheng* has been our senior vice president since January 2012. Mr. Zheng served as our vice president of wafer technology from May 2010 to December 2011 and our research and development director of wafer technology from February 2009 to May 2010. Mr. Zheng has over twenty years of research and engineering experience with extensive knowledge in optical and PV processes and operations. Prior to joining us, from 2005 to 2009, Mr. Zheng served as vice president of technology and operations for Jinggong Shaoxin Solar Energy where he contributed to the manufacturing of the first Chinese-made multicrystalline furnace. Mr. Zheng also worked as department manager in II-VI Optics (Singapore) Pte Ltd from 2003 to 2005, as senior engineer in Thales Optronics (Singapore) Pte Ltd from 2000 to 2003, and as an optical crystal engineer and department manager for a variety of companies in Singapore as well as Zhejiang University from 1989 to 2000. Mr. Zheng received his master degree from Zhejiang University in 2011 and his bachelor's degree in Optics Engineering from Zhejiang University in 1989.

*Mr. Tim Jia* serves as our vice president of human resources since April 2010. Before joining ReneSola, Mr. Jia served as director of Ingersoll Rand Engineering and Technology Center's human resources and engineering administration department in Shanghai, China from 2003 to 2010. He has approximately 20 years of managerial experience with more than a decade of experience in human resources. Prior to Ingersoll Rand, Mr. Jia worked at Shuangliang Group and Shuangliang Trane Joint Venture for 18 years, where he served in several managerial positions including the director of human resources. Mr. Jia is currently a Ph.D. candidate in law at the China University of Political Science and Law. He received his MBA from the Open University of Hong Kong in 2000 and his undergraduate degrees in computer engineering from Nanjing University in 1991 and in machinery engineering from Wuxi Mechanical Technology College in 1986.

*Mr. Robin Liu* has been our vice president of wafer manufacturing since November 2010. Mr. Liu previously served as our vice general manager and director of our silicon wafer division. Mr. Liu has over 14 years of experience in engineering and operations management. Prior to joining us, he served as a senior manufacturing manager at Kemet (Suzhou) Co., Ltd. from 2008 to 2009, as an industrial operations manager at Schneider (Suzhou) Transformers Co., Ltd. from 2006 to 2008, as a manufacturing center manager and head of production and engineering at Royal Philips Electronic Sound Solutions Beijing from 2000 to 2006, and as an engineer with The Waterborne Transportation Institute of The Ministry of Communications from 1996 to 2000. Mr. Liu received a degree in mechanical engineering from Shanghai Tongji University in 1996.

*Mr. John Ding* has been our vice president of internal control and audit since March 2011. Mr. Ding had previously served as our director of internal control and audit from 2009 to 2011. With nearly 20 years of work experience in finance, including more than ten years of management experience and over five years of internal control and audit experience, Mr. Ding has comprehensive knowledge of accounting, tax policies, credit control and physical asset management. Before joining ReneSola, Mr. Ding served as the director of internal audit and SOX compliance for The9 Limited from 2008 to 2009 and held positions as financial manager at Dell (China) Co., Ltd. from 2001 to 2008. Mr. Ding received a bachelor's degree in international economics and trade from Fudan University, as well as a master's degree in professional accounting from Xiamen University. He holds CIA and CCSA certificates.

*Mr. Tony (Anthony) Hung* has been our vice president of investors' relationship since May 2011. Mr. Hung has approximately 10 years of experience in the financial industry or corporate finance with extensive investment banking and capital markets experience in both United States and China. Prior to joining us, Mr. Hung served as associate at Deutsche Bank in Hong Kong where he was involved in a number of capital market transactions, including our various capital markets transactions, from 2005 to 2009. Prior to Deutsche Bank, Mr. Hung worked as an associate at Bastion Capital Corporation, LLC, in Los Angeles, California from 2000 to 2002 and as an analyst in Bear, Stearns & Co. Inc.'s Investment Banking Technology Group from 1997 to 1999. He has also served as chief financial officer for Nasdaq-listed Wowjoint Holdings Limited from 2010 to 2011 and co-founded his own company Ave3D Inc. since 1999. Mr. Hung received his bachelor's degree from New York University in 1997 and an MBA from the University of California at Berkeley in 2005.

*Mr. Charles Ding* has been our vice president of global sourcing since August 2011. Mr. Ding has over 22 years of engineering and executive experience with extensive aerospace and automotive experience in both the United States and China. Prior to joining us, Mr. Ding served as a senior global sourcing manager in ArvinMeritor Corporation in United States from 2007 to 2010, global sourcing manager in GDX Automotive, Corporation in United States from 2006 to 2007, global sourcing manager in Johnson Controls Inc. in United States from 2000 to 2006, and an engineer in Parker Hannifin Corporation in the United States from 1997 to 2000. Mr. Ding received a bachelor's degree in mechanical engineering from the Harbin Institute of Technology in 1989 and a master's degree in mechanical engineering from the University of Toledo in 1997.

The address of our directors and executive officers is c/o ReneSola Ltd, No. 8 Baoqun Road, Yaozhuang, Jiashan, Zhejiang 314117, People's Republic of China.

#### Employment Agreements

We have entered into employment agreements with each of our senior executive officers. We may terminate a senior executive officer's employment for cause, at any time, without prior notice or remuneration, for certain acts of the officer, including, but not limited to, a material violation of our regulations, failure to perform agreed duties, embezzlement that causes material damage to us, or conviction of a crime. A senior executive officer may terminate his or her employment at any time by prior written notice. Each senior executive officer is entitled to certain benefits upon termination, including a severance payment equal to a specified number of months of his or her then salary if he or she resigns for certain good reasons specified by the agreement or the relevant rules or if we terminate his or her employment without cause.

#### B. Compensation of Directors and Executive Officers



For the fiscal year ended December 31, 2011, an aggregate of approximately \$1.7 million in cash was paid to our senior executive officers and directors.

#### Share Incentive Plan

Our board of directors adopted our 2007 share incentive plan in September 2007, which was amended in January 2009 and further amended in August 2010, to attract and retain the best available personnel for positions of substantial responsibility, provide additional incentive to employees, directors and consultants and promote the success of our business. We have reserved 12,500,000 shares for issuance under our 2007 share incentive plan. The following paragraphs describe the principal terms of our 2007 share incentive plan.

*Administration.* Our 2007 share incentive plan is administered by our board of directors or, after our board of directors makes the designation, by our compensation committee. In each case, our board of directors or our compensation committee will determine the provisions, terms and conditions of each option grant, including, but not limited to, the option vesting schedule, repurchase provisions, forfeiture provisions, form of payment upon settlement of the award and payment contingencies.

*Awards.* The following paragraphs briefly describe the principal features of the various awards that may be granted under our 2007 share incentive plan.

*Options.* Options provide for the right to purchase our 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 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 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 shares, which will be freely transferable.

*Termination of plan.* Unless terminated earlier, our 2007 share incentive plan will expire in September 2017. Our board of directors has the authority to amend or terminate our 2007 share incentive plan subject to shareholders' approval to the extent necessary to comply with applicable laws and regulations. However, no such action shall adversely affect in any material way any award previously granted without the prior written consent of the recipient.

## Share Options

As of the date of this annual report, our board of directors has granted certain of our directors, officers and employees options for 7,294,600 shares in our company, excluding options forfeited pursuant to the terms of our 2007 share incentive plan and the exercised options. The following paragraphs describe the principal terms of our options.

*Option agreement.* Options granted under our 2007 share incentive plan are evidenced by an option agreement that contains, among other things, provisions concerning exercisability and forfeiture upon termination of employment arrangement, as determined by our board.

*Vesting schedule.* Options granted under our 2007 share incentive plan vest yearly over a five-year period following a specified grant date. The plan has twenty percent of the options granted vest at the first anniversary of the grant date, and for the remaining eighty percent, twenty percent shall vest at each of the second, third, fourth and fifth anniversary of the grant date, subject to the optionee continuing to be an employee on each vesting date.

*Option exercise.* The term of options granted under our 2007 share incentive plan may not exceed the sixth anniversary of the specified grant date.

*Termination of options.* Where the option agreement permits the exercise of the options that were vested before the recipient's termination of service with us, or the recipient's disability or death, the options will terminate to the extent not exercised or purchased on the last day of a specified period or the last day of the original term of the options, whichever occurs first.

The following table summarizes, as of the date of this annual report, the outstanding options, excluding options forfeited pursuant to the terms of our 2007 share incentive plan and the options that were exercised prior to the date of this annual report, that we granted to our directors and officers and to other individuals as a group under our share incentive plan.

| Name  | Shares Underlying<br>Outstanding Options | Exercise Price<br>(\$/Share) | Grant Date         | Expiration Date       |
|---|--|------------------------------|--------------------|-----------------------|
| Martin Bloom                                | —  | —                            | —                  | —                     |
| Xianshou Li                                 | 580,000                                  | \$ 3.185                     | June 21, 2010      | June 21, 2016         |
|   | 670,000                                  | \$ 3.765                     | August 24, 2010    | August 24, 2016       |
| Yuncai Wu                                   | —  | —                            | —                  | —                     |
| Jing Wang                                   | —  | —                            | —                  | —                     |
| Tan Wee Seng                                | —  | —                            | —                  | —                     |
| Charles Xiaoshu Bai                         | 670,000                                  | \$ 2.565                     | October 9, 2007    | October 9, 2013       |
| Henry Wang                                  | 250,000                                  | \$ 2.530                     | March 15, 2010     | March 15, 2016        |
|   | 500,000                                  | \$ 2.305                     | June 20, 2011      | June 20, 2017         |
| Xiaoliang Liang                             | —  | —                            | —                  | —                     |
| Stephen Huang                               | 250,000                                  | \$ 2.510                     | December 21, 2009  | December 21,<br>2015  |
| Jijun Shi                                   | —  | —                            | —                  | —                     |
| Kevin Chen                                  | —  | —                            | —                  | —                     |
| Zhidong Zheng                               | 50,000                                   | \$ 2.565                     | June 23, 2009      | June 23, 2015         |
|   | 200,000                                  | \$ 3.185                     | June 21, 2010      | June 21, 2016         |
|   | 250,000                                  | \$ 0.740                     | December 21, 2011  | December 21, 2017     |
| Tim Jia                                     | 250,000                                  | \$ 3.185                     | June 21, 2010      | June 21, 2006         |
| Robin Liu                                   | 100,000                                  | \$ 2.945                     | September 21, 2009 | September 21,<br>2015 |
|   | 150,000                                  | \$ 4.145                     | December 20, 2010  | December 20, 2016     |
| John Ding                                   | 75,000                                   | \$ 2.510                     | December 21, 2009  | December 21, 2015     |
|   | 175,000                                  | \$ 4.540                     | March 21, 2011     | March 21, 2017        |
| Tony (Anthony) Hung                         | 250,000                                  | \$ 1.320                     | September 19, 2011 | September 19,<br>2017 |
| Charles Ding                                | 250,000                                  | \$ 0.740                     | December 19, 2011  | December 19, 2017     |
| Directors and executive officers as a group | 4,670,000                                | —                            | —                  | —                     |
| Other individuals as a group                | 1,121,600                                | \$ 2.565                     | October 9, 2007    | October 9, 2013       |
|   | 100,000                                  | \$ 2.565                     | November 30, 2007  | November 30,<br>2013  |
|   | 30,000                                   | \$ 1.850                     | May 22, 2009       | May 22, 2015          |
|   | 79,000                                   | \$ 2.565                     | June 23, 2009      | June 23, 2015         |
|   | 46,000                                   | \$ 2.945                     | September 21, 2009 | September 21,<br>2015 |
|   | 287,000                                  | \$ 2.510                     | December 21, 2009  | December 21, 2015     |
|   | 285,000                                  | \$ 2.530                     | March 15, 2010     | March 15, 2016        |
|   | 266,000                                  | \$ 3.185                     | June 21, 2010      | June 21, 2016         |
|   | 310,000                                  | \$ 5.435                     | September 20, 2010 | September 20,<br>2016 |
|   | 75,000                                   | \$ 4.145                     | December 20, 2010  | December 20, 2016     |
|   | 25,000                                   | \$ 4.540                     | March 21, 2011     | March 21, 2017        |

C.

Board Practices

Our board of directors currently consists of five directors. 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 undertaking, property and uncalled capital and issue debentures or other securities whenever money is borrowed or as security for any obligation of the company or of any third party.

#### Committees of the Board of Directors

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

*Audit Committee.* Our audit committee consists of Messrs. Martin Bloom, Jing Wang and Tan Wee Seng. Messrs. Martin Bloom, Jing Wang and Tan Wee Seng satisfy the independence requirements of the New York Stock Exchange Listing Rules and Securities and Exchange Commission regulations. The audit committee oversees our accounting and financial reporting processes and the 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 to such audit problems or difficulties;

· reviewing and approving all related party transactions on an ongoing basis;

· 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;

· annually reviewing and reassessing the adequacy of our audit committee charter;

· meeting separately and periodically with management and the independent auditors; and

· reporting regularly to the board of directors.

*Compensation Committee.* Our compensation committee consists of Messrs. Martin Bloom and Jing Wang. Messrs. Martin Bloom and Jing Wang satisfy the independence requirements of the New York Stock Exchange Listing Rules and Securities and Exchange Commission regulations. The compensation committee discharges the responsibility of the board of 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 evaluating at least annually and, if necessary, revising the compensation plans, policies and programs adopted by our management;

· reviewing and evaluating at least annually the performance, and determining the compensation, of our chief executive officer;

· reviewing and approving our chief executive officer's employment agreement and amendments thereto, and severance arrangement, if any; and

· reviewing all annual bonus, long-term incentive compensation, stock option, employee pension and welfare benefit plans.

*Corporate Governance and Nominating Committee.* Our corporate governance and nominating committee consists of Messrs. Martin Bloom, Jing Wang and Tan Wee Seng. Messrs. Martin Bloom, Jing Wang and Tan Wee Seng satisfy the independence requirements of the New York Stock Exchange Listing Rules and Securities and Exchange Commission regulations. 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:

· recommending to our board of directors for nomination or appointment by the board such candidates as the committee has found to be qualified to be elected or reelected to serve as a member of our board or its committees or to fill any vacancies on our board or its committees, respectively;

· reviewing annually the composition of our board of directors and its committees in light of the characteristics of independence, qualification, experience and availability of the board members;

· developing and recommending to our board of directors a set of corporate governance guidelines and principles applicable to the company; and

monitoring compliance with the company's code of business conduct and ethics, including reviewing the adequacy and effectiveness of our internal rules and procedures to ensure compliance with applicable laws and regulations.

#### Duties of Directors

Under British Virgin Islands law, our directors have a duty of loyalty to act honestly and in good faith with a view to our best interests. Our directors also have a duty to exercise the skill they actually possess with such 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 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 officers are appointed by and serve at the discretion of the board of directors. At each annual general meeting, one-third of our directors then existing, or if their number is not a multiple of three, then the number nearest to and not exceeding one-third, will be subject to re-election. The directors to retire by rotation shall be those who are longest in office since their election, or by lot should they be of the same seniority. On the assumption that no other director wishes to retire from office at the annual general meetings, Mr. Tan Wee Seng will be subject to re-election at the 2012 annual general meeting; Mr. Yuncai Wu will be subject to re-election at 2013 annual general meeting; and Mr. Jing Wang will be subject to re-election at 2014 annual general meeting. We have not entered into any service contracts with the directors providing them with severance benefits upon termination of their terms with us.

#### D. Employees

We had 5,074 and 7,869 full-time employees as of December 31, 2009 and 2010, respectively. As of December 31, 2011, we had 7,595 full-time employees, including 5,833 in manufacturing, 169 in equipment maintenance, 604 in quality assurance, 67 in purchasing, 166 in research and development, 55 in sales and marketing, and 701 in general and administrative. Substantially all of these employees are located in China with a small portion of employees based in Singapore, United States and Europe. We consider our relations with our employees to be good.

#### E. Share Ownership

The following table sets forth information with respect to the beneficial ownership of our shares as of the date of this annual report by:



each of our directors and executive officers; and

each person known to us to own beneficially more than 5.0% of our shares.

Beneficial ownership is determined in accordance with Rule 13d-3 of the General Rules and Regulations under the Securities Exchange Act of 1934, as amended, or the Exchange Act, and includes voting or investment power with respect to the securities.

|  | Shares Beneficially Owned |                  |
|--|---------------------------|------------------|
|  | Number                    | % <sup>(1)</sup> |
| Directors and Executive Officers:                |                           |                  |
| Martin Bloom                                     | —                         | —                |
| Xianshou Li <sup>(2)</sup>                       | 41,244,019                | 23.8 %           |
| Yuncai Wu <sup>(3)</sup>                         | 10,504,970                | 6.1 %            |
| Jing Wang  | —                         | —                |
| Tan Wee Seng                                     | —                         | —                |
| Charles Xiaoshu Bai <sup>(4)</sup>               | 918,333                   | 0.5 %            |
| Henry Wang <sup>(5)</sup>                        | 200,000                   | 0.1 %            |
| Xiaoliang Liang                                  | —                         | —                |
| Stephen Huang <sup>(6)</sup>                     | 100,000                   | 0.1 %            |
| Jijun Shi  | —                         | —                |
| Kevin Chen                                       | —                         | —                |
| Zhidong Zheng <sup>(7)</sup>                     | 110,000                   | 0.1 %            |
| Tim Jia <sup>(8)</sup>                           | 100,000                   | 0.1 %            |
| Robin Liu <sup>(9)</sup>                         | 70,000                    | —                |
| John Ding <sup>(10)</sup>                        | 65,000                    | —                |
| Tony (Anthony) Hung                              | —                         | —                |
| Charles Ding                                     | —                         | —                |
| All Directors and Executive Officers as a Group  | 53,312,322                | 30.6 %           |
| Principal Shareholders:                          |                           |                  |
| Champion Era Enterprises Limited <sup>(11)</sup> | 23,266,229                | 13.5 %           |
| Assets Train Limited <sup>(12)</sup>             | 13,053,614                | 7.6 %            |

Percentage of beneficial ownership of each listed person is based on 172,613,664 shares outstanding as of the date (1) of this annual report, as well as the shares that such person has the right to acquire by option or other agreement within 60 days after the date of this annual report.

(2) Consists of 23,266,229 shares held by Champion Era Enterprises Limited, or Champion, 13,053,614 shares held by Assets Train Limited, or Assets, 1,135,096 shares held by Dynasty Time Limited, or Dynasty, 3,343,080 shares held by Cleveland Ventures Ltd., or Cleveland, 366,000 shares issuable upon exercise of options held by Mr. Li, within 60 days after the date of this annual report and 80,000 shares issuable upon exercise of options held by Ms. Xiahe Lian, the wife of Mr. Li, within 60 days after the date of this annual report. Descriptions of Mr. Li's relationship with Champion and Assets are set forth in the notes (11) and (12) below and Mr. Li's relationship with Dynasty and Cleveland are set forth as follows: Dynasty beneficially holds 5,955,871 of our shares. Dynasty is a company incorporated in the British Virgin Islands and its sole shareholder is Direct Manage Holdings Limited. Direct Manage Holdings Limited is a company incorporated in the British Virgin Islands and wholly owned by the DXJ Family Trust, of which Mr. Xiangjun Dong is the settlor and to which Mr. Dong has administration, voting and management power. The trustee of the DXJ Family Trust is HSBC International Trustee Limited. Dynasty has entered into an irrevocable voting agreement with Mr. Li and Mr. Wu with respect to our shares held by Dynasty.

Cleveland beneficially holds 3,343,080 of our shares. Cleveland is indirectly wholly-owned by the Xian Shou Trust of which Mr. Li is the settlor. The trustee of the Xian Shou Trust is Merrill Lynch Bank & Trust Co (Cayman) Ltd. Pursuant to a trust deed made between Mr. Li and Merrill Lynch Bank & Trust Co (Cayman) Ltd., Mr. Li holds all voting and investment powers of Cleveland and its assets. Pursuant to Section 13(d) of the Exchange Act, Mr. Li may be deemed to beneficially own all of the shares held by Cleveland and Merrill Lynch Bank & Trust Co (Cayman) Ltd. should not be deemed a beneficial owner of the shares in Renesola Ltd held by Cleveland. Mr. Li holds sole voting power of 23,266,229 shares held by Champion and 3,343,080 shares held by Cleveland pursuant to a trust deed. Mr. Li also holds shared voting power of 13,053,614 shares held by Assets and 1,135,096 shares held by Dynasty pursuant to an irrevocable voting agreement. Mr. Li's business address is Chengzhong Road, Zhuguang Town, Yuhuan County, Zhejiang Province, PRC.

Consists of 5,684,195 shares held by Buoyant Wise Limited, or Buoyant, and 4,820,775 shares held by Dynasty. Descriptions of Mr. Wu's relationship with Buoyant and Dynasty are as follows: Buoyant beneficially holds 5,684,195 of our shares. Buoyant is a company incorporated in the British Virgin Islands and its sole shareholder is Brilliant Chariot Limited. Brilliant Chariot Limited is a company incorporated in the British Virgin Islands and wholly owned by the WYC Family Trust, of which Mr. Wu is the settlor and to which Mr. Wu has all administration, voting and management power. The trustee of the WYC Family Trust is HSBC International Trustee Limited. Dynasty beneficially holds 5,955,871 of our shares. Dynasty is a company incorporated in the (3) British Virgin Islands and its sole shareholder is Direct Manage Holdings Limited. Direct Manage Holdings Limited is a company incorporated in the British Virgin Islands and wholly owned by the DXJ Family Trust, of which Mr. Xiangjun Dong is the settlor and to which Mr. Dong has administration, voting and management power. The trustee of the DXJ Family Trust is HSBC International Trustee Limited. Dynasty has entered into an irrevocable voting agreement with Mr. Li and Mr. Wu with respect to our shares held by Dynasty. Mr. Wu holds sole voting power of 5,684,195 shares held by Buoyant and shared voting power of 4,820,775 shares held by Dynasty pursuant to an irrevocable voting agreement. Mr. Wu's business address is Suite 201, No. 32, Xianqian Road, Cheng Guan Cheng District, Zhejiang Province, PRC.

Includes 498,333 shares held by Mr. Bai and 420,000 shares issuable upon exercise of options held by Mr. Bai (4) within 60 days after the date of this annual report. Mr. Bai's business address is No. 8 Baoqun Road, Yaozhuang Industrial Park, Jiashan County, Zhejiang Province, 314117, PRC.

Represents 200,000 shares issuable upon exercise of options held by Mr. Wang within 60 days after the date of this (5) annual report. Mr. Wang's business address is No. 8 Baoqun Road, Yaozhuang Industrial Park, Jiashan County, Zhejiang Province, 314117, PRC.

Represents 100,000 shares issuable upon exercise of options held by Mr. Huang within 60 days after the date of (6) this annual report. Mr. Huang's business address is No. 8 Baoqun Road, Yaozhuang Industrial Park, Jiashan County, Zhejiang Province, 314117, PRC.

Represents 110,000 shares issuable upon exercise of options held by Mr. Zheng within 60 days after the date of (7) this annual report. Mr. Zheng's business address is No. 8 Baoqun Road, Yaozhuang Industrial Park, Jiashan County, Zhejiang Province, 314117, PRC.

Represents 100,000 shares issuable upon exercise of options held by Mr. Jia within 60 days after the date of this (8) annual report. Mr. Jia's business address is No. 8 Baoqun Road, Yaozhuang Industrial Park, Jiashan County, Zhejiang Province, 314117, PRC.

Represents 70,000 shares issuable upon exercise of options held by Mr. Liu within 60 days after the date of this (9) annual report. Mr. Liu's business address is No. 8 Baoqun Road, Yaozhuang Industrial Park, Jiashan County, Zhejiang Province, 314117, PRC.

Represents 65,000 shares issuable upon exercise of options held by Mr. Ding within 60 days after the date of this (10) annual report. Mr. Ding's business address is No. 8 Baoqun Road, Yaozhuang Industrial Park, Jiashan County, Zhejiang Province, 314117, PRC.

Champion is a company incorporated in the British Virgin Islands and its sole shareholder is Chain Path Limited. Chain Path Limited is a company incorporated in the British Virgin Islands and wholly owned by the LXS Family (11) Trust, of which Mr. Li is the settlor and to which Mr. Li has all administration, voting and management power. The trustee of the LXS Family Trust is HSBC International Trustee Limited. The address for Champion is P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands.

(12) Assets is a company incorporated in the British Virgin Islands and its sole shareholder is Apex Level Limited. Apex Level Limited is a company incorporated in the British Virgin Islands and wholly owned by the LZM Family Trust, of which Mr. Zhengmin Lian is the settlor and to which Mr. Lian has administration, voting and management power. The trustee of the LZM Family Trust is HSBC International Trustee Limited. Assets has entered into an irrevocable voting agreement in respect to its entire holding of 13,053,614 shares with Mr. Li. The address for Assets is P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands.

Mr. Lian's business address is No. 8 Baoqun Road, Yaozhuang Industrial Park, Jiashan County, Zhejiang Province, 314117, China.

Our ADSs are traded on the NYSE and brokers or other nominees may hold ADSs in "street name" for customers who are the beneficial owners of the ADSs. As a result, we may not be aware of each person or group of affiliated persons who beneficially own more than 5.0% of our common stock.

As of the date of this annual report, 173,346,064 of our shares were issued, 172,613,664 of our shares were outstanding and 173,074,099 were held as ADSs by the depositary. As of the date of this annual report, we had no record shareholders in the United States.

None of our shareholders had different voting rights from other shareholders as of the date of this annual report. We are currently 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

Please refer to “Item 6. Directors, Senior Management and Employees—E. Share Ownership.”

### B. Related Party Transactions

As of December 31, 2009, 2010 and 2011, amounts due from related parties were approximately \$0.4 million, \$0.4 million and \$6.2 million, respectively. The amounts due from related parties included amounts receivable from the sales of goods to Zhejiang Yuhuan Solar Energy Source Co., Ltd., or Zhejiang Yuhuan, a company controlled by Mr. Xianshou Li, our director and chief executive officer, Jinko Solar Co., Ltd., or Jinko, and its subsidiaries. Jinko is a company co-founded by, and whose directors include, the brothers of Xianshou Li.

As of December 31, 2009, 2010 and 2011, amounts due to related parties were approximately \$0.02 million, \$0.02 million and \$4.9 million, respectively. The amounts due to related parties included accounts payable for the purchase of raw materials from Zhejiang Yaohui Photovoltaic Co. Ltd., or Zhejiang Yaohui, and Jinko and its subsidiaries. A director of our principal PRC subsidiary, Zhejiang Yuhui, is the general manager of Zhejiang Yaohui.

Zhejiang Yuhui has entered into certain short-term and long-term loans with domestic banks that have been guaranteed by Mr. Xianshou Li, our director and chief executive officer, or jointly with his wife, Ms. Xiahe Lian. As of December 31, 2011, we had an aggregate of \$82.6 million of outstanding borrowings that were guaranteed, directly or indirectly, by Mr. Xianshou Li and Ms. Xiahe Lian, including a guarantee provided jointly by Mr. Xianshou Li and Ms. Xiahe Lian in January 2009 for up to RMB900 million (\$143.0 million) for our borrowings from China Construction Bank, Meishan Branch from January 2009 to January 2014.

In April 2007, Zhejiang Yuhui leased 24 apartments from Zhejiang Yuhuan for an aggregate rent of RMB36,000 per month. In October 2007, the parties entered into a written agreement to record the lease. In an agreement entered into in January 2009, the parties further clarified that this lease shall be a long-term agreement that will remain effective as long as none of the parties wish to terminate it. These leased apartments have been used as housing for Zhejiang Yuhui's employees.

In June 2008, Zhejiang Yuhui lent RMB17 million to Zhejiang Yuhuan to repay its debts owed to Desheng Energy Co., Ltd. In August 2008, we received RMB14 million from Zhejiang Yuhuan. As of December 31, 2011, our outstanding loans to Zhejiang Yuhuan were RMB14 million (\$2.2 million). We plan to offset such loans against the rents to be paid by us to Zhejiang Yuhuan.

#### Employment Agreements

See "Item 6. Directors, Senior Management and Employees—A. Directors and Senior Management" for details regarding employment agreements with our senior executive officers.

#### Share Incentives

See "Item 6. Directors, Senior Management and Employees—B. Compensation of Directors and Executive Officers" for a description of share options and stock purchase rights we have granted to our directors, officers and other individuals as a group.

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 and Administrative Proceedings

We initiated arbitration proceedings against Linzhou Zhongsheng Steel and Linzhou Zhongsheng Semiconductor before CIETAC for the equity transfer dispute. CIETAC rendered its final award in September 2011, requiring Linzhou Zhongsheng Steel to pay us the remaining equity transfer consideration in the amount of RMB137,260,000. We have applied to the relevant court in China for enforcement of the arbitral award.

As of the date of this annual report, there were several pending disputes with some of our raw material suppliers, including Nature Power Co., Ltd., Nihon B.S.B and Silfine Co., Ltd., over prepayments for silicon raw materials. We have initiated arbitration proceedings against Silfine Co., Ltd. before the Hong Kong International Arbitration Center.

In addition, we are involved in several other legal proceedings. We have served demand letters to Helios Technology, one of our solar wafer customers, in connection with payments for wafer sales. Helios Technology has subsequently paid a portion of amounts owed to us, with \$630,000 remaining outstanding. In January 2012, Helios Technology settled with us with a payment of €380,000. As of the date of this annual report, we received €190,000 in cash and €190,000 in the form of bank notes from Helios Technology.

In June 2011, CEP Ltd., or CEP, one of our module customers, sued us in the High Court in Hong Kong for damages of €917,280 arising from breach of the sales contract with us. We denied CEP's assertion and defended that the termination of the sales contract was due to CEP's material breach of the sales contract by failure to open a letter of credit in accordance with the sales contract. A decision from the court is expected in late 2012 or early 2013.



Except as described above, we are not involved in any litigation or other legal proceedings that would have a material adverse impact on our business or operations. We may from time to time be subject to various judicial or administrative proceedings arising in the ordinary course of our business.

#### Dividend Policy

In August 2011, our board of directors adopted a shareholder rights plan to protect the best interests of ReneSola and our shareholders and authorized the dividend distribution. One share purchase right was distributed on August 26, 2011, with respect to each share of ReneSola's outstanding at the close of business on such date. Initially, the share purchase rights were evidenced by the certificates representing outstanding shares, and no separate share purchase right certificates were distributed. Subject to certain limited exceptions, the share purchase rights will be exercisable at \$20.0 per share purchase right if a person or group acquires 15% or more of ReneSola's voting securities or announces a tender offer for 15% or more of the voting securities, subject to adjustment. Our board of directors will be entitled to redeem the share purchase rights at \$0.0001 per share purchase right at any time before a person or group has acquired 15% or more of ReneSola's voting securities. The share purchase rights are intended to enable all of our shareholders to realize the long-term value of their investment in our company. The share purchase rights are designed to ensure that our shareholders receive fair treatment in the event of any proposed takeover of ReneSola and to encourage anyone seeking to acquire ReneSola to negotiate with our board of directors prior to attempting a takeover. The share purchase rights are not being distributed in response to any specific effort to acquire control of our company.

We have no present plan to declare and pay any dividends on our shares or ADSs in the near 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 limited liability holding company incorporated in the British Virgin Islands. We rely on dividends from Zhejiang Yuhui, our subsidiary in China, and any newly formed subsidiaries to fund the payment of dividends, if any, to our shareholders. Current PRC regulations permit our subsidiaries to pay dividends to us only out of their retained profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, our subsidiary in China is required to set aside a certain amount of its retained profits each year, if any, to fund certain statutory reserves. These reserves may not be distributed as cash dividends. Furthermore, when Zhejiang Yuhui or any newly formed subsidiary incurs debt on its own behalf, the instruments governing the debt may restrict its ability to pay dividends or make other distributions to us. For example, according to certain short-term loan agreements between Zhejiang Yuhui and its banks, Zhejiang Yuhui is not permitted to pay dividends for any given year if it has no after-tax profit or if it has any principal or interest due in that year which has not been paid. In addition, pursuant to the new PRC Enterprise Income Tax Law and its Implementing Regulation, which became effective on January 1, 2008, a 10% withholding tax applies to dividends distributed to foreign investors out of the profits generated after January 1, 2008 unless any such non-Chinese enterprise's tax residency jurisdiction has a tax treaty with China that provides for a different withholding arrangement. The British Virgin Islands, where our company was incorporated, does not have such a treaty with China. Thus, the Company expects that a 10% withholding tax will apply to dividends paid to the Company by its PRC subsidiaries if the Company is classified as a non-resident enterprise. The Company does not currently intend to declare dividends for the foreseeable future.

Subject to the approval of our shareholders, our board of directors has complete discretion over distribution of dividends. 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.

B. Significant Changes

Except as disclosed elsewhere in this annual report, 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. Offer and Listing Details

Our ADSs, each representing two of our shares, have been listed on the NYSE since January 29, 2008 under the symbol "SOL." Please refer to "—C. Markets" below for historical trading prices. In August 2006, our shares were admitted for trading on the AIM. In November 2010, with the approval of our board of directors, our shares ceased to trade on AIM and our admission to trading on the AIM was cancelled.

B. Plan of Distribution

Not applicable.

C. Markets

Our ADSs, each representing two of our shares, have been listed on the NYSE since January 29, 2008. Our ADSs trade under the symbol "SOL." For the period from January 29, 2008 to April 24, 2012, the trading price of our ADSs on the NYSE has ranged from \$1.45 to \$29.48 per ADS. The following table provides the high and low market prices for our ADSs on the NYSE.

|                                   | Trading Price |      |
|-----------------------------------|---------------|------|
|                                   | High          | Low  |
|                                   | \$            | \$   |
| Quarterly Highs and Lows          |               |      |
| First quarter of 2010             | 6.15          | 4.32 |
| Second quarter of 2010            | 8.75          | 4.91 |
| Third quarter of 2010             | 12.72         | 6.05 |
| Fourth quarter of 2010            | 15.34         | 7.90 |
| First quarter of 2011             | 13.25         | 8.08 |
| Second quarter of 2011            | 10.73         | 4.33 |
| Third quarter of 2011             | 5.36          | 1.68 |
| Fourth quarter of 2011            | 2.67          | 1.45 |
| First quarter of 2012             | 3.38          | 1.56 |
| Annual and Monthly Highs and Lows |               |      |
| 2008 (from January 29, 2008)      | 29.48         | 2.06 |
| 2009                              | 7.90          | 2.02 |
| 2010                              | 15.34         | 4.32 |
| 2011                              | 13.25         | 1.45 |
| October                           | 2.67          | 1.46 |
| November                          | 2.38          | 1.52 |
| December                          | 2.04          | 1.45 |
| 2012                              |               |      |
| January                           | 2.65          | 1.56 |
| February                          | 3.38          | 2.28 |
| March                             | 3.02          | 2.23 |
| April (through April 24)          | 2.31          | 1.65 |

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 our amended and restated memorandum and articles of association filed as Exhibit 1.1 to our Annual Report on Form 20-F filed with the SEC on March 8, 2011.

We are a British Virgin Islands company, and our affairs are governed by our memorandum and articles of association and the British Virgin Islands Business Companies Act of 2004 (as amended), which is referred to as the Companies Law below.

The following are summaries of material provisions of our memorandum and articles of association and the Companies Law insofar as they relate to the material terms of our shares.

Registered Office and Objects

Our registered office in the British Virgin Islands is located at the offices of Harneys Corporate Services Limited, Craigmuir Chambers, P.O. Box 71, Road Town, Tortola, British Virgin Islands.

According to Clause 5 of our memorandum of association, subject to the Companies Act and any other British Virgin Islands legislation, our company has full capacity to carry on or undertake any business or activity, do any act or enter into any transaction, and there are no limitations on the business that our Company may carry on.

Board of Directors

See “Item 6. Directors, Senior Management and Employees.”

Shares

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

*Dividends.* By a resolution of directors, we may declare and pay dividends in money, shares, or other property. Our directors may from time to time pay to the shareholders such interim dividends as appear to the directors to be justified by the profits of our company. No dividends shall be declared and paid unless the directors determine that immediately after the payment of the dividend the value of our assets will exceed our liabilities and we will be able to satisfy our liabilities as they fall due. The holders of our shares are entitled to such dividends as may be declared by our board of directors subject to the Companies Law.

*Unissued Shares.* Our unissued shares shall be at the disposal of the directors who may without prejudice to any rights previously conferred on the holders of any existing shares or class or series of shares offer, allot, grant options over or otherwise dispose of shares to such persons, at such times and upon such terms and conditions as we may by resolution of the directors determine. Before issuing shares for a consideration other than money, the directors shall pass a resolution stating the amount to be credited for the issue of the shares, their determination of the reasonable present cash value of the non-money consideration for the issue, and that, in their opinion, the present cash value of the non-money consideration for the issue is not less than the amount to be credited for the issue of the shares.

*Voting Rights.* Each share is entitled to one vote on all matters upon which the shares are entitled to vote. We are required by our Articles to hold an annual general meeting each year. Additionally our directors may convene meetings of our shareholders at such times and in such manner and places within or outside the British Virgin Islands as the directors consider necessary or desirable. Upon the written request of shareholders holding 10% or more of the outstanding voting rights attaching to our shares the directors shall convene a meeting of shareholders. The director

shall give not less than 14 days' notice of a meeting of shareholders to those persons whose names at the close of business on a day to be determined by the directors appear as shareholders in our share register and are entitled to vote at the meeting.

A meeting of shareholders is duly constituted if, at the commencement of the meeting, there are present in person or by proxy not less than 50% of the votes of the shares entitled to vote on shareholder resolutions to be considered at the meeting. If a quorum is present, notwithstanding the fact that such quorum may be represented by only one person, then such person or persons may resolve any matter and a certificate signed by such person and accompanied, where such person be a proxy, by a copy of the proxy form shall constitute a valid resolution of shareholders.

If within two hours from the time appointed for the meeting a quorum is not present, the meeting, if convened upon the requisition of shareholders, shall be dissolved; in any other case it shall stand adjourned to the next business day at the same time and place or to such other time and place as the directors may determine, and if at the adjourned meeting there are present within one hour from the time appointed for the meeting in person or by proxy not less than one third of the votes of the shares of each class or series of shares entitled to vote on the resolutions to be considered by the meeting, those present shall constitute a quorum but otherwise the meeting shall be dissolved. The chairman, may, with the consent of the meeting, adjourn any meeting from time to time, and from place to place, but no business shall be transacted at any adjourned meeting other than the business left unfinished at the meeting from which the adjournment took place.

An action that may be taken by the shareholders at a meeting may also be taken by a resolution of shareholders consented to in writing without the need for any notice, but if any resolution of shareholders is adopted otherwise than by the unanimous written consent of all shareholders, a copy of such resolution shall forthwith be sent to all shareholders not consenting to such resolution.

*Transfer of Shares.* Certificated shares in our company may be transferred by a written instrument of transfer signed by the transferor and containing the name and address of the transferee, but in the absence of such written evidence of transfer the directors may accept such evidence of a transfer of shares as they consider appropriate. We may also issue shares in uncertificated form. We shall not be required to treat a transferee of a registered share in our Company as a member until the transferee's name has been entered in the register of members.

The register of members may be closed at such times and for such periods as the board of directors may from time to time determine, not exceeding in whole thirty days in each year, upon notice being given by advertisement in a leading daily newspaper and in such other newspaper (if any) as may be required by the law of British Virgin Islands and the practice of the London Stock Exchange or the NYSE.

The board of directors may decline to register a transfer of any share to a person known to be a minor, bankrupt or person who is mentally disordered or a patient for the purpose of any statute relating to mental health. The board of directors may also decline to register any transfer unless:

- (a) any written instrument of transfer, duly stamped (if so required), is lodged with us at the registered office or such other place as the board of directors may appoint accompanied by the certificate for the shares to which it relates (except in the case of a transfer by a recognized person or a holder of such shares in respect of whom we are not required by law to deliver a certificate and to whom a certificate has not been issued in respect of such shares);
- (b) there is provided such evidence as the board of directors may reasonably require to show the right of the transferor to make the transfer and, if the instrument of transfer is executed by some other person;
- (c) on his behalf, the authority of that person to do so; any instrument of transfer is in respect of only one class or series of share; and
- (d) in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four.

*Liquidation.* In the case of the distribution of assets by a voluntary liquidator on a winding-up of our company, subject to payment of, or to discharge of, all claims, debts, liabilities and obligations of our company any surplus assets shall



then be distributed amongst the Shareholders according to their rights and interests in our company according to our Memorandum and Articles. If the assets available for distribution to members shall be insufficient to pay the whole of the paid up capital, such assets shall be shared on a pro rata basis amongst members entitled to them by reference to the number of fully paid up shares held by such members respectively at the commencement of the winding up.

*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 at the specified time are subject to forfeiture.

*Redemption of Shares.* The Companies Law provides that subject to the memorandum and articles of association of a company, shareholders holding 90% or more of all the voting shares in a company, may instruct the directors to redeem the shares of the remaining shareholders. The directors shall be required to redeem the shares of the minority shareholders, whether or not the shares are by their terms redeemable. The directors must notify the minority shareholder in writing of the redemption price to be paid for the shares and the manner in which the redemption is to be effected. In the event that a minority shareholder objects to the redemption price to be paid and the parties are unable to agree to the redemption amount payable, the Companies Law sets out a mechanism whereby the shareholder and the company may each appoint an appraiser, who will together appoint a third appraiser and all three appraisers will have the power to determine the fair value of the shares to be compulsorily redeemed. Pursuant to the Companies Law, the determination of the three appraisers shall be binding on the company and the minority shareholder for all purposes.

*Variations of Rights of Shares.* If at any time the issued or unissued shares are divided into different classes of shares, the rights attached to any class may only be varied, whether or not the Company is in liquidation, with the consent in writing or by resolution passed at a meeting by the holders of not less than 50% of the issued shares of that class.

*Inspection of Books and Records.* Holders of our shares have a general right under British Virgin Islands law to inspect our books and records on giving written notice to the company. However, the directors have power to refuse the request on the grounds that the inspection would be contrary to the interests of the Company. However, we will provide our shareholders with annual audited financial statements.

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.

D. Exchange Controls

See “Item 4. Information on the Company—B. Business Overview—Regulation—Regulation of Foreign Currency Exchange and Dividend Distribution.”

E. Taxation

The following summary of the material British Virgin Islands and U.S. federal income tax consequences of an investment in our ADSs or shares is based upon laws and relevant interpretations thereof in effect as of the date of this

annual report, 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 shares, such as the tax consequences under state, local and other tax laws not addressed herein. To the extent that the discussion relates to matters of British Virgin Islands tax law, it represents the opinion of Harney Westwood & Riegels LLP, our British Virgin Islands counsel.

#### British Virgin Islands Taxation

Under the present laws of the British Virgin Islands, there are no applicable taxes on the profits or income of the Company. There are no taxes on profits, income, nor are there any capital gains tax, estate duty or inheritance tax applicable to any shares held by non-residents of the British Virgin Islands. In addition, there is no stamp duty or similar duty on the issuance, transfer or redemption of the shares. Dividends remitted to the holders of shares resident outside the British Virgin Islands will not be subject to withholding tax in the British Virgin Islands. The Company is not subject to any exchange control regulations in the British Virgin Islands.

#### European Union Directive on the Taxation of Savings Income (Directive 2003/48/EC)

The European Union has formally adopted a Directive regarding the taxation of savings income. From July 1, 2005, member states are required to provide to the tax authorities of another member state details of payments of interest and other similar income paid by a person within its jurisdiction to or for an individual resident in that other member state, except that Austria, Belgium and Luxembourg instead impose a withholding system for a transitional period (unless during such period they elect otherwise).

The British Virgin Islands is not a member of the European Union and not within the European Union fiscal territory, but the government of the United Kingdom had requested the Government of the British Virgin Islands to voluntarily apply the provisions of the EU Savings Tax Directive. The Mutual Legal Assistance (Tax Matters) (Automatic Exchange Information) Order, 2011 was gazetted by the British Virgin Islands government on July 12, 2011. Under this order, the British Virgin Islands will transition (as of the tax year commencing January 1, 2011), to the group of countries and territories that comply with the Directive through the automatic exchange of information on savings income with tax authorities in European Union Member States. This order will be most relevant to individuals who are resident in an European Union Member State and who maintain savings accounts with banks in the British Virgin Islands.

No stamp duty is payable in the British Virgin Islands in respect of instruments relating to transactions involving a company incorporated in the British Virgin Islands.

#### U. S. Federal Income Taxation

The following discussion describes the material U.S. federal income tax consequences to U.S. Holders (as defined below) under current law of an investment in the ADSs or shares. This discussion applies only to U.S. Holders that hold the ADSs or shares as capital assets (generally, property held for investment) and that have the U.S. dollar as their functional currency. This discussion is based on the tax laws of the United States in effect as of the date of this annual report and on U.S. Treasury regulations in effect or, in some cases, proposed as of the date of this annual 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 address the tax consequences to any particular investor or to persons in special tax situations such as:

· banks and other financial institutions;

· insurance companies;

· regulated investment companies;

· real estate investment trusts;

broker-dealers;

traders that elect to use a mark-to-market method of accounting;

U.S. expatriates;

tax-exempt entities;

persons liable for alternative minimum tax;

persons holding ADSs or shares as part of a straddle, hedging, conversion or integrated transaction;

persons that actually or constructively own 10% or more of the total combined voting power of all classes of our voting stock;

persons who acquired ADSs or shares pursuant to the exercise of any employee share option or otherwise as compensation; or

partnerships or other pass-through entities, or persons holding ADSs or shares through such entities.

In addition, the discussion below does not describe any tax consequences arising out of the recently enacted Medicare tax on certain “net investment income.”

**INVESTORS SHOULD CONSULT THEIR TAX ADVISORS REGARDING THE APPLICATION OF THE U.S. FEDERAL TAX RULES TO THEIR PARTICULAR CIRCUMSTANCES AS WELL AS THE STATE, LOCAL, NON-U.S. AND OTHER TAX CONSEQUENCES TO THEM OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF OUR ADSs OR SHARES.**

The discussion below of the U.S. federal income tax consequences to “U.S. Holders” will apply to you if you are a beneficial owner of our ADSs or 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 treated 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 a partnership (or other entity treated as a partnership for U.S. federal income tax purposes) is a beneficial owner of our ADSs or shares, the tax treatment of a partner in such partnership will depend on the status of such partner and the activities of such partnership. If you are such a partner or partnership, you should consult your tax advisors regarding the U.S. federal income tax consequences to you of the purchase, ownership and disposition of the ADSs or shares.

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 beneficially own ADSs, you should be treated as the beneficial owner of the underlying shares represented by those ADSs for U.S. federal income tax purposes.

The U.S. Treasury has expressed concerns that U.S. holders of ADSs may be claiming foreign tax credits in situations where an intermediary in the chain of ownership between the holder of an ADS and the issuer of the security

underlying the ADS has taken actions inconsistent with the ownership of the underlying security by the person claiming the credit. Such actions (for example, a pre-release of an ADS by a depositary) may also be inconsistent with the claiming of the reduced rate of tax applicable to dividends received by certain non-corporate U.S. holders of ADSs, including individual U.S. holders (discussed below). Accordingly, the availability of foreign tax credits or the reduced tax rate for dividends received by certain non-corporate U.S. Holders, including individual U.S. Holders, could be affected by actions taken by the U.S. Treasury or the depositary.

## Taxation of dividends and other distributions on the ADSs or shares

Subject to the passive foreign investment company rules discussed below, the gross amount of any distributions we make to you with respect to the ADSs or shares (including the amount of any taxes withheld therefrom) will generally be includible in your gross income as dividend income on the date of receipt by the depositary, in the case of ADSs, or by you, in the case of 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 that 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 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 be reported 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, 2013, dividends may be taxed at the lower capital gains rate applicable to qualified dividend income, provided that (1) our ADSs or shares are readily tradable on an established securities market in the United States, or we are eligible for the benefits of a qualifying income tax treaty with the United States that includes an exchange of information program, (2) we are neither a passive foreign investment company nor treated as such with respect to you for our taxable year in which the dividend is paid and the preceding taxable year, and (3) certain holding period and other requirements are met. Under U.S. Internal Revenue Service authority, common or shares, or ADSs representing such shares, are considered for purposes of clause (1) above to be readily tradable on an established securities market in the United States if they are listed on the NYSE, as are our ADSs (but not our shares). If we are treated as a PRC “resident enterprise” for PRC tax purposes (see “Item 3. Key Information—D. Risk Factors—Risks Related To Doing Business In China—Expiration of, or changes to, current PRC tax incentives that our business enjoys could have a material adverse effect on our results of operations”), we may be eligible for the benefits of the income tax treaty between the United States and the PRC. You should consult your tax advisors regarding the availability of the lower rate applicable to qualified dividend income for any dividends paid with respect to the ADSs or shares, as well as the effects of any change in applicable law after the date of this annual report.

For foreign tax credit purposes, the limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For this purpose, any dividends we pay with respect to our ADSs or shares will generally constitute “passive category income” but could, in the case of certain U.S. Holders, constitute “general category income.” Any dividends we pay will generally constitute foreign source income for foreign tax credit limitation purposes. If the dividends are taxed as qualified dividend income (as discussed above), the amount of the dividend taken into account for purposes of calculating the foreign tax credit limitation will 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. If PRC withholding taxes apply to dividends paid to you with respect to the ADSs or shares (see “Item 3. Key Information—D. Risk Factors—Risks Related To Doing Business In China—Under the Enterprise Income Tax Law, dividends payable by us and gains on the disposition of our shares or ADSs could be



subject to PRC 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. The rules relating to the determination of the federal tax credit are complex and you should consult your tax advisors regarding the availability of a foreign tax credit in your particular circumstances.

#### Taxation of dispositions of ADSs or 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 share equal to the difference between the amount realized (in U.S. dollars) for the ADS or share and your tax basis (in U.S. dollars) in the ADS or share. The gain or loss 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 share for more than one year, you may be eligible for reduced tax rates. The deductibility of capital losses is subject to limitations.

Any gain or loss that you recognize on a disposition of our ADSs or shares will generally be treated as U.S. source income or loss for foreign tax credit limitation purposes. However, if we are treated as a PRC “resident enterprise” for PRC tax purposes, we may be eligible for the benefits of the income tax treaty between the United States and the PRC. In such event, if PRC taxes were to be imposed on any gain from the disposition of the ADSs or shares (see “Item 3. Key Information—D. Risk Factors—Risks Related To Doing Business In China—Under the Enterprise Income Tax Law, dividends payable by us and gains on the disposition of our shares or ADSs could be subject to PRC taxation”), a U.S. Holder that is eligible for the benefits of the income tax treaty between the United States and the PRC may elect to treat the gain as PRC source income. You should consult your tax advisors 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 PFIC for U.S. federal income tax purposes for our taxable year ended December 31, 2011. However, the application of the PFIC rules is subject to uncertainty in several respects, and we cannot assure you that the U.S. Internal Revenue Service will not take a contrary position. A non-U.S. corporation will be a PFIC for any taxable year if, applying certain look-through rules, 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”).

For this purpose, 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, more than 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, 2012 or any future taxable year. 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 or shares, fluctuations in the market price of the ADSs or shares may cause us to become a PFIC. In addition, changes in the composition of our income or assets may cause us to become a PFIC.

If we are a PFIC for any taxable year during which you hold our ADSs or shares, we will continue to be treated as a PFIC with respect to you for all succeeding years during which you hold the ADSs or shares, unless we cease to be a

PFIC and you make a “deemed sale” election with respect to the ADSs or shares, as applicable. If such election is made, you will be deemed to have sold the ADSs or shares you hold at their fair market value on the last day of the last taxable year for which we were a PFIC and any gain from such deemed sale would be subject to the consequences described in the following paragraph. After the deemed sale election, your ADSs or 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” you receive and any gain you recognize from a sale or other disposition (including a pledge) of the ADSs or 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 shares will be treated as an excess distribution. Under these special tax rules:

- the excess distribution or recognized gain will be allocated ratably over your holding period for the ADSs or 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.

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 PFIC rules described above regarding excess distributions and recognized gains. If you make a mark-to-market election for the ADSs or shares, you will include in gross income for each year that we are a PFIC an amount equal to the excess, if any, of the fair market value of the ADSs or shares you hold as of the close of your taxable year over your adjusted basis in such ADSs or shares. You will be allowed a deduction for the excess, if any, of the adjusted basis of the ADSs or 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 shares included in your income for prior taxable years. Amounts included in your income under a mark-to-market election, as well as any gain from the actual sale or other disposition of the ADSs or shares, will be treated as ordinary income. If you make a valid mark-to-market election, any distribution that we make would generally be subject to the tax rules discussed above under “—Taxation of dividends and other distributions on the ADSs or shares,” except that the lower capital gains rate applicable to qualified dividend income generally would not apply.

The mark-to-market election is available only for “marketable stock,” which is stock that is traded in greater 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 NYSE, which is a qualified exchange or other market for these purposes. Consequently, if the ADSs continue to be listed on the NYSE and are regularly traded, and you are a holder of the ADSs, we expect that the mark-to-market election would be available to you if we become a PFIC.

Alternatively, a U.S. Holder of stock of a PFIC may make a “qualified electing fund” election with respect to such corporation to elect out of the PFIC rules described above regarding excess distributions and recognized gains. 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 tax information 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.

You should consult your tax advisors regarding the application of the PFIC rules to your investment in our ADSs or shares and the elections discussed above.

Information reporting and backup withholding

Dividend payments with respect to ADSs or shares and proceeds from the sale, exchange or other disposition of ADSs or shares may be subject to information reporting to the U.S. Internal Revenue Service and possible U.S. backup withholding at a current rate of 28%. Backup withholding will not apply, however, to a U.S. Holder that furnishes a correct taxpayer identification number and makes any other required certification on U.S. Internal Revenue Service Form W-9 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 U.S. Internal Revenue Service Form W-9.

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 U.S. Internal Revenue Service and furnishing any required information in a timely manner.

Under legislation enacted in 2010, U.S. Holders who are individuals generally will be required to report our name, address and such information relating to an interest in the ADSs or shares as is necessary to identify the class or issue of which your ADSs or shares are a part. These requirements are subject to exceptions, including an exception for ADSs or shares held in accounts maintained by certain financial institutions and an exception applicable if the aggregate value of all “specified foreign financial assets” (as defined in the Code) does not exceed \$50,000.

U.S. Holders should consult their tax advisors regarding the application of the U.S. information reporting and backup withholding rules.

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

We have filed with the SEC registration statements on Form F-1 (File Number 333-148550 and 333-151315) and Form F-3 (File Number 333-160221) and prospectuses under the Securities Act with respect to the shares represented by the ADSs. We also filed with the SEC a related registration statement on Form F-6 (File Number 333-148559 and 333-162257) with respect to the ADSs. We also filed with the SEC a registration statement on Form S-8 (File Number 333-153647 and 333-175479) with respect to our securities to be issued under our 2007 share incentive plan.

We are subject to the periodic reporting and other informational requirements of the Exchange Act as applicable to foreign private issuers. Under the Exchange Act, we are required to file reports and other information with the SEC. Specifically, we are required to file annually a Form 20-F: (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. Copies of reports and other information, when so filed with the SEC, can be inspected and copied at the public reference facilities maintained by the SEC at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. You can request copies of these documents, upon payment of a duplicating fee, by writing to the SEC. The public may obtain information regarding the Washington, D.C. Public Reference Room by calling the Commission at 1-800-SEC-0330. The SEC also maintains a web site at [www.sec.gov](http://www.sec.gov) that contains reports, proxy and information statements, and other information regarding registrants that make

electronic filings with the SEC using its EDGAR system. As a foreign private issuer, we are exempt from the rules of the Exchange Act prescribing the furnishing and content of quarterly reports and proxy statements, and our executive officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we are not required under the Exchange Act to file periodic reports and financial statements with the SEC as frequently or as promptly as U.S. companies whose securities are registered under the Exchange Act.

We will furnish The Bank of New York, the depositary of our ADSs, with our annual reports, which will include a review of operations and annual audited consolidated financial statements prepared in conformity with U.S. GAAP, and all notices of shareholders' meetings and other reports and communications that are made generally available to our shareholders. The depositary will make such notices, reports and communications available to holders of ADSs and, upon our request, will mail to all record holders of ADSs the information contained in any notice of a shareholders' meeting received by the depositary from us.

I. Subsidiary Information

Not applicable.

## 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, inflation as measured by the consumer price index in China was negative 0.7%, 3.3% and 5.4% in 2009, 2010 and 2011, respectively.

### Foreign Exchange Risk

Our sales in China are denominated in Renminbi, and our export sales are generally denominated in U.S. dollars and other currencies. Our costs and capital expenditures are largely denominated in Renminbi and foreign currencies, including U.S. dollars, euro and Japanese Yen. Fluctuations in currency exchange rates, particularly between the U.S. dollar and Renminbi and between the euro and Renminbi, could have a significant impact on our financial condition and results of operations, affect our gross and operating profit margins, and result in foreign exchange and operating gains or losses. For example, as of December 31, 2010 and 2011, we held \$81.5 million and \$129.6 million in accounts receivable, respectively, some of which were denominated in U.S. dollars. Had we converted all of our accounts receivable as of either date into Renminbi at an exchange rate of RMB6.2939 for \$1.00, the exchange rate as of December 31, 2011, our accounts receivable would have been RMB513.0 million and RMB815.7 million as of December 31, 2010 and 2011, respectively. Assuming that Renminbi appreciates by a rate of 10% to an exchange rate of RMB5.7217, we would record a loss in the fair value of our accounts receivable in Renminbi terms. A 10% appreciation of Renminbi would result in our holding Renminbi equivalents of RMB466.3 million and RMB741.5 million in accounts receivable as of December 31, 2010 and 2011, respectively. These amounts would therefore reflect a theoretical loss of RMB46.6 million and RMB74.2 million for our accounts receivable as of December 31, 2010 and 2011, respectively. This calculation model is based on multiplying our accounts receivable, which are held in U.S. dollars, by a smaller Renminbi equivalent amount resulting from an appreciation of Renminbi. This calculation model does not take into account optionality nor does it take into account the use of financial instruments.

We incurred foreign currency exchange losses of approximately \$1.4 million, \$1.8 million and gain of \$6.6 million in 2009, 2010 and 2011, respectively. Our risk management strategy includes the use of derivative and non-derivative financial instruments as hedges of foreign currency exchange risk, whenever management determines their use to be reasonable and practical. This strategy does not permit the use of derivative financial instruments for trading purposes, nor does it allow for speculation. The purpose of our foreign currency derivative activities is to protect us from the risk that the U.S. dollar net cash flows resulting from forecasted foreign currency-denominated transactions will be negatively affected by changes in exchange rates. We use foreign currency forward exchange contracts to offset changes in the amount of future cash flows associated with certain third-party sales expected to occur within the next two years. Gains or losses on those contracts are recognized in other income in the consolidated income statements. The recognition of gains or losses resulting from changes in the values of those derivative instruments is based on the use of each derivative instrument. We had net gain of \$6.3 million and net loss of \$15.3 million on derivative



instruments from foreign currency forward exchange contracts in 2010 and 2011, respectively.

#### Interest Rate Risk

Our exposure to interest rate risk relates to interest expenses incurred by our short-term, long-term borrowings, and interest income generated by excess cash invested in demand deposits with original maturities of three months or less. We have not used any derivative financial instruments to manage our interest rate risk exposure due to lack of such financial instruments in China. Historically, we have not been exposed to material risks due to changes in interest rates; however, our future interest income may decrease or interest expenses on our borrowings may increase due to changes in market interest rates. We are currently not engaged in any interest rate hedging activities.

An increase of 100 basis point in interest rates at the reporting dates indicated below would have decreased our loss for the year and increased our equity by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

As of December 31,  
 2009 2010 2011  
 (in thousands)

100 basis point increase  
 Decrease in loss and increase in equity \$3,576 \$4,529 \$8,272

A 100 basis point decrease would have had the equal but opposite effect to the amounts shown above, assuming all other variables remain constant.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

A. Debt Securities

Not applicable.

B. Warrants and Rights

Not applicable

C. Other Securities

Not applicable.

D. American Depositary Shares

Fees and Charges Our ADS Holders May Have to Pay

Our American depositary shares, each of which represents two shares, are listed on the NYSE. The Bank of New York Mellon is the depositary of our ADS program and its principal executive office is situated at One Wall Street, New York, New York 10286. The depositary collects its fees for delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. The depositary collects fees for making distributions to investors by deducting those fees from the amounts distributed or

by selling a portion of distributable property to pay the fees. The depositary may collect its annual fee for depositary services by deductions from cash distributions or by directly billing investors or by charging the book-entry system accounts of participants acting for them. The depositary may generally refuse to provide fee-attracting services until its fees for those services are paid.

Persons depositing or withdrawing shares must pay:

\$5.00 (or less) per 100 ADSs (or portion of 100 ADSs)

\$.02 (or less) per ADS

A fee equivalent to the fee that would be payable if securities distributed to you had been shares and the shares had been deposited for issuance of ADSs

\$.02 (or less) per ADSs per calendar year

***For:***

Issuance of ADSs, including issuances  
·resulting from a distribution of shares or  
rights or other property

Cancellation of ADSs for the purpose of  
·withdrawal, including if the deposit  
agreement terminates

Any cash distribution to ADS registered  
holders

Distribution of securities distributed to  
holders of deposited securities that are  
·distributed by the depositary to ADS  
registered holders

·Depositary services

Persons depositing or withdrawing shares must pay:

Registration or transfer fees

Expenses of the depositary

Taxes and other governmental charges the depositary or the custodian have to pay on any ADS or share underlying an ADS, for example, stock transfer taxes, stamp duty or withholding taxes

Any charges incurred by the depositary or its agents for servicing the deposited securities

Fees and Other Payments Made by the Depositary to Us

**For:**

Transfer and registration of shares on our share register to or from the name of the depositary or its agent when you deposit or withdraw shares

Cable, telex and facsimile transmissions (when expressly provided in the deposit agreement)

Converting foreign currency to U.S. dollars

·As necessary

·As necessary

The depositary has agreed to reimburse us for expenses we incur that are related to the administration and maintenance of our ADS facility including, but not limited to, investor relations expenses, the annual NYSE listing fees, ADS offering expenses or any other program related expenses. There are limits on the amount of expenses for which the depositary will reimburse us, but the amount of reimbursement available to us is not related to the amounts of fees the depositary collects from investors. The annual reimbursement is also conditioned on certain requirements and criteria and will be adjusted proportionately to the extent such requirements or criteria are not met. For 2011, the depositary waived a total of \$120,415 in payments that we owed to the depositary for certain registered holders services the depositary performed for us, but paid us the annual reimbursement of \$1.7 million.

## PART II

### ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

### ITEM 14.

MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

A.—D. Material Modifications to the Rights of Security Holders

None.

E. Use of Proceeds

Application of all the offering proceeds from our completed initial public offering on February 1, 2008, follow-on public offering on June 18, 2008 and follow-on public offering on October 5, 2009 was disclosed in our Annual Report on Form 20-F filed with the SEC on March 8, 2011.

## ITEM 15. CONTROLS AND PROCEDURES

### Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our chief executive officer and our chief financial officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Exchange Act. Based on that evaluation, our chief executive officer and chief financial officer have concluded that our disclosure controls and procedures were effective as of the end of the period covered by this annual report.

### Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) under the Exchange Act. Our management evaluated the effectiveness of our internal control over financial reporting, as required by Rule 13a-15(c) of the Exchange Act, based on criteria established in the framework in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our management has concluded that our internal control over financial reporting was effective as of December 31, 2011.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect all 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.

### Attestation Report of the Registered Public Accounting Firm

Our independent registered public accounting firm, Deloitte Touche Tohmatsu CPA Ltd., who has also audited our consolidated financial statements for the year ended December 31, 2011, has audited the effectiveness of our internal control over financial reporting as of December 31, 2011, as stated in its report, which appears on page F-2 of this annual report on Form 20-F.

### Changes in Internal Control Over Financial Reporting

As required by Rule 13a-15(d), under the Exchange Act, our management, including our chief executive officer and chief financial officer, has conducted an evaluation of our internal control over financial reporting to determine whether any changes occurred during the period covered since last report have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Based on this evaluation, it has been determined that there were no changes in our internal control over financial reporting that occurred during the year ended December 31, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

#### ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our board of directors has determined that Tan Wee Seng, an independent director, is our audit committee financial expert. Mr. Tan satisfies the independent requirements of Section 303A of the Corporate Governance Roles of the NYSE and Rule 60A-3 under the Exchange Act.

#### ITEM 16B. CODE OF ETHICS

Our board of directors has adopted a code of business conduct and ethics that applies to our directors, officers, employees and agents, including certain provisions that specifically apply to our chief executive officer, chief financial officer, chief operating officer, chief technology officer, vice presidents and any other persons who perform similar functions for us. We have posted a copy of our code of business conduct and ethics on our website at [www.renesola.com](http://www.renesola.com). 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 independent registered public accounting firm, for the periods indicated. We did not pay any other fees to our independent registered public accounting firm during the periods indicated below.

|                                   | For the Year Ended December 31, |          |          |
|-----------------------------------|---------------------------------|----------|----------|
|                                   | 2009                            | 2010     | 2011     |
|                                   | (in thousands)                  |          |          |
| Audit fees <sup>(1)</sup>         | \$ 985                          | \$ 1,019 | \$ 1,250 |
| Audit-related fees <sup>(2)</sup> | 232                             | 40       | 65       |
| Tax fees                          | 124                             | 80       | 85       |
| Other fees                        | —                               | —        | —        |

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“Audit fees” means the aggregate fees billed for professional services rendered by our independent registered public (1) accounting firm for the audit of our annual financial statements and the review of our comparative interim financial statements.

(2) “Audit related fees” represents aggregate fees billed for professional services rendered by our independent registered public accounting firm for the assurance and related services rendered in connection with our filing of Form F-3.

The policy of our audit committee is to pre-approve all audit and non-audit services provided by our independent registered public accounting firm, including audit services, audit-related services, tax services and other services as described above, other than those for de minimus services that are approved by the Audit Committee prior to the completion of the audit.

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

Not applicable.

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



In August 2011, the board of directors of ReneSola authorized a share repurchase program under which ReneSola may repurchase up to \$100 million in aggregate value of its outstanding ordinary shares during a six-month period ended February 20, 2012 on the open market or in privately negotiated transactions. As of December 31, 2011, ReneSola had repurchased an aggregate of 645,424 ADSs, representing 1,290,848 ordinary shares, on the open market for a total cash consideration of \$1.9 million.

#### ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

Not applicable.

#### ITEM 16G. CORPORATE GOVERNANCE

Section 303A.08 of the NYSE Listed Company Manual requires a NYSE listed company to obtain its shareholders' approval of all equity-compensation plans, and any material revisions to the terms of such plans. Section 303A.11 permits a foreign private issuer like our company to follow home country practice in certain corporate governance matters. Our British Virgin Islands counsel, Harney Westwood & Riegels LLP, has advised that under the existing British Virgin Islands laws, we are not required to obtain shareholders' approval for amendments to our existing equity incentive plan. Upon board approval in January 2009, we effected amendments to our 2007 share incentive plan. We will continue to follow the British Virgin Islands practice.

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 NYSE listing rules.

ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable.

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 ReneSola Ltd are included at the end of this annual report.

ITEM 19. EXHIBITS

| Exhibit Number | Description of Document  |
|----------------|--|
| 1.1            | Memorandum and Articles of Association, as amended (incorporated by reference to Exhibit 1.1 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 8, 2011)   |
| 2.1            | Registrant's Specimen American Depositary Receipt (incorporated by reference to Exhibit 4.1 from our F-1 registration statement (File No. 333-151315), as amended, initially filed with the Commission on May 30, 2008)  |
| 2.2            | Registrant's Specimen Certificate for Shares (incorporated by reference to Exhibit 4.2 from our F-1 registration statement (File No. 333-151315), as amended, initially filed with the Commission on May 30, 2008)   |
| 2.3            | Form of Deposit Agreement among the Registrant, the depository and holder of the American Depositary Receipts (incorporated by reference to Exhibit 4.3 from our F-1 registration statement (File No. 333-151315), as amended, initially filed with the Commission on May 30, 2008)      |
| 2.4            | Rights Agreement dated as of August 22, 2011 between the registrant and The Bank of New York Mellon, as Rights Agent (incorporated by reference to Exhibit 4.1 of the Report of Foreign Private Issuer on Form 6-K filed with the Securities and Exchange Commission on August 22, 2011) |

- 2.5 Standstill Agreement dated as of August 22, 2011 between the registrant and Xianshou Li (incorporated by reference to Exhibit 4.2 of the Report of Foreign Private Issuer on Form 6-K filed with the Securities and Exchange Commission on August 22, 2011)
- 4.1 2007 Share Incentive Plan, amended and restated as of August 20, 2010 (incorporated by reference to Exhibit 4.1 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 8, 2011)
- 4.2 Form of Indemnification Agreement with the Registrant's Directors (incorporated by reference to Exhibit 10.2 from our F-1 registration statement (File No. 333-151315), as amended, initially filed with the Commission on May 30, 2008)
- 4.3 Service Agreement among the Registrant, Zhejiang Yuhui Solar Energy Source Co., Ltd. and Xianshou Li dated as of May 22, 2006 (incorporated by reference to Exhibit 10.3 from our F-1 registration statement (File No. 333-151315), as amended, initially filed with the Commission on May 30, 2008)

| Exhibit Number | Description of Document   |
|----------------|---|
| 4.4            | Employment Contract between the Registrant and Charles Xiaoshu Bai dated as of June 10, 2009 (incorporated by reference to Exhibit 4.4 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 10, 2009)  |
| 4.5*           | English Translation of Employment Contract between Zhejiang Yuhui Solar Energy Source Co., Ltd. and Robin Liu dated as of July 6, 2009  |
| 4.6            | English Translation of Employment Contract between Zhejiang Yuhui Energy Source Co., Ltd. and John Ding dated as of August 27, 2009 (incorporated by reference to Exhibit 4.7 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 8, 2011)   |
| 4.7            | English Translation of Employment Contract between Zhejiang Yuhui Solar Energy Source Co., Ltd. and Stephen Huang dated as of December 30, 2009 (incorporated by reference to Exhibit 4.31 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 7, 2010)   |
| 4.8            | English Translation of Employment Contract between Zhejiang Yuhui Solar Energy Source Co., Ltd. and Henry Wang dated as of January 4, 2010 (incorporated by reference to Exhibit 4.32 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 7, 2010)  |
| 4.9*           | English Translation of Employment Contract between Zhejiang Yuhui Solar Energy Source Co., Ltd. and Tim Jia dated as of April 26, 2010  |
| 4.10*          | English Translation of Employment Contract between Zhejiang Sciborn New Material Technology Co., Ltd. and Zhidong Zheng dated as of January 19, 2012  |
| 4.11*          | Working Contract between Zhejiang Yuhui Solar Energy Source Co., Ltd. and Anthony Hung effective as of May 30, 2011   |
| 4.12*          | Working Contract between Zhejiang Yuhui Solar Energy Source Co., Ltd. and Charles Ding effective as of August 15, 2011  |
| 4.13*          | English Translation of Employment Contract between Renesola Deutschland Gmbh and Jijun Shi effective as of February 1, 2012   |
| 4.14*          | Employment Contract between the ReneSola America Inc. and Kevin Chen effective as of February 27, 2012  |
| 4.15*          | English Translation of Employment Contract between the Zhejiang Yuhui Solar Energy Source Co., Ltd. and Xiaoliang Liang dated as of March 13, 2012  |
| 4.16           | English Translation of Polysilicon Supply Contract between Sichuan Yongxiang Polysilicon Co., Ltd. and Zhejiang Yuhui Energy Source Co, Ltd. dated as of October 16, 2007 (incorporated by reference to Exhibit 10.34 from our F-1 registration statement (File No. 333-151315), as amended, initially filed with the Commission on May 30, 2008) |
| 4.17           |   |

English Translation of Polysilicon Purchase and Sales Contract between Daqo New Material Co., Ltd. and Zhejiang Yuhui Solar energy Source Co., Ltd. dated as of October 31, 2007 (incorporated by reference to Exhibit 10.39 from our F-1 registration statement (File No. 333-151315), as amended, initially filed with the Commission on May 30, 2008)

4.18 English Translation of Products Purchase and Sales Contract between Jingao Solar Co., Ltd. and Zhejiang Yuhui Solar Energy Source Co., Ltd. dated as of December 13, 2007 (incorporated by reference to Exhibit 10.40 from our F-1 registration statement (File No. 333-151315), as amended, initially filed with the Commission on May 30, 2008)

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| Exhibit Number | Description of Document  |
|----------------|--|
| 4.19           | English Translation of Loan Agreement between Sichuan ReneSola Silicon Material Co., Ltd. and Bank of Construction dated as of January 24, 2009 (incorporated by reference to Exhibit 4.26 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 10, 2009) |
| 4.20           | English Translation of Guarantee Contract among China Construction Bank, Xiahe Lian and Xianshou Li date as of January 24, 2009 (incorporated by reference to Exhibit 4.27 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 10, 2009)                 |
| 4.21*          | English Translation of Supplemental Agreement to Guarantee Contract among China Construction Bank, Xiahe Lian and Xianshou Li date as of February 29, 2012   |
| 4.22           | English Translation of Lease Agreement between Zhejiang Yuhuan and Zhejiang Yuhui dated January 1, 2009 (incorporated by reference to Exhibit 4.30 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 7, 2010)  |
| 8.1*           | Subsidiaries of the registrant   |
| 11.1           | Code of Business Conduct and Ethics of the Registrant (incorporated by reference to Exhibit 99.1 from our F-1 registration statement (File No. 333-151315), as amended, initially filed with the Commission on May 30, 2008)   |
| 12.1*          | CEO Certification, pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002  |
| 12.2*          | CFO Certification, pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002  |
| 13.1**         | CEO Certification, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002  |
| 13.2**         | CFO Certification, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002  |
| 15.1*          | Consent of Harney Westwood & Riegels LLP   |
| 15.2*          | Consent of Haiwen & Partners   |
| 15.3*          | Consent of Deloitte Touche Tohmatsu CPA Ltd.   |

\*

Filed with this annual report on Form 20-F.

\*\*

Furnished with this annual report on Form 20-F.

SIGNATURES

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

RENESOLA LTD

By: /s/ Xianshou Li  
Name: Xianshou Li  
Title: Director and Chief Executive Officer

Date: April 27, 2012

[Signature Page to 20-F]



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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of

ReneSola Ltd:

We have audited the accompanying consolidated balance sheets of ReneSola Ltd and subsidiaries (the “Company”) as of December 31, 2010 and 2011, and the related consolidated income statements, consolidated statements of changes in equity and comprehensive income (loss), and consolidated statements of cash flows for each of the three years in the period ended December 31, 2011 and the related financial statement schedule included in Schedule I. These financial statements and financial statement schedule are the responsibility of the Company’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 ReneSola Ltd and subsidiaries as of December 31, 2010 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011, 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 Company’s internal control over financial reporting as of December 31, 2011, 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 April 27, 2012 expressed an unqualified opinion on the Company’s internal control over financial reporting.

/s/ Deloitte Touche Tohmatsu CPA Ltd.  
Deloitte Touche Tohmatsu CPA Ltd.

Shanghai, China

April 27, 2012

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of

ReneSola Ltd:

We have audited the internal control over financial reporting of ReneSola Ltd and subsidiaries (the “Company”) as of December 31, 2011, 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 Annual 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 the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provide 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, 2011, 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, 2011 of the Company and our report dated April 27, 2012 expressed an unqualified opinion on those financial statements and financial statement schedule.

/s/ Deloitte Touche Tohmatsu CPA Ltd.  
Deloitte Touche Tohmatsu CPA Ltd.

Shanghai, China

April 27, 2012

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**RENESOLA LTD****CONSOLIDATED BALANCE SHEETS****(Amounts expressed in U.S. dollars)**

|  | As of December 31,     |                        |
|--|------------------------|------------------------|
|  | 2010                   | 2011                   |
| <b>ASSETS</b>  |                        |                        |
| Current assets:  |                        |                        |
| Cash and cash equivalents  | \$290,701,669          | \$379,039,116          |
| Restricted cash  | 33,640,407             | 58,334,770             |
| Available-for-sale investment  | 3,331,540              | —                      |
| Accounts receivable, net of allowances for doubtful accounts of \$2,412,695 and \$1,090,273 as of December 31, 2010 and 2011, respectively | 81,540,094             | 129,635,595            |
| Inventories  | 170,598,793            | 154,181,613            |
| Advances to suppliers—current  | 26,315,038             | 16,163,910             |
| Amounts due from related parties   | 389,091                | 6,207,044              |
| Value added tax recoverable  | 44,102,175             | 41,858,020             |
| Income tax recoverable   | 4,021,157              | 7,956,391              |
| Prepaid expenses and other current assets  | 16,946,345             | 18,717,656             |
| Deferred convertible notes issuance costs—current  | —                      | 784,456                |
| Assets held-for-sale   | —                      | 6,452,946              |
| Derivative assets  | 11,659,723             | 880,917                |
| Deferred tax assets—current  | 14,762,758             | 12,709,364             |
| <b>Total current assets</b>  | <b>698,008,790</b>     | <b>832,921,798</b>     |
| Property, plant and equipment, net   | 801,471,848            | 980,164,615            |
| Prepaid land use right   | 37,188,981             | 48,563,527             |
| Deferred tax assets  | 8,525,910              | 25,156,789             |
| Deferred convertible notes issuance costs—non-current  | —                      | 2,510,211              |
| Advances for purchases of property, plant and equipment  | 26,930,088             | 25,866,532             |
| Advances to suppliers—non-current  | 13,743,176             | 17,643,874             |
| Other long-lived assets  | 2,753,214              | 10,501,710             |
| Goodwill   | 5,323,406              | 5,646,522              |
| <b>Total assets</b>  | <b>\$1,593,945,413</b> | <b>\$1,948,975,578</b> |

See notes to consolidated financial statements.

**RENESOLA LTD****CONSOLIDATED BALANCE SHEETS—(Continued)**

(Amounts expressed in U.S. dollars)

|   | As of December 31, |               |
|---|--------------------|---------------|
|   | 2010               | 2011          |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>   |                    |               |
| Current liabilities:  |                    |               |
| Short-term borrowings   | \$400,797,904      | \$570,893,649 |
| Accounts payable  | 220,798,309        | 235,813,928   |
| Advances from customers—current   | 57,396,476         | 58,237,920    |
| Amounts due to related parties  | 24,691             | 4,913,077     |
| Other current liabilities   | 79,633,135         | 114,968,837   |
| Income tax payable  | 16,437,841         | 4,111,306     |
| Deferred tax liabilities  | 1,778,355          | 220,229       |
| Derivative liabilities  | 1,380,585          | 218,106       |
| Total current liabilities   | 778,247,296        | 989,377,052   |
| Convertible notes payable—non-current   | —                  | 111,616,000   |
| Long-term borrowings  | 121,515,030        | 144,668,887   |
| Advances from customers—non-current   | 76,080,371         | 48,051,056    |
| Warranty  | 8,701,042          | 12,835,583    |
| Deferred gains  | 20,604,133         | 29,141,058    |
| Other long-term liabilities   | 2,333,045          | 12,144,486    |
| Total liabilities   | 1,007,480,917      | 1,347,834,122 |
| Commitments and contingencies (see Note 19)   |                    |               |
| Shareholders' equity  |                    |               |
| Common shares (no par value; 500,000,000 shares authorized at December 31, 2010 and 2011; 174,596,912 shares issued and 173,846,412 shares outstanding at December 31, 2010; 174,636,912 shares issued and 172,613,664 shares outstanding at December 31, 2011) | 422,039,086        | 422,313,848   |
| Additional paid-in capital  | 19,857,905         | 4,110,849     |
| Treasury stock  | —                  | (1,943,822 )  |
| Retained earnings   | 108,386,781        | 104,859,324   |
| Accumulated other comprehensive income  | 36,180,724         | 71,645,808    |
| Total equity attributable to ReneSola Ltd   | 586,464,496        | 600,986,007   |
| Noncontrolling interest   | —                  | 155,449       |
| Total shareholders' equity  | 586,464,496        | 601,141,456   |

|  |                 |                 |
|--|-----------------|-----------------|
| Total liabilities and shareholders' equity | \$1,593,945,413 | \$1,948,975,578 |
|--|-----------------|-----------------|

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**RENESOLA LTD****CONSOLIDATED INCOME STATEMENTS****(Amounts expressed in U.S. dollars, except number of shares and per share data)**

|   | Years ended December 31, |                 |               |
|---|--------------------------|-----------------|---------------|
|   | 2009                     | 2010            | 2011          |
| Net revenues:   |                          |                 |               |
| Product sales   | \$488,507,712            | \$1,127,537,872 | \$912,809,125 |
| Processing services   | 21,897,067               | 78,040,989      | 72,470,242    |
| Total net revenues  | 510,404,779              | 1,205,578,861   | 985,279,367   |
| Cost of revenues  |                          |                 |               |
| Product sales   | 541,569,928              | 807,457,192     | 841,325,640   |
| Processing services   | 12,036,661               | 50,157,941      | 47,900,583    |
| Total cost of revenues  | 553,606,589              | 857,615,133     | 889,226,223   |
| Gross profit (loss)   | (43,201,810 )            | 347,963,728     | 96,053,144    |
| Operating expenses (income):  |                          |                 |               |
| Sales and marketing   | 5,398,559                | 8,359,858       | 17,232,686    |
| General and administrative  | 29,083,848               | 43,314,291      | 38,549,922    |
| Research and development  | 14,506,591               | 36,262,716      | 47,055,271    |
| Other operating expense (income)                                      | (1,632,857 )             | 14,082,643      | (18,327,201 ) |
| Total operating expenses  | 47,356,141               | 102,019,508     | 84,510,678    |
| Income (loss) from operations   | (90,557,951 )            | 245,944,220     | 11,542,466    |
| Non-operating expenses (income):                                      |                          |                 |               |
| Interest income   | (1,715,675 )             | (1,835,016 )    | (7,862,339)   |
| Interest expense  | 17,122,262               | 23,245,598      | 37,190,296    |
| Foreign exchange losses (gains)                                       | 1,433,404                | 1,813,711       | (6,612,305 )  |
| (Gains) losses on derivatives, net                                    | —                        | (6,268,072 )    | 15,296,530    |
| Investment loss   | —                        | —               | 193,408       |
| Gains on repurchase of convertible bonds                              | (7,995,337 )             | (5,891 )        | (28,349,939 ) |
| Other-than-temporary impairment loss on available-for-sale investment | 13,366,936               | —               | 6,207,119     |
| Total non-operating expenses  | 22,211,590               | 16,950,330      | 16,062,770    |
| Income (loss) before income tax, noncontrolling interests             | (112,769,541)            | 228,993,890     | (4,520,304 )  |
| Income tax benefit (expense)  | 41,156,343               | (59,997,804 )   | 4,851,479     |

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|  |                 |               |             |
|--|-----------------|---------------|-------------|
| Equity in loss of investee, net of tax                                 | (290,469 )      | —             | —           |
| Net income (loss)  | (71,903,667 )   | 168,996,086   | 331,175     |
| Less: net loss attributed to noncontrolling interests                  | —               | —             | (1,789 )    |
| Net income (loss) attributed to holders of ordinary shares             | \$(71,903,667 ) | \$168,996,086 | \$332,964   |
| Earnings (loss) per share  |                 |               |             |
| Basic  | \$(0.49 )       | \$0.98        | \$0.00      |
| Diluted  | \$(0.49 )       | \$0.97        | \$0.00      |
| Weighted average number of shares used in computing earnings per share |                 |               |             |
| Basic  | 147,553,679     | 172,870,921   | 173,496,901 |
| Diluted  | 147,553,679     | 175,111,731   | 173,870,162 |

See notes to consolidated financial statements

## RENESOLA LTD

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY AND COMPREHENSIVE INCOME (LOSS)

(Amount expressed in U.S. dollars, except number of shares)

|   | Common shares |               | Treasury | Additional   | Retained        | Accumulated   | Equity          |    |
|---|---------------|---------------|----------|--------------|-----------------|---------------|-----------------|----|
|   | Shares        | Amount        | stock    | paid-in      | earnings        | other         | (Deficit)       |    |
|   |               |               |          | capital      | (accumulated    | comprehensive | attributable to |    |
|   |               |               |          |              | deficit)        | income        | ReneSola Ltd    |    |
| Balance at January 1, 2009              | 137,624,912   | \$330,665,587 | \$—      | \$17,769,228 | \$11,294,362    | \$22,079,224  | \$382,087,481   | \$ |
| Net loss                                | —             | —             | —        | —            | (71,903,667 )   | —             | (71,903,667 )   |    |
| Foreign exchange translation adjustment | —             | —             | —        | —            | —               | (25,353 )     | (25,353 )       |    |
| Total comprehensive income (loss)       |               |               |          |              |                 |               | (71,929,020 )   |    |
| Repurchase of convertible bonds         | 4,000,000     | 14,979,469    | —        | —            | —               | —             | 14,979,469      |    |
| Issuance of common shares               | 31,000,000    | 73,625,000    | —        | —            | —               | —             | 73,625,000      |    |
| Share issuance costs                    | —             | (5,517,092 )  | —        | —            | —               | —             | (5,517,092 )    |    |
| Share-based compensation                | —             | —             | —        | 3,296,173    | —               | —             | 3,296,173       |    |
| Decrease due to deconsolidation         | —             | —             | —        | —            | —               | —             | —               |    |
| Balance at December 31, 2009            | 172,624,912   | \$413,752,964 | \$—      | \$21,065,401 | \$(60,609,305 ) | \$22,053,871  | \$396,262,931   | \$ |
| Net profit                              | —             | —             | —        | —            | 168,996,086     | —             | 168,996,086     |    |
| Foreign exchange translation adjustment | —             | —             | —        | —            | —               | 17,170,111    | 17,170,111      |    |
| Changes in fair value of AFS            | —             | —             | —        | —            | —               | (2,329,761 )  | (2,329,761 )    |    |
| Changes in fair value of cash           | —             | —             | —        | —            | —               | (713,497 )    | (713,497 )      |    |

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|   |              |               |               |              |               |              |  |               |
|---|--------------|---------------|---------------|--------------|---------------|--------------|--|---------------|
| flow hedges                                       |              |               |               |              |               |              |  |               |
| Total comprehensive income (loss)                 |              |               |               |              |               |              |  | 183,122,939   |
| Share exercised by employees                      | 1,221,500    | 8,286,122     | —             | (5,142,061 ) | —             | —            |  | 3,144,061     |
| Share-based compensation                          | —            | —             | —             | 3,934,565    | —             | —            |  | 3,934,565     |
| Balance at December 31, 2010                      | 173,846,412  | \$422,039,086 | \$—           | \$19,857,905 | \$108,386,781 | \$36,180,724 |  | \$586,464,496 |
| Net income (loss)                                 | —            | —             | —             | —            | 332,964       | —            |  | 332,964       |
| Foreign exchange translation adjustment           | —            | —             | —             | —            | —             | 32,421,826   |  | 32,421,826    |
| Change in fair value of AFS                       | —            | —             | —             | —            | —             | 2,329,761    |  | 2,329,761     |
| Changes in fair value of cash flow hedges         | —            | —             | —             | —            | —             | 713,497      |  | 713,497       |
| Total comprehensive income (loss)                 |              |               |               |              |               |              |  | 35,798,048    |
| Share exercised by employees                      | 58,100       | 274,762       | —             | (126,018 )   | —             | —            |  | 148,744       |
| Share-based compensation                          | —            | —             | —             | 4,359,540    | —             | —            |  | 4,359,540     |
| Capped call transaction                           | —            | —             | —             | (19,980,578) | (3,860,421 )  | —            |  | (23,840,999 ) |
| Repurchase of common shares                       | (1,290,848 ) | —             | (1,943,822)   | —            | —             | —            |  | (1,943,822 )  |
| Capital contribution from noncontrolling interest | —            | —             | —             | —            | —             | —            |  | —             |
| Balance at December 31, 2011                      | 172,613,664  | \$422,313,848 | \$(1,943,822) | \$4,110,849  | \$104,859,324 | \$71,645,808 |  | \$600,986,007 |

See notes to consolidated financial statements

**RENESOLA LTD****CONSOLIDATED STATEMENTS OF CASH FLOWS****(Amounts expressed in U.S. dollars)**

|  | Years ended December 31, |                |              |
|--|--------------------------|----------------|--------------|
|  | 2009                     | 2010           | 2011         |
| Operating activities:  |                          |                |              |
| Net income (loss)  | \$(71,903,667)           | \$ 168,996,086 | \$ 331,175   |
| Adjustment to reconcile net income to net cash used in operating activities:   |                          |                |              |
| Equity in loss of investee   | 290,469                  | —              | —            |
| Investment loss  | —                        | —              | 193,408      |
| Inventory write-down   | 71,252,806               | 1,165,610      | 48,992,463   |
| Depreciation and amortization  | 32,745,074               | 56,353,672     | 82,730,940   |
| Amortization of deferred convertible bond issuance costs and premium   | 3,510,773                | 332,668        | 881,172      |
| Allowance of doubtful receivables , advance to suppliers and prepayment for purchases of property, plant and equipment | 9,872,894                | 3,919,044      | (1,374,668 ) |
| (Gains) losses on derivatives  | —                        | (6,268,072 )   | 15,296,530   |
| Share-based compensation   | 3,296,173                | 3,934,565      | 4,359,540    |
| Loss on disposal of long-lived assets  | 12,798                   | 1,254,267      | 558,236      |
| Gain on early extinguishment of debt(net of inducement charges in 2009)  | (7,995,337 )             | (5,891 )       | (28,349,939) |
| Gain from settlement of advances from supplier   | (554,731 )               | —              | —            |
| Other-than-temporary impairment loss on available-for-sale investment  | 13,366,936               | —              | 6,207,119    |
| Provision for firm purchase commitment   | —                        | —              | 3,940,000    |
| Changes in assets and liabilities:   |                          |                |              |
| Accounts receivable  | (62,658,713)             | 26,886,223     | (79,455,716) |
| Inventories  | (1,721,040 )             | (28,433,451 )  | (24,250,952) |
| Advances to suppliers  | 23,888,226               | (32,383,209 )  | 7,195,626    |
| Amounts due from related parties   | (11,807,383)             | 63,815         | (887,983 )   |
| Value added tax recoverable  | (33,376,658)             | 9,276,785      | 4,274,222    |
| Prepaid expenses and other current assets  | 5,041,008                | (11,130,425 )  | (954,257 )   |
| Prepaid land use right   | 439,624                  | (301,837 )     | (5,055,881 ) |
| Cash received from government subsidy  | —                        | 11,474,282     | 1,835,979    |
| Accounts payable   | 38,022,985               | 121,462,667    | 4,559,739    |
| Advances from customers  | (23,220,017)             | (1,362,227 )   | (27,024,836) |
| Income tax payables  | 152,617                  | 9,555,345      | (16,303,466) |
| Other current liabilities  | 1,429,813                | 18,933,622     | (13,293,043) |
| Other long-term liabilities  | (472,518 )               | (138,861 )     | 4,680,589    |
| Accrued warranty cost  | 561,424                  | 5,260,590      | 3,614,235    |
| Deferred tax assets  | (43,850,841)             | 44,325,073     | (14,758,528) |

|   |              |             |              |
|---|--------------|-------------|--------------|
| Net cash provided by (used in) operating activities | (53,677,285) | 403,170,341 | (22,058,296) |
|---|--------------|-------------|--------------|

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**RENESOLA LTD****CONSOLIDATED STATEMENTS OF CASH FLOWS—(Continued)**

(Amounts expressed in U.S. dollars)

|  | Years ended December 31, |                    |                    |
|--|--------------------------|--------------------|--------------------|
|  | 2009                     | 2010               | 2011               |
| Investing activities:                                    |                          |                    |                    |
| Purchases of property, plant and equipment               | (358,084,269)            | (137,714,729)      | (132,826,861)      |
| Advances for purchases of property, plant and equipment  | 132,290,980              | (6,816,721 )       | (19,892,328 )      |
| Purchases of other long-lived assets                     | (1,411,489 )             | 1,186,219          | (239,252 )         |
| Cash received from government subsidy                    | 5,959,476                | 2,407,787          | 5,296,379          |
| Proceeds from disposal of property, plant and equipment  | —                        | 149,937            | 155,157            |
| Proceeds from disposal of investment                     | (634,552 )               | —                  | —                  |
| Changes in restricted cash                               | (18,958,147 )            | (7,323,041 )       | (22,454,812 )      |
| Cash consideration for acquisition, net of cash received | (16,831,050 )            | —                  | (1,172,824 )       |
| Net cash paid for settlement of derivatives              | —                        | (3,160,043 )       | (6,331,995 )       |
| <br>Net cash used in investing activities                | <br>(257,669,051)        | <br>(151,270,591)  | <br>(177,466,536)  |
| Financing activities:                                    |                          |                    |                    |
| Proceeds from bank borrowings                            | 767,191,912              | 665,007,359        | 898,775,862        |
| Repayment of bank borrowings                             | (445,677,335)            | (708,249,446)      | (735,173,471)      |
| Cash paid for issuance costs                             | —                        | —                  | (7,154,772 )       |
| Proceeds from issuance of common shares                  | 73,625,000               | —                  | —                  |
| Cash paid for share issuance cost                        | (5,265,134 )             | —                  | —                  |
| Proceeds from exercise of stock options                  | —                        | 3,144,061          | 148,744            |
| Cash paid for repurchase of convertible notes            | (84,121,078 )            | (32,715,276 )      | (57,055,127 )      |
| Cash paid for repurchase of common shares                | —                        | —                  | (1,943,822 )       |
| Proceeds from issuance of convertible notes              | —                        | —                  | 200,000,000        |
| Purchase of capped call transaction                      | —                        | —                  | (23,840,999 )      |
| Contribution from noncontrolling interests               | —                        | —                  | 157,238            |
| <br>Net cash provided by (used in) financing activities  | <br>305,753,365          | <br>(72,813,302 )  | <br>273,913,653    |
| <br>Effect of exchange rate changes                      | <br>67,120               | <br>4,807,276      | <br>13,948,626     |
| <br>Net increase (decrease) in cash and cash equivalents | <br>(5,525,851 )         | <br>183,893,724    | <br>88,337,447     |
| Cash and cash equivalents, beginning of year             | 112,333,796              | 106,807,945        | 290,701,669        |
| <br>Cash and cash equivalents, end of year               | <br>\$ 106,807,945       | <br>\$ 290,701,669 | <br>\$ 379,039,116 |
| Supplemental schedule of non-cash transactions           |                          |                    |                    |
| Payables for purchase of property, plant and equipment   | \$ 51,214,481            | \$ 49,088,978      | \$ 84,832,129      |
| Prepayment settled with equity interest                  | \$ 19,019,325            | —                  | —                  |

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|  |              |               |              |
|--|--------------|---------------|--------------|
| Banknotes, included in accounts receivable, used to purchase equipment | —            | —             | \$37,704,054 |
| Supplemental disclosure of cash flow information                       |              |               |              |
| Interest paid, net of interest capitalized                             | \$12,049,797 | \$23,856,455  | \$38,742,727 |
| Income tax paid (return)   | \$(552,613)  | ) \$2,890,157 | \$28,049,551 |

See notes to consolidated financial statements

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**RENESOLA LTD****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****1. ORGANIZATION AND NATURE OF OPERATIONS**

ReneSola Ltd was incorporated in the British Virgin Island on March 17, 2006. ReneSola Ltd and its subsidiaries (collectively the “Company”) are engaged in the manufacture and sale of solar power products including virgin polysilicon, monocrystalline and multicrystalline solar wafers and photovoltaic (PV) cells and modules. On January 29, 2008, the Company became listed on the New York Stock Exchange (NYSE) in the United States.

The following table lists all subsidiaries of the Company as of December 31, 2011:

| Subsidiaries  | Date of acquisition | Date of incorporation | Place of incorporation             | Percentage of ownership |
|---|---------------------|-----------------------|------------------------------------|-------------------------|
| Zhejiang Yuhui Solar Energy Source Co., Ltd.<br>(“Zhejiang Yuhui”)          | N/A                 | August 7, 2003        | People’s Republic of China (“PRC”) | 100%                    |
| ReneSola America Inc.<br>(“ReneSola America”)                               | N/A                 | November 12, 2006     | United States of America           | 100%                    |
| ReneSola Singapore Pte Ltd.<br>(“ReneSola Singapore”)                       | N/A                 | March 28, 2007        | Singapore                          | 100%                    |
| Sichuan ReneSola Silicon Material Co., Ltd.<br>(“Sichuan ReneSola”)         | N/A                 | August 25, 2007       | PRC                                | 100%                    |
| Yuneng Enterprise Consulting (Shanghai) Co., Ltd<br>(“ReneSola Shanghai”)   | N/A                 | March 20, 2009        | PRC                                | 100%                    |
| Wuxi Jiacheng Solar Energy Technology Co., Ltd.<br>(“JC Solar”)             | May 31, 2009        | November 8, 2005      | PRC                                | 100%                    |
| Zhejiang ReneSola Photovoltaic Materials Co., Ltd.<br>(“Zhejiang ReneSola”) | N/A                 | April 30, 2010        | PRC                                | 100%                    |
| Sichuan Ruiyu Photovoltaic Materials Co., Ltd.<br>(“Sichuan Ruiyu”)         | N/A                 | August 24, 2010       | PRC                                | 100%                    |

|  |     |                    |         |      |
|--|-----|--------------------|---------|------|
| Sichuan Ruixin Photovoltaic Materials Co., Ltd.<br>("Sichuan Ruixin")      | N/A | November 23, 2010  | PRC     | 100% |
| Zhejiang Sciborn New Material Technology Co., Ltd.<br>("Zhejiang Sciborn") | N/A | June 1, 2011       | PRC     | 100% |
| Sichuan SiLiDe Composite Materials Co., Ltd.<br>("Sichuan SiLiDe")         | N/A | July 11, 2011      | PRC     | 100% |
| Qinghai Yuihui New Energy Co., Ltd.<br>("Qinghai Yuihui")                  | N/A | August 30, 2011    | PRC     | 100% |
| ReneSola Deutschland GmbH<br>("Renesola Germany")                          | N/A | September 26, 2011 | Germany | 100% |
| Jiashan Xujing Real Estate Development Co., Ltd.<br>("Jiashan Xujing")     | N/A | October 19, 2011   | PRC     | 100% |
| Sichuan OuRuida Science Park Co., Ltd.<br>("Sichuan OuRuida")              | N/A | October 27, 2011   | PRC     | 100% |
| Zhejiang Ruiyi New Material Technology Co., Ltd.<br>("Zhejiang Ruiyi")     | N/A | October 31, 2011   | PRC     | 90%  |

Zhejiang Yuhui commenced operations in July 2005. ReneSola America commenced operations in November 2006. ReneSola Singapore commenced operations in May 2007. Sichuan ReneSola commenced operations in July 2009. JC Solar was acquired on May 31, 2009. Zhejiang ReneSola commenced operations in January 2011. Sichuan Ruiyu commenced operations in July 2011. Zhejiang Sciborn commenced operations in July 2011. Qinghai Yuihui started trial production in December, 2011, ReneSola Shanghai, Sichuan Ruixin, Sichuan OuRuida, Sichuan SiLiDe, Jiashan Xujing, Zhejiang Ruiyi and ReneSola Germany had not commenced operations as of December 31, 2011.

\*: Sichuan Ruisheng Photovoltaic Material Co. Ltd. was incorporated in PRC on November 23, 2010, and was merged into Sichuan Aoguang Silicon Industry Co. Ltd on August 25, 2011. On November 30, 2011, Aoguang was merged into Sichuan ReneSola.

### *Acquisition of Subsidiaries*

(a) On May 20, 2009, ReneSola Ltd's wholly owned subsidiary Zhejiang Yuhui Solar Energy Source Co., Ltd entered into an agreement to acquire the entire share capital of solar cell and module manufacturer, Wuxi Jiacheng Solar Energy Technology Co. ("JC Solar") (the "Acquisition"). The total consideration for the Acquisition was RMB140,300,000 (\$20,548,338). The acquisition was completed on May 31, 2009 (see Note 3).

(b) On June 9, 2011, ReneSola Ltd's wholly owned subsidiary Sichuan Ruisheng Photovoltaic Materials Co., Ltd. entered into an agreement to acquire the entire share capital of polysilicon manufacture, Sichuan Aoguang Silicon Industry Co., Ltd. ("Aoguang") (the "Acquisition"). The total consideration for the Acquisition was RMB7,600,000 (\$1,172,824 ). The acquisition was completed on June 10, 2011(see Note 3). On November 30, 2011, Aoguang was merged into Sichuan ReneSola.

## **2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES**

### *(a) Basis of presentation*

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

As of December 31, 2011, the Company's current liabilities exceeded its current assets by US\$156,455,254. In addition, the Company experienced negative cash flows from operations during the year ended December 31, 2011.

However, Management believes the Company has the ability to meet its financial obligations as they come due, for at least the next twelve months and will continue as a going concern by (i) closely monitoring and managing the Company's working capital, which may involve seeking extended payment terms from its suppliers, strengthening the accounts receivable collection, implementing more stringent inventory management procedures and will consider liquidation of accounts receivable by discounting banknotes with the relevant financial institutions, as needed, to ensure the sufficient cash flows from operations are obtained to meet the Company's liquidity requirements; and (ii) obtaining additional debt facilities in order to fund working capital needs, as necessary.

The Company's continuation as a going concern is dependent upon its ability to generate sufficient cash flows to meet its obligations in a timely manner and to obtain additional financing or refinancing as may be required. The Company has the ability to take the above actions to enable it to continue its operations for at least the next twelve months. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

***(b) Basis of consolidation***

The consolidated financial statements include the financial statements of ReneSola and its subsidiaries. All inter-company transactions, balances and unrealized profits and losses have been eliminated on consolidation.

***(c) Fair value measurement***

The Company estimates fair value of financial assets and liabilities as the price that would be received from the sales of an asset or paid to transfer a liability (an exit price) on the measurement date in an orderly transaction between market participants.

When available, the Company measures the fair value of financial instruments based on quoted market prices in active markets, valuation techniques that use observable market-based inputs or unobservable inputs that are corroborated by market data. When observable market prices are not readily available, the Company generally estimates the fair value using valuation techniques that rely on alternate market data or inputs that are generally less readily observable from objective sources and are estimated based on pertinent information available at the time of the applicable reporting periods. See Note 7, "Fair Value Measurements", for further details.

***(d) 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, disclosures of contingent assets and liabilities at the date of these financial statements and the reported amounts of revenues and expenses for the reporting periods presented. Actual results could materially differ from these estimates. Significant accounting estimates which are susceptible to change as more information becomes available include allowances for doubtful receivables and advances to suppliers, lower of cost or market charges and other provisions for inventories, accrued liabilities, valuation allowances for long-term prepayments, valuation of deferred tax assets, accruals of warranty costs, useful lives of property, plant and equipment and recoverability of the carrying value of long-lived assets and assets held-for-sale, the determination of fair value of financial instruments, assumptions used in foreign exchange forward contracts and valuation of derivative and other financial instruments, impairment of goodwill, assumptions used to measure other-than-temporary-impairment for long-term equity investment and valuation of share-based compensation inclusive of forfeiture rates of stock options.

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***(e) Cash and cash equivalents***

Cash and cash equivalents represent cash on hand and held with banks, including demand deposits, which are unrestricted as to withdrawal and use, and which have original maturities of three months or less when purchased.

***(f) Restricted cash***

Restricted cash represents amounts held by banks, which are not available for the Company's general use, as security for issuance of letters of credit, bank acceptance bills, bank borrowings and bank drafts. Upon maturity of the letters of credit and repayment of bank acceptance bills, bank borrowings and bank drafts which generally occur within one year, the deposits are released by the bank and become available for general use by the Company.

***(g) Inventories***

Inventories are stated at the lower of cost or market. Cost is determined by the weighted-average method for work-in-process and finished goods and by the first-in-first-out method for raw materials. Inventory costs comprise direct materials, direct labor and those overhead costs that have been incurred in bringing the inventories to their present location and conditions.

Adjustments are recorded to write down the cost of obsolete and excess inventory to the estimated market value based on historical and forecast demand. The estimated market value is measured as the estimated selling price of each class of the inventories in the ordinary course of business less estimated costs of completion and disposal and normal profit margin.

The Company outsources portions of its manufacturing process, including cutting ingots into wafers and converting wafers into solar cells, to various third-party manufacturers. These outsourcing arrangements may or may not include transfer of title of the raw material inventory (ingots or wafers) to the third-party manufacturers.

For the outsourcing arrangements, the Company maintains such inventory on the Company's balance sheet as raw materials inventory while it is in physical possession of the third-party manufacturer. Upon receipt of the processed inventory, it is reclassified as work-in-process inventory and a processing fee is paid to the third-party manufacturer. The processing fees paid to the manufacturer are added to the cost of inventory.

The Company provides solar wafer processing services on behalf of third parties who have their own polysilicon supplies. Under certain of these solar wafer processing service arrangements, the Company purchases raw materials from a customer and agrees to sell a specified quantity of solar wafers produced from such materials back to the same customer. The quantity of solar wafers sold back to the customer under these processing arrangements is consistent with the amount of raw materials purchased from the customer based on current production conversion rates. The Company records revenue from these processing transactions based on the amount received for solar wafers sold less the amount paid for the raw materials purchased from the customer. The revenue recognized is recorded as solar wafer processing revenue and the production costs incurred related to providing the processing services are recorded as solar wafer processing costs within cost of revenue.

On occasion, the Company enters into firm purchase commitments to acquire materials from its suppliers. A firm purchase commitment represents an agreement that specifies all significant terms, including the price and timing of the transactions, and includes a disincentive for nonperformance that is sufficiently large to make performance probable. This disincentive is generally in the form of a “take or pay” provision which requires the Company to pay for committed volumes regardless of whether the Company actually takes possession of the materials. The Company evaluates these agreements whenever market prices decrease such that the commitment price is significantly higher than market. In these instances, the Company evaluates the need to record a loss, if any, on firm purchase commitments using a lower of cost or market approach consistent with that used to value inventory (see Note 5).

#### *(h) Investments*

Investments in marketable equity securities are classified as trading, available-for-sale, or held-to-maturity. Investments classified as trading are reported at fair value with unrealized gains and losses included in income. Investments classified as available-for-sale are reported at fair value with unrealized gains and losses recorded in other comprehensive income. The cost of investments sold is determined by specific identification.

The Company routinely reviews available-for-sale securities for other-than-temporary declines in fair value below the cost basis, and when events or changes in circumstances indicate the carrying value of an asset may not be recoverable, the security is written down to fair value. For the years ended December 31, 2009, 2010, and 2011, the Company recorded other-than-temporary impairment loss on the only available-for-sale investment of \$13,366,936, \$nil, and \$6,207,119, respectively. The available-for-sale investment has been fully impaired as of December 31, 2011.

Investments are evaluated for impairment at the end of each period. Unrealized losses are recorded to other expenses when a decline in fair value is determined to be other-than-temporary. The Company reviews several factors to determine whether a loss is other-than-temporary. These factors include, but are not limited to, the: (1) nature of the investment; (2) cause and duration of the impairment; (3) extent to which fair value is less than cost; (4) financial conditions and near term prospects of the issuers; and (5) ability to hold the security for a period of time sufficient to allow for any anticipated recovery in fair value.

*(i) Advances to suppliers and advances for purchase of property, plant and equipment*

In order to secure a stable supply of silicon materials and construction materials, the Company makes advance payments to suppliers for raw material supplies and advances on purchases of long-lived assets which are offset against future deliveries. Advances to suppliers for purchases expected within twelve months as of each balance sheet date are recorded as advances to suppliers in current assets and those associated with purchases expected over longer periods of time recorded in non-current advance to suppliers. As of December 31, 2010 and 2011, advances to suppliers in current assets were \$26,315,038 and \$16,163,910, respectively, and non-current advances to suppliers for silicon raw material supplies were \$13,743,176 and \$17,643,874, respectively. Prepayments for property, plant and equipment are recorded in non-current assets and were \$26,930,088 and \$25,866,532 as of December 31, 2010 and 2011, respectively. The Company does not require collateral or other security against its advances to suppliers. As a result, the Company's claims for such prepayments are unsecured, which exposes the Company to the suppliers' credit risk. The Company performs ongoing credit evaluations of the financial condition of its suppliers.

As of December 31, 2010 and 2011, prepayments made to individual suppliers in excess of 10% of total advances and prepayments to suppliers are as follows:

|            | At December 31, |              |
|------------|-----------------|--------------|
|            | 2010            | 2011         |
| Supplier A | \$9,845,337     | \$17,433,530 |
| Supplier B | \$6,540,000     | \$6,540,000  |
| Supplier C | \$10,418,222    | —            |

As of December 31, 2010 and 2011, advances for purchases of property, plant and equipment in excess of 10% of total advances and prepayments to equipment suppliers are as follows:

|  | At December 31, |      |
|--|-----------------|------|
|  | 2010            | 2011 |



|            |             |             |
|------------|-------------|-------------|
| Supplier A | *           | \$3,471,298 |
| Supplier B | —           | \$2,855,145 |
| Supplier C | —           | \$2,826,950 |
| Supplier D | \$7,667,871 | —           |
| Supplier E | \$7,186,659 | *           |
| Supplier F | \$2,921,619 | —           |

\*: Less than 10%.

**(j) Business combination**

The Company accounts for business acquisitions using the acquisition method of accounting and records intangible assets with finite and indefinite useful lives separate from goodwill. Intangible assets are recorded at their fair value based on estimates as at the date of acquisition. Goodwill is recorded as the residual amount of the purchase price less the fair value assigned to the individual assets acquired and liabilities assumed as the date of acquisition.

**(k) Goodwill**

Goodwill represents the excess of the purchase price of acquired businesses over the estimated fair value assigned to the individual assets acquired and liabilities assumed. The Company performs its annual tests for goodwill impairment in the second quarter. The Company will perform an impairment test between scheduled annual tests if facts and circumstances indicate that it is more likely than not that the fair value of a reporting unit that has goodwill is less than its carrying value. The Company compares the fair value of a reporting unit to its carrying amount to determine if goodwill may be impaired. The Company estimates the fair value of a reporting unit using the discounted cash flow methodology. Significant management judgment is required in the forecasts of future operating results and discount rates that we use in the discounted cash flow method of valuation and in the selection of comparable businesses that we used in the market approach. If the fair value of a reporting unit is less than its carrying value, an impairment loss is recorded to the extent that the fair value of the goodwill is less than its carrying value. Fair values for reporting units are determined based on discounted cash flows, market multiples or appraised values.

During the fourth quarter of 2011, as a result of the effects of weakening market conditions on the Company's forecasts and a sustained, significant decline in the Company's market capitalization to a level lower than its net book value, the Company concluded that impairment indicators existed and performed an impairment analysis. Based on the results of the analysis, the estimated fair value of the reporting unit was determined to be higher than the carrying amount. No impairment charges were recognized during the years ended December 31, 2009, 2010, or 2011.

The carrying amount of goodwill for the years ended December 31, 2010 and 2011 were as follow:

|                                   | At December 31, |             |
|-----------------------------------|-----------------|-------------|
|                                   | 2010            | 2011        |
| Beginning of the year             | \$5,323,406     | \$5,323,406 |
| Goodwill acquired during the year | —               | 313,832     |
| Foreign exchange effect           | —               | 9,284       |
| Closing balance                   | \$5,323,406     | \$5,646,522 |

***(l) Business license***

Business license acquired in a business combination and recognized separately from goodwill is initially recorded at its fair value at the acquisition date (which is regarded as its cost). Subsequent to initial recognition, business license with indefinite useful lives that is acquired separately in a business combination is reported at cost less accumulated impairment losses. At the end of each reporting period, the Company reviews the carrying amount of its business license to determine whether there is any indication that it has suffered an impairment loss. If such indication exists, fair value of the asset is estimated in order to determine the extent of an impairment loss (if any). If the carrying amount of the business license exceeds its fair value, an impairment loss shall be recognized in an amount equal to that excess.

***(m) Property, plant and equipment***

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

|                     |             |
|---------------------|-------------|
| Buildings           | 40-50 years |
| Plant and machinery | 10-25 years |
| Motor vehicles      | 4-5 years   |

Office equipment 3-5 years

Construction in progress represents mainly the construction of new facilities in Zhejiang Yuhui, Sichuan ReneSola, Sichuan Ruiyu and Qinghai Yuhui. Costs incurred in the construction are capitalized and transferred to property, plant and equipment upon completion, at which time depreciation commences.

***(n) Assets held-for-sale***

Non-current assets and disposal group are classified as held-for-sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and such non-current assets are available for immediate sale in present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Non-current assets classified as held for sale are measured at lower of their carrying amount and fair value less costs to sell.

***(o) Interest capitalization***

The Company capitalizes interest costs as part of the costs of constructing certain assets during the period of time required to get the assets ready for their intended use. The Company capitalizes interest to extent that expenditures to construct an asset have occurred and interest costs have been incurred.

***(p) Prepaid land use right***

Prepaid land use right represent payments made to obtain land use rights. Prepaid land use right is recognized as an expense on a straight-line basis over the lease period of 40-50 years.

Expenses recognized were \$439,624, \$715,405 and \$877,168 for the years ended December 31, 2009, 2010 and 2011, respectively.

***(q) Impairment of long-lived assets***

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable or that the useful life is shorter than originally estimated. The Company assesses recoverability of the long-lived assets by comparing the carrying amount of the assets to the estimated future undiscounted cash flows expected to result from the use of the assets and their eventual disposition. The Company recognizes an impairment loss in the event the carrying amount exceeds the estimated future undiscounted cash flows attributable to such assets, measured as the difference between the carrying amount of the assets and the fair value of the impaired assets. The Company did not record any impairment loss of long-lived assets for the years ended December 31, 2009, 2010, or 2011.

***(r) Deferred convertible bond/notes issuance costs***

The issuance costs of the Company's Convertible Bond due 2012 ("Convertible Bonds") in the amount of \$4,796,875 were deferred and are being amortized on a straight-line basis, which approximates the effective interest rate method, from March 26, 2007, the date of issuance, to March 26, 2010, the earliest redemption date. The amortization expense was \$1,232,828, \$84,677 and \$nil for the years ended December 31, 2009, 2010 and 2011, respectively.

The issuance costs of the Company's Convertible Senior Notes due 2018 ("Notes") in the amount of \$7,156,101 were deferred and amortized on a straight-line basis, which approximates the effective interest rate method, from March 15, 2011, the date of issuance, to March 15, 2016, the earliest redemption date. The amortization expense was \$881,172 for the year ended December 31, 2011.

***(s) Income taxes***

Deferred income taxes are recognized for temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements, net operating loss carry forwards and credits by applying enacted statutory tax rates applicable to future years. Deferred tax assets are reduced by a valuation allowance when, in 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 Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. 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

***(t) Revenue recognition***

The Company sells solar power products including virgin polysilicon, monocrystalline and multicrystalline solar wafers and PV cells and modules. The Company also enters into agreements to process silicon materials into silicon ingots and wafers for customers. The Company recognizes revenues when persuasive evidence of an arrangement exists, the products are delivered and title and risk of loss has passed to customers, the price to the buyer is fixed and determinable, and collectability is reasonably assured. Sales agreements typically contain customary product warranties but do not contain any post-shipment obligations nor any return or credit provisions.

A majority of the Company's contracts provide that products are shipped under free on board ("FOB") terms or cost, insurance and freight ("CIF") terms. Under FOB, the Company fulfills its obligation when the goods have passed over the ship's rail at the named port of shipment. The customer bears all costs and risks of loss or damage to the goods from that point. Under CIF, the Company must pay the costs, insurance and freight necessary to bring the goods to the named port of destination, and bears the risk of loss of or damage to the goods during transit. The Company recognizes revenue when the title of goods and risk of loss or damage is transferred to the customers based on the terms of the sales contracts if other criteria are met.

***(u) Cost of revenues***

Cost of revenues consists of production related costs including costs of silicon raw materials, consumables, direct labor, overhead costs, depreciation of plant and equipment, contractor and processing fees and warranty costs. Shipping and handling costs incurred on sale of products and included in sales and marketing expense were \$1,207,752, \$4,800,640 and \$9,058,534 for the years ended December 31, 2009, 2010 and 2011, respectively.

***(v) Research and development***

Costs related to the design, formulation and testing of new products or process alternatives are include in research and development expenses. Research and development costs are expensed when incurred.

***(w) Warranty costs***

The Company's solar modules are typically sold with 25 year warranties against specified declines in the initial minimum power generation capacity at the time of delivery. The Company also provides warranties for solar modules against defects in materials and workmanship for a period of five or ten years from the date of sale. Warranty cost is accrued as revenue is recognized. Due to the limited solar module manufacturing history, the Company does not have a significant history of warranty claim. Cost of warranties is estimated based on an assessment of the Company's and competitors' accrual history, industry-standard testing, estimates of failure rates from quality review and other assumptions that are considered to be reasonable under the circumstances. Actual warranty costs are accumulated and charged against accrued warranty liability. To the extent that actual warranty cost differs from the estimates, the Company will prospectively revise the accrual rate. As such estimates are subjective, the Company will continue to analyze its claim history and the performance of its products and compare against its competitors, industry data for warranty claims, and other assumptions, such as academic research, to determine whether its accrual is adequate. As a recent entrant in the market, the Company has adopted a warranty accrual rate of 1.0% of PV module revenues, based on its assessment of industry norms which also represents the Company's best estimate to date. Should it begin to experience warranty claims differing from its accrual rate, the Company would prospectively revise the warranty accrual rate.

***(x) Government grants***

Government grants received by the Company consist of unrestricted grants and subsidies and restricted grants. Depending upon the nature of grant, government grants are recognized as either other operating income or as a reduction of property, plant and equipment.

The Company recorded \$1,661,588, \$1,059,995 and \$4,305,347 for the years ended December 31, 2009, 2010 and 2011 in other operating income, respectively. Government grants related to property, plant and equipment are recorded as deferred liabilities and are amortized on a straight-line basis over the useful life of associated assets. The Company received government grant related to property, plant and equipment and land use right of \$5,959,476, \$13,882,069 and \$7,132,358 during the years ended December 31, 2009, 2010 and 2011, respectively, and amortized \$nil, \$306,965 and \$628,133 in other operating income for the years ended December 31, 2009, 2010 and 2011, respectively.

***(y) Other operating expense (income)***

Other operating expense (income) primarily consists of gains or losses on disposal of fixed assets and subsidies received from the government. Additionally, during 2011, the Company recorded a gain of \$13.5 million arising from the forfeiture of a prepaid deposit due to the breach of a solar wafer contract by one of its customers.

***(z) Foreign currency***

The functional currency of ReneSola Ltd is the United States Dollar ("U.S. dollar"). The functional currency of ReneSola's subsidiaries in the PRC is Renminbi ("RMB"). The functional currency of ReneSola America and ReneSola Singapore is the U.S. dollar, and the functional currency of ReneSola Germany is Euro.

Foreign currency transactions have been translated into the functional currency at the exchange rates prevailing on the date of transactions. Foreign currency denominated monetary assets and liabilities are translated into the functional currency at exchange rates prevailing on the balance sheet date. Exchange gains and losses have been included in determination of net income.

The Company has chosen the U.S. dollar as its reporting currency. Assets and liabilities have been translated using exchange rates prevailing on the balance sheet date. Income statement items have been translated using the weighted average exchange rate for the year. Translation adjustments have been reported as a component of other comprehensive income in the statement of equity.

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 Company's cash and cash equivalents denominated in RMB amounted to RMB1,887,831,492 (\$286,034,789) and RMB 1,815,422,496 (\$288,440,808) at December 31, 2010 and 2011, respectively. And the Company's restricted cash denominated in RMB amounted to RMB 222,026,907 (\$33,640,407) and RMB 360,623,203 (\$57,297,257) at December 31, 2010 and 2011, respectively.



*(aa) Fair value of financial instruments*

Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (also referred to as an exit price). The Company utilizes a hierarchy for inputs used in measuring fair value that gives the highest priority to observable inputs and the lowest priority to unobservable inputs. Valuation techniques used to measure fair value shall maximize the use of observable inputs.

When available, the Company measures the fair value of financial instruments based on quoted market prices in active markets, valuation techniques that use observable market-based inputs or unobservable inputs that are corroborated by market data. Pricing information the Company obtains from third parties is internally validated for reasonableness prior to use in the consolidated financial statements. When observable market prices are not readily available, the Company generally estimates the fair value using valuation techniques that rely on alternate market data or inputs that are generally less readily observable from objective sources and are estimated based on pertinent information available at the time of the applicable reporting periods. In certain cases, fair values are not subject to precise quantification or verification and may fluctuate as economic and market factors vary and the Company's evaluation of those factors changes. Although the Company uses its best judgment in estimating the fair value of these financial instruments, there are inherent limitations in any estimation technique. In these cases, a minor change in an assumption could result in a significant change in its estimate of fair value, thereby increasing or decreasing the amounts of the Company's consolidated assets, liabilities, equity and net income or loss. See Note 7, "Fair Value Measurements", for further details.

*(ab) Derivative financial instruments*

The Company uses foreign exchange forward contracts to hedge the foreign currency exchange risk inherent in the future cash flows associated with forecasted sales denominated in foreign currencies, mainly in U.S. Dollar or Euro.

The Company accounts for these forward contracts as derivative instruments and recognizes all derivative instruments as either assets or liabilities at fair value in other financial assets or other financial liabilities in the consolidated balance sheets. The Company does not offset the carrying amounts of derivatives with the same counterparty.

In 2010, the Company began to employ foreign currency cash flow hedge accounting with respect to certain foreign-currency forward exchange contracts that the company entered into to hedge potential changes in the cash flow of forecasted foreign currency denominated sales transactions within the next two years attributable to changes in foreign currency exchange rates. When the designed hedging relationships are highly effective, the effective portion of gain or loss on the designated derivative instruments is recorded in accumulated other comprehensive income, net of

tax, until the underlying hedged transaction is recognized in the consolidated income statements. The ineffective portion of cash flow hedges, if any, is recognized in income immediately. The effectiveness of designated hedging relationships is tested and documented on a quarterly basis. In the fourth quarter of 2011, as the hedged sales transactions were determined to no longer be probable of occurrence as the contract was under re-negotiation and would likely be terminated, the cash flow hedge accounting was discontinued and accordingly, the entire balance in accumulated other comprehensive income was reclassified into net gain (loss) on derivative instruments. The net change associated with hedging transaction was \$nil, (\$797,091) and (\$1,236,306) in the year ended December 31, 2009, 2010 and 2011.

The loss from change in fair value of derivatives, which qualified for cash flow hedge accounting, reported in accumulated other comprehensive income was \$797,091 and \$1,236,306 in the years ended December 31, 2010 and 2011, respectively. Of these amounts, \$83,594 and \$1,164,711 were reclassified into revenue upon realization of the hedged transactions in the end years ended December 31, 2010 and 2011, respectively. As a result of designed hedging relationship becoming ineffective in the fourth quarter of 2011, the balance of \$785,092 recorded in accumulated other comprehensive income was reclassified into net gain (loss) on derivatives. Accordingly, the ending balance recorded in accumulated other comprehensive income was \$713,497 and \$nil as of December 31, 2010 and 2011, respectively. Additionally, the fair value change after the discontinuance of cash flow hedge was \$3,689,043.

The Company's other derivative instruments do not qualify for hedge accounting. Accordingly, gains or losses resulting from changes in the values of those derivative instruments are recognized as (gain) loss on derivatives, net, in the consolidated income statement.

Net (gains) losses on derivative instruments from foreign currency forward exchange contracts were \$nil, (\$6,268,072) and \$15,296,530, in the years ended December 31, 2009, 2010 and 2011, respectively. As of December 31, 2011, the Company has outstanding foreign exchange forward contracts with a total notional amount of \$130,710,000, with none qualified for hedge accounting.

As of December 31, 2010, the Company has \$11,659,723 in current derivative assets, \$1,380,585 in current derivative liabilities, and \$1,583,733 in non-current derivative liabilities in total. Of these amounts, \$840,596 of current derivative assets, \$5,548 of current derivative liabilities, and \$1,583,733 of non-current derivative liabilities qualified for hedge accounting, respectively. As of December 31, 2011, the Company has \$880,917 in current derivative assets, \$27,283 in non-current derivative assets, \$218,106 in current derivative liabilities, and \$181,686 in non-current derivative liabilities in total, none of which qualified for hedge accounting.

***(ac) Earnings (loss) per share***

Basic earnings (loss) per share is computed by dividing income attributable to holders of common shares by the weighted average number of common shares outstanding during the year. Diluted earnings (loss) per share reflects the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted into common shares.

During 2010 and 2011, the Company issued 750,500 and 40,000 ordinary shares to its share depository bank which will be used to settle stock option awards upon their exercise, respectively. No consideration was received by the Company for this issuance of ordinary shares. These ordinary shares are legally issued but are treated as escrowed shares for accounting purposes and therefore, have been excluded from the computation of earnings per share. Any ordinary shares not used in the settlement of stock option awards will be returned to the Company.

***(ad) Share-based compensation***

The Company recognizes expenses for services received in exchange for awards of equity instruments based on the grant-date fair value of the award as determined by the Black-Scholes option pricing model, net of estimated forfeitures. The estimated compensation cost is recognized ratably over the period the grantee is required to provide services per the conditions of the award. See Note 14, "Share Based Compensation", for further details.

***(ae) Comprehensive income (loss)***

Comprehensive income is the change in equity during a period from transactions and other events and circumstances from non-shareholder sources. Components of the Company's comprehensive income include net income, foreign currency translation adjustments, unrealized gains and losses on available-for-sale investments and fair value change of the derivatives qualify for hedge accounting.

Components of accumulated other comprehensive income:

|   | At December 31, |              |
|---|-----------------|--------------|
|   | 2010            | 2011         |
| Foreign currency translation adjustments                          | \$39,223,982    | \$71,645,808 |
| Unrealized gains and losses on available-for-sale investments     | (2,329,761 )    | -            |
| Fair value change of the derivatives qualify for hedge accounting | (713,497 )      | -            |
|   | \$36,180,724    | \$71,645,808 |

***(af) Treasury Stock***

On August 20, 2011, the Company's Board of Directors authorized the Company to repurchase up to \$100 million in aggregate value of its outstanding ordinary shares through open market or private transactions during a six months period ending in February, 2012, depending on market condition. On September 6, 2011 and September 9, 2011, the Company repurchased 309,924 and 335,500 ADSs, respectively, on the open market at a price of \$3.0614 and \$2.9271, respectively, for a total purchase price of \$1,943,822. The Company has legal title to the shares, and no other party has the voting rights associated with these shares.

***(ag) Concentrations of credit risk***

Financial instruments that potentially expose the Company to concentrations of credit risk consist primarily of cash and cash equivalents, accounts receivable and advances to suppliers and related parties. The Company places its cash and cash equivalents with financial institutions with high-credit ratings and quality. The Company conducts credit evaluations of customers and generally does not require collateral or other security from its customers. The Company establishes an allowance for doubtful receivables mainly based on the age of receivables and factors surrounding the credit risk of specific customers. The Company performs ongoing credit evaluations of the suppliers' financial conditions. The Company generally does not require collateral or other security against such suppliers; however, it maintains a reserve for potential credit losses. Such losses have historically been within management's expectations.

*(ah) Recently issued accounting pronouncements*

- 1) In April 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS. This ASU amends current fair value measurement and disclosure guidance to include increased transparency around valuation input and investment categorization. ASU 2011-04 is effective for fiscal years and interim periods beginning after December 15, 2011, with early adoption prohibited. The Company does not believe that the adoption of ASU 2011-04 in 2012 will have an impact on its consolidated financial statements.

- 2) In June 2011, the FASB issued ASU 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*. ASU 2011-05 allows an entity to present components of net income and other comprehensive income in one continuous statement, referred to as the statement of comprehensive income, or in two separate, but consecutive statements. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. While the new guidance changes the presentation of comprehensive income, there are no changes to the components that are recognized in net income or other comprehensive income under current accounting guidance. This guidance, which is to be applied retrospectively, is effective for fiscal years and interim periods within those years, beginning after December 15, 2011. In December 2011, the FASB issued ASU 2011-12, *Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*. ASU 2011-12 deferred the effective date of the specific requirement in ASU 2011-05 to present items that are reclassified out of accumulated other comprehensive income to net income alongside their respective components of net income and other comprehensive income. The Company is evaluating the effect the adoption of these ASUs will have on its consolidated financial statements.

- 3) In September 2011, the FASB issued ASU 2011-08, Intangibles - Goodwill and Other (Topic 350): Testing Goodwill for Impairment. ASU 2011-08 permits an entity to make a qualitative assessment of whether it is more-likely-than-not that a reporting unit's fair value is less than its carrying value to determine whether it is necessary to perform the two-step goodwill impairment test. If it is determined through the qualitative assessment that a reporting unit's fair value is more-likely-than-not greater than its carrying value, the two-step impairment tests are not required. The qualitative assessment is optional, allowing entities to go directly to the two-step impairment test. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed in fiscal years beginning after December 15, 2011, with early adoption permitted. The Company does not believe that the adoption of ASU 2011-08 will have an impact on its consolidated financial statements.

- 4) In December 2011, the FASB issued ASU 2011-11, Balance Sheet (Topic 210), Disclosures about Offsetting Assets and Liabilities, which require companies to disclose information about financial instruments that have been offset and related arrangements to enable users of their financial statements to understand the effect of those arrangements on their financial position. Companies will be required to provide both net (offset amounts) and gross information in the notes to the financial statements for relevant assets and liabilities that are offset. ASU 2011-11 is effective for fiscal years, and interim periods within those years, beginning on or after January 1, 2013. The Company will evaluate the effect of the adoption of ASU 2011-11 on its consolidated financial statements in 2013.

### 3. ACQUISITION

#### 1) Acquisition of JC Solar

On May 31, 2009, the Company completed the acquisition of JC Solar, in order to acquire JC Solar's solar cell and module business as part of the Company's vertical integration strategy. Total consideration for the acquisition was approximately RMB 140,300,000 (\$20,548,338), in cash.

#### *Purchase price allocation*

The Company allocated the purchase price to the acquired assets and liabilities based on their estimated fair values at the acquisition date of May 31, 2009, as summarized in the following table (in thousands):

|                              | May 31, 2009 |
|------------------------------|--------------|
| Net tangible assets acquired | \$ 11,274    |
| Deferred tax liability (net) | (767 )       |
| Intangible assets:           |              |
| Customer relationship        | 4,498        |
| Backlog                      | 220          |
| Goodwill                     | 5,323        |
| Total consideration          | \$ 20,548    |

Goodwill, which represents the excess of the purchase price over the fair value of net tangible and identified intangible assets acquired, is not being amortized but is reviewed annually for impairment, or more frequently if impairment indicators arise, in accordance with authoritative guidance. Goodwill has been assigned to the cell and module segment and is expected to be deductible for tax purposes.

The Company recognized the acquired intangible assets, including order backlog and customer relationships, based on the valuation results. The fair values of the intangible assets were calculated using the income approach. The order backlog was valued as \$219,752, and was fully amortized in 2009. The customer relationships were valued at \$4,497,581, and were fully amortized as of December 31, 2010.

The following table summarizes unaudited pro forma results of operation for the year ended December 31, 2009 assuming that the acquisition of JC Solar occurred as of January 1, 2009. The pro forma results have been prepared for comparative purpose only based on management's best estimates regarding the impact of the period from of January 1, 2009 to May 31, 2009 resulting from purchase accounting adjustments to increase the carrying value of inventories on January 1, 2009 and do not purport to be indicative of the results of operations which actually would have resulted had the acquisition occurred as of January 1, 2009 (in thousands).

|   | Year ended<br>December 31,<br>2009<br>(Unaudited) |
|---|---|
| Pro forma revenue   | \$551,464   |
| Pro forma net income                                      | \$(68,111 )                                       |
| Pro forma profit attributable to holders of common shares | \$(68,111 )                                       |
| Pro forma earnings per share:                             |   |
| Basic   | \$(0.46 )   |
| Diluted   | \$(0.46 )   |
| Weighted average number of shares used in computation:    |   |
| Basic   | 147,553,679                                       |
| Diluted   | 147,553,679                                       |

## 2) Acquisition of Aoguang

On June 10, 2011, the Company completed the acquisition of Aoguang, the primary purpose of which was to obtain Aoguang's business license for the production of polysilicon, in order to facilitate the Company's cost-reduction strategy by expanding its polysilicon production capacity. Total consideration for the acquisition was approximately RMB7,600,000 (\$1,172,824), substantially all of which was assigned to the business license as a result of the purchase price allocation. Aoguang's results of operations have been included in the Company since the date of acquisition, are

limited and are not material to the Company.

#### 4. ALLOWANCES FOR DOUBTFUL RECEIVABLES

Allowances for doubtful receivables are comprised of allowances for accounts receivable and allowances for other receivables. The Company made provision (reversal) for doubtful debts in the aggregate amount of \$9,872,894, \$3,919,044 and (\$1,374,668) during the year ended December 31, 2009, 2010 and 2011, respectively. The reversal of the allowance in 2011 relates to the collection of payments from certain of the Company's module customers in connection with receivables that were previously provided for.

Analysis of allowances for accounts receivable is as follows:

|  | At December 31, |             |
|--|-----------------|-------------|
|  | 2010            | 2011        |
| Beginning of the year                      | \$114,271       | \$2,412,695 |
| Allowances (reversal) made during the year | 2,237,042       | (1,402,085) |
| Foreign exchange effect                    | 61,382          | 79,664      |
| Closing balance                            | \$2,412,695     | \$1,090,273 |



Analysis of allowances for other receivables is as follows:

|                                 | At December 31, |             |
|---------------------------------|-----------------|-------------|
|                                 | 2010            | 2011        |
| Beginning of the year           | \$9,456,014     | \$8,733,597 |
| Allowances made during the year | 42,379          | —           |
| Write off                       | (774,792 )      | —           |
| Foreign exchange effect         | 9,996           | 5,717       |
| Closing balance                 | \$8,733,597     | \$8,739,314 |

Analysis of allowances for advances for purchases of property, plant and equipment is as follows:

|                                 | At December 31, |             |
|---------------------------------|-----------------|-------------|
|                                 | 2010            | 2011        |
| Beginning of the year           | \$—             | \$887,888   |
| Allowances made during the year | 1,808,989       | 321,430     |
| Write off                       | (943,340 )      | —           |
| Foreign exchange effect         | 22,239          | 58,247      |
| Closing balance                 | \$887,888       | \$1,267,565 |

Analysis of allowances for advances to suppliers is as follows:

|                          | At December 31, |             |
|--------------------------|-----------------|-------------|
|                          | 2010            | 2011        |
| Beginning of the year    | \$4,887,683     | \$4,661,198 |
| Reversal during the year | (169,366 )      | (294,013 )  |
| Write-off                | (133,587 )      | —           |
| Foreign exchange effect  | 76,468          | 38,665      |
| Closing balance          | \$4,661,198     | \$4,405,850 |

## 5. INVENTORIES

|                 | At December 31, |              |
|-----------------|-----------------|--------------|
|                 | 2010            | 2011         |
| Raw materials   | \$81,253,788    | \$61,109,992 |
| Work-in-process | 69,820,115      | 41,789,430   |
| Finished goods  | 19,524,890      | 51,282,191   |

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Total inventories \$170,598,793 \$154,181,613

In 2009, 2010 and 2011, inventory was written down by \$71,252,806, \$1,165,610 and \$48,992,463, respectively, to reflect the lower of cost or market.

The Company recorded \$nil, \$nil and \$3.9 million provision for purchase commitments during the years ended December 31, 2009, 2010 and 2011, respectively, in cost of revenues. The accrued provision is recorded in other current liabilities and amounted to \$nil and \$3,940,000 as of December 31, 2010 and 2011, respectively.

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**6. PROPERTY, PLANT AND EQUIPMENT, NET**

Property, plant and equipment, net, comprise:

|                                    | At December 31, |                |
|------------------------------------|-----------------|----------------|
|                                    | 2010            | 2011           |
| Buildings                          | \$ 151,404,817  | \$ 187,073,104 |
| Leasehold improvement              | 93,423          | 93,424         |
| Plant and machinery                | 720,203,388     | 808,513,361    |
| Motor vehicles                     | 3,439,748       | 4,969,476      |
| Office equipment                   | 8,198,446       | 10,174,496     |
|                                    | 883,339,822     | 1,010,823,861  |
| Less: Accumulated depreciation     | 106,055,552     | 189,232,340    |
|                                    | 777,284,270     | 821,591,521    |
| Construction in progress           | 24,187,578      | 158,573,094    |
| Property, plant and equipment, net | \$ 801,471,848  | \$ 980,164,615 |

Construction in progress represents new production facilities under construction in Zhejiang Yuhui, Sichuan ReneSola, Sichuan Ruiyu, and Qinghai Yuhui.

Depreciation expense for the years ended December 31, 2009, 2010 and 2011 was \$28,131,084, \$54,205,916 and \$82,730,940 respectively.

During the fourth quarter of 2011, as a result of weak market conditions and a significant decline in the Company's market capitalization to a level lower than its net book value, the Company concluded that circumstances existed which required the Company to test certain long-lived assets for recoverability. Based on the recoverability tests performed, the Company determined that no impairment was required. No impairment charges were recognized during the years ended December 31, 2009, 2010 or 2011.

**7. FAIR VALUE MEASUREMENTS**

The Company adopted ASC 820, "Fair Value Measurements and Disclosures", which provides a framework for measuring fair value under U.S. GAAP, and expanded disclosure requirements about assets and liabilities measured at fair value. The Company utilizes a hierarchy for inputs used in measuring fair value that gives the highest priority to

observable inputs and the lowest priority to unobservable inputs as follows:

- Level 1—Observable unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2—Observable inputs other than quoted prices in active markets for identical assets or liabilities, for which all significant inputs are observable, either directly or indirectly.

Level 3—Unobservable inputs to the valuation methodology that are significant to the measurement of fair value of assets or liabilities.

Assets and liabilities carried at fair value as of December 31, 2011 are classified in the categories described above based on the lowest level input that is significant to the fair value measurement in its entirety.

***Recurring basis***

The following table displays assets and liabilities measured on the Company's consolidated balance sheet at fair value on a recurring basis subsequent to initial recognition:

|   | As of December 31, 2011<br>Fair Value Measurements at Reporting Date Using |  |   |   |
|---|--|--|---|---|
|   | Total Fair Value and Carrying Value on the Balance Sheet                   | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Cross currency forward exchange contracts -recorded as derivative assets      | 908,200  | —  | 908,200                                       | —   |
| Cross currency forward exchange contracts -recorded as derivative liabilities | (399,792 )   |  | (399,792 )                                    | —   |
|   | \$ 508,408   | \$ —   | \$ 508,408                                    | \$ —                                      |

|   | As of December 31, 2010<br>Fair Value Measurements at Reporting Date Using |  |   |   |
|---|--|--|---|---|
|   | Total Fair Value and Carrying Value on the Balance Sheet                   | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Available-for-sale investment   | \$ 3,331,540   | \$ 3,331,540   | \$ —  | \$ —                                      |
| Cross currency forward exchange contracts -recorded as derivative assets      | 11,659,723   | —  | 11,659,723                                    | —   |
| Cross currency forward exchange contracts -recorded as derivative liabilities | (2,964,318 )   |  | (2,964,318 )                                  | —   |
|   | \$ 12,026,945  | \$ 3,331,540   | \$ 8,695,405                                  | \$ —                                      |

Available-for-Sale Investments—Investments in available-for-sale securities consist of equity shares of a publically listed company. The fair value is measured using the closing stock price from the exchange market as of the measurement date and is classified as Level 1 valuation.

On October 22, 2009, the Company obtained an equity interest in a Canadian listed company ("Listed Company"), by settling an outstanding advance to this supplier for \$19,019,325 whose common shares are traded on the Toronto Stock Exchange. The Company accounted for this investment as an available-for-sale investment, based on the closing price on October 22, 2009 and the shares obtained. The \$3,331,540 balance at the end of 2010 represents the fair value of the investment based on subsequent measurements of the investment's fair value. No impairment charges were recorded in 2010 based on the Company's evaluation of the severity of the impairment, the duration of the impairment, the near-term prospects of the investee and the Company's ability and intent to hold the investment for a reasonable period of time sufficient for a forecasted recovery of fair value. However, due to the continued liquidity constraints of the Listed Company, combined with the deteriorating market condition, trading for its common shares became suspended on January 3, 2012. Additionally, Toronto Stock Exchange ("TSX") has determined to delist the common

shares of this Canadian listed company effective at the close of market on February 6, 2012. The delisting was imposed due to its failure to meet the continued listing requirements of the TSX as a result of the commencement of proceedings under the *Companies' Creditors Arrangement Act* on January 3, 2012 (the "CCAA Proceeding"). The Company determined that this is the culmination of the Listed Company's significant liquidity issues that existed at the end of December 31, 2011 and thus, impaired the entire balance in 2011.

Derivatives—The Company's use of derivatives primarily consists of foreign currency forward contracts. As quoted prices in active markets for identical assets are not available, the Company uses quotes obtained from professional pricing sources. The Company performs internal validation procedures on quotes from pricing sources using valuation techniques commonly used in the industry, and also considers the credit ratings of respective counterparties in determining the impact of risk of defaults on the valuation of derivative assets. These fair value measurements are classified as level 2.

Cash and cash equivalents, restricted cash, accounts receivable, accounts payable, accounts due to and from related parties, and short-term borrowings are carried at cost on the consolidated balance sheets and the carrying amount approximates their fair value because of the short-term nature of these financial instruments.

The carrying amount of the Company's outstanding convertible notes as of December 31, 2010 and 2011 was \$nil and \$111.6 million, respectively. The estimated fair value of those debts was \$nil and \$68.3 million, respectively, as of December 31, 2010 and 2011. The fair value was measured based on observable market quotes.

The Company's long-term bank borrowing consists of floating rate loans that are reset annually. The carrying amount of long-term borrowings (including the current portions) was \$215.2 million and \$236.5 million as of December 31, 2010 and 2011, respectively. The estimated fair value of long-term borrowings (including the current portions) was \$214.0 million and \$233.6 million as of December 31, 2010 and 2011, respectively. The fair value is measured using discounted cash flow technique based on current rates for comparable loans on the respective valuation date.

## 8. INCOME TAXES

The tax (expense) benefit comprises:

|                                    | Years ended December 31, |                 |                |
|------------------------------------|--------------------------|-----------------|----------------|
|                                    | 2009                     | 2010            | 2011           |
| Income (loss) before income tax    |                          |                 |                |
| PRC                                | \$(84,461,049 )          | \$221,358,721   | \$(13,323,000) |
| Other jurisdictions                | (28,308,492 )            | 7,635,169       | 8,802,696      |
| Total                              | (112,769,541)            | 228,993,890     | (4,520,304 )   |
| Current tax expense                |                          |                 |                |
| PRC                                | \$(2,686,662 )           | \$(15,480,534 ) | \$(6,860,939 ) |
| Other jurisdictions                | (7,838 )                 | (158,198 )      | (3,046,111 )   |
| Subtotal                           | (2,694,500 )             | (15,638,732 )   | (9,907,050 )   |
| Deferred tax benefit (expense)     |                          |                 |                |
| PRC                                | \$41,566,764             | \$(44,846,217 ) | \$17,505 ,652  |
| Other jurisdictions                | 2,284,079                | 487,145         | (2,747,123 )   |
| Subtotal                           | 43,850,843               | (44,359,072 )   | 14,758,529     |
| Total income tax benefit (expense) | \$41,156,343             | \$(59,997,804 ) | \$4,851,479    |

ReneSola is not subject to tax under the laws of British Virgin Islands.

Zhejiang Yuhui is a Foreign Invested Enterprise ("FIE") incorporated in the PRC. The statutory income tax rate in the PRC is 25% starting 2008. As a manufacturing-oriented FIE, it is entitled to a two-year tax exemption (2005 to 2006) followed by a three-year half tax reduction (2007 to 2009) starting from its first profitable year of operation after utilizing any tax losses carried forward from prior years (hereinafter referred to as "Tax Holiday").

Zhejiang Yuhui increased its registered capital to \$238.1 million in December 2009 then to \$275.3 million in December 2010, and then to \$309.1 million in December 2011. According to relevant PRC tax regulations promulgated before the new Enterprise Income Tax Law which became effective on January 1, 2008, it was entitled to additional tax holiday with respect to the income attributable to operations funded by the increased capital, upon written approval by the tax authority.

On December 26, 2007, the State Council issued a Notice of the State Council Concerning Implementation of Transitional Rules for Enterprise Income Tax Incentives ("Circular 39"). Based on Circular 39, enterprises that were established and already benefited from preferential tax treatments before March 16, 2007 will continue to benefit from them (i) in the case of preferential tax rates, for a period of five years to transition from lower rate to statutory income tax rate of 25% starting from January 1, 2008, and the enterprises that previously enjoyed the tax rate of 24% shall be subject to the tax rate of 25% from 2008, and (ii) in the case of preferential tax exemption or reduction for a specified term, until the expiration of such term or 2012, whichever is earlier.

Pursuant to Circular 39, Zhejiang Yuhui is entitled to benefit from the residual tax holiday granted before the effectiveness of new Enterprise Income Tax ("EIT") Law. With this tax holiday, the blended tax rate for Zhejiang Yuhui is 23% for 2010 and 25% for 2011 and onwards.

Under a separate new tax incentive policy after the new Enterprise Income Tax Law became effective in 2008, Zhejiang Yuhui obtained the approval of New and High-Tech Enterprise ("HNTE") status in 2009. With this approval, Zhejiang Yuhui was allowed to apply a reduced income tax rate of 15% for the period of three years (2009 to 2011).



For PRC entities, the qualified research and development expenses incurred by them for development of new technology, new products and new techniques could have a 50% super deduction in addition to the actual expense deductions for PRC enterprise income tax purpose.

ReneSola America is incorporated in the state of Delaware, the United States of America. ReneSola America does not conduct any business activity in Delaware. It is not subject to Delaware State income tax. However, as ReneSola America conducts business activities in the state of Indiana, it is subject to a progressive federal corporate income tax from 15% to 35% and Indiana income tax of 8.5%, which is deductible from federal tax.

ReneSola Singapore is incorporated in the Republic of Singapore. The corporate income tax rate is 17%.

Sichuan ReneSola, ReneSola Shanghai, JC Solar, Zhejiang ReneSola, Sichuan Ruiyu, Sichuan Ruixin, Sichuan OuRuida, Sichuan SiLiDe, Qinghai Yuhui, Jiashan Xujing, Zhejiang Ruiyi and Zhejiang Sciborn are incorporated in the PRC. The corporate income tax rate is 25%.

During the year ended December 31, 2009, 2010 and 2011, the Company recorded provision of \$nil, \$nil and reversal of liabilities of (\$1,439,880) respectively, for unrecognized tax benefits which affected the effective income tax rate. It also recognized interest and/or penalties associated with the uncertain tax positions. The reversal of tax liabilities recorded in 2011 was mainly associated with the release of withholding tax liability associated with capital gains arising from the sale of a Joint Venture, which management subsequently determined would not be realized, and as such the withholding tax liability previously recorded was released.

The following is the tabular reconciliation of liabilities for unrecognized tax benefits:

|  | Years ended December 31, |             |             |
|--|--------------------------|-------------|-------------|
|  | 2009                     | 2010        | 2011        |
| Unrecognized tax benefit-Opening balance | \$1,645,182              | \$1,645,182 | \$1,645,182 |
| Release of tax liability                 | —                        | —           | (1,439,880) |
| Unrecognized tax benefit-Closing balance | \$1,645,182              | \$1,645,182 | \$205,302   |

The Company classifies interest and penalties related to income tax matters in income tax expense. As of December 31, 2009, 2010 and 2011, the amount of interests and penalties related to uncertain tax positions was immaterial. The Company does not anticipate any significant increases or decreases to its liabilities for unrecognized tax benefits within the next twelve months.

According to the PRC Tax Administration and Collection Law, the statute of limitations is three years if the underpayment of taxes is due to computational errors made by the taxpayer. The statute of limitations will be extended to five years under special circumstances, which are not clearly defined, but an underpayment of taxes exceeding RMB100,000 (approximately \$15,000) is specifically listed as a special circumstance. In the case of a transfer pricing related adjustment, the statute of limitations is ten years. There is no statute of limitations in the case of tax evasion. The Company's PRC subsidiaries are therefore subject to examination by the PRC tax authorities from 2005 through 2011 on non-transfer pricing matters, and from 2000 through 2011 on transfer pricing matters.

*The principal components of deferred income tax assets and liabilities are as follows:*

|   | At December 31, |              |
|---|-----------------|--------------|
|   | 2010            | 2011         |
| Deferred tax assets:  |                 |              |
| Investment tax credit carry forwards                                  | \$767,018       | \$—          |
| Property, plant and equipment   | 187,521         | 691,221      |
| Inventories provision   | 522,879         | 6,889,765    |
| Tax losses  | 9,384,168       | 18,484,704   |
| Other-than-temporary impairment loss on available-for-sale investment | 2,818,197       | —            |
| Contingent liability  | 2,156,647       | 4,057,237    |
| Derivative liability  | 696,904         | 80,518       |
| Bad debts provision   | 1,469,560       | 954,012      |
| Deferred gain   | 4,907,999       | 5,211,008    |
| Purchase commitment   | —               | 985,000      |
| Others  | 377,775         | 512,688      |
| Total deferred tax assets   | 23,288,668      | 37,866,153   |
| Analysis as   |                 |              |
| Current   | \$14,762,758    | \$12,709,364 |
| Non-current   | 8,525,910       | 25,156,789   |
|   | \$23,288,668    | \$37,866,153 |
| Deferred tax liabilities:   |                 |              |
| Property, plant and equipment   | \$436,943       | \$417,370    |
| Prepaid land use right  | 312,370         | 320,505      |
| Derivative assets   | 604,836         | 227,050      |
| Unrealized profit   | 1,116,700       | —            |
| Others  | 56,818          | —            |
| Total deferred tax liabilities  | \$2,527,667     | \$964,925    |
| Analysis as:  |                 |              |
| Current   | \$1,778,355     | \$220,229    |
| Non-current   | 749,312         | 744,696      |
|   | \$2,527,667     | \$964,925    |

Zhejiang Yuhui purchased equipment manufactured in the PRC in 2006 and 2007. In accordance with PRC tax regulations, Zhejiang Yuhui is entitled to receive investment tax credits equivalent to 40% of the purchased amount upon written approval by the competent tax authority. No tax credit for the purchase of domestic equipment will be granted after January 1, 2008. As of December 31, 2011, Zhejiang Yuhui's tax credit carry forwards were expired. As of December 31, 2011, the Company's subsidiaries Zhejiang Yuhui had net operating loss carry forwards of \$51,408,777 which will expire in 2014 and \$22,530,039 which will expire in 2016.

The Company 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 for tax purposes. The Company believes it is more-likely-than-not that the Company will realize the benefits of these deductible differences. The amount of the deferred tax assets considered to be realizable, however, could be reduced in the near term if estimates of future taxable income during the tax loss carry forward periods are reduced.

Reconciliation between the applicable statutory income tax rate and the Company's effective tax rate for the years ended December 31, 2009, 2010 and 2011 is as follows:

|   | Years ended December 31, |         |           |  |
|---|--------------------------|---------|-----------|--|
|   | 2009                     | 2010    | 2011      |  |
| PRC applicable income tax rate                          | 25.0 %                   | 25.0 %  | 25.0 %    |  |
| Timing difference reversed in the year with higher rate | 16.7 %                   | 3.1 %   | 129.7 %   |  |
| Valuation allowance                                     | (0.7 )%                  | (0.3 )% | —         |  |
| Expiration of tax credit                                | —                        | —       | (17.3 )%  |  |
| Effect of different tax rate of subsidiaries            | (6.2 )%                  | 0.1 %   | 1.6 %     |  |
| Non-deductible expense                                  | (0.7 )%                  | (0.2 )% | (131.1 )% |  |
| R&D super deduction                                     | 0.6 %                    | (1.2 )% | 67.5 %    |  |
| Reversal of uncertain tax position                      | —                        | —       | 31 %      |  |
| Others  | 1.7 %                    | (0.3 )% | 0.9 %     |  |
| Effective income tax rate                               | 36.4 %                   | 26.2 %  | 107.3 %   |  |

The aggregate amount and per share effect of the Tax Holiday are as follows:

|                          | Years ended December 31, |             |             |
|--------------------------|--------------------------|-------------|-------------|
|                          | 2009                     | 2010        | 2011        |
| Aggregate                | \$18,825,543             | \$5,137,990 | \$5,006,341 |
| Per share effect -basic  | \$0.13                   | \$0.03      | \$0.03      |
| Per share effect-diluted | \$0.13                   | \$0.03      | \$0.03      |



In accordance with the EIT Law, dividends, which arise from profits of foreign invested enterprises (“FIEs”) earned after January 1, 2008, are subject to a 10% withholding income tax. Under applicable accounting principles, a deferred tax liability should be recorded for taxable temporary differences attributable to the excess of financial reporting basis over tax basis in a domestic subsidiary. However, a deferred tax liability is not recognized if the basis difference is not expected to reverse in the foreseeable future and is expected to be permanent in duration. The Company believes that the PRC entities' undistributed earnings generated after January 1, 2008 will be permanently reinvested in the PRC entities. As such, no deferred taxes have been recorded on these undistributed earnings of the Company's PRC subsidiaries as these differences are not expected to reverse in the foreseeable future and are expected to be permanent in duration.

## 9. BORROWINGS

The Company's bank borrowings consist of the following:

|                            | At December 31, |               |
|----------------------------|-----------------|---------------|
|                            | 2010            | 2011          |
| Short-term                 | \$307,131,331   | \$479,058,697 |
| Long-term, current portion | 93,666,573      | 91,834,952    |
| Subtotal                   | 400,797,904     | 570,893,649   |
| Long-term                  | 121,515,030     | 144,668,887   |
|                            | \$522,312,934   | \$715,562,536 |

As of December 31, 2010 and 2011, the maximum bank credit facilities granted to the Company were \$826,591,115 and \$1,407,552,562, respectively, of which, \$580,896,655 and \$714,905,784 were drawn down and \$245,694,460 and \$692,646,778 were available as of December 31, 2010 and 2011, respectively.

As of December 31, 2010, short-term borrowings of \$192,908,898 and long-term borrowings of \$96,666,570 were secured by property, plant and equipment with carrying amounts of \$130,680,160, inventories of \$61,363,575, prepaid land use right of \$11,394,144 and accounts receivable of \$15,151,500. As of December 31, 2011, short-term borrowings of \$16,682,820 and long-term borrowings of \$107,246,700 were secured by property, plant and equipment with carrying amounts of \$265,000,539, prepaid land use right of \$15,603,442 and accounts receivable of \$7,435,279.

In addition, \$27,272,700 and \$nil of short-term borrowings, and \$78,787,800 and \$82,619,680 of long-term borrowings were guaranteed by personal assets of Mr. Xianshou Li, the Company's chief executive officer, and his family as of December 31, 2010, and 2011, respectively.

**a) Short-term**

Interest rates for all short-term borrowings are variable for certain portions of the short-term borrowings, and are updated every one month. The weighted average interest rate of short term loans was 4.89%, 4.72 % and 5.38 % in the years ended December 31, 2009, 2010 and 2011, respectively. The borrowings are repayable within one year.

**b) Long-term**

Interest rates are variable for certain portions of the long-term borrowings, and are updated every three months, once a year or according to a predetermined schedule. The weighted average interest rate of long-term borrowings was 6.27%, 6.33 % and 6.54 % in the year ended December 31, 2009, 2010 and 2011, respectively. There are financial covenants associated with Sichuan ReneSola long-term borrowings \$82,619,680, related to gross margin and sales on cash or advances, and financial covenants associated with Zhejiang Yuhui long-term borrowings \$12,710,720, related to asset-liability ratio and current ratio.

As of December 31, 2011, Sichuan ReneSola and Zhejiang Yuhui are in compliance with all debt covenants. Future principal repayment on the long-term bank loans are as follows:

|      |               |
|------|---------------|
| 2012 | \$91,834,952  |
| 2013 | \$117,658,607 |
| 2014 | \$—           |
| 2015 | \$27,010,280  |
|      | \$236,503,839 |

**c) Interest expense**

Interest expense incurred for the years ended December 31, 2009, 2010 and 2011 was \$24,350,028, \$28,827,891 and \$40,898,780, respectively, of which \$11,802,511, \$5,823,410 and \$2,955,967 has been capitalized in the carrying value of property, plant and equipment.

**10. OTHER CURRENT LIABILITIES**

The Company's other current liabilities are summarized below:

|   | At December 31, |             |
|---|-----------------|-------------|
|   | 2010            | 2011        |
| Payable for purchase of property, plant and equipment | 49,088,978      | 84,832,129  |
| Provision for firm purchase commitment loss           | —               | 3,940,000   |
| Other payables  | 30,544,157      | 26,196,708  |
|   | 79,633,135      | 114,968,837 |

**11. CONVERTIBLE SENIOR NOTES**

i) On March 26, 2007, the Company issued RMB928,700,000 (\$119,994,820) of U.S. Dollar-Settled 1% Convertible Bonds ("Convertible Bonds") due March 26, 2012, which are convertible into ordinary shares (the "New Shares") of the Company. The U.S. dollar settlement is based on the prevailing spot rate at the date of settlement. The Convertible Bonds rank pari passu with all other present and future unsecured and unsubordinated obligations of the Company. The key terms of the Convertible Bonds are as follows:

*Interest.* The Convertible Bonds bear interest at the rate of 1% per annum, payable semi-annually in arrears on March 26 and September 26, commencing September 26, 2007.

*Redemption at maturity.* Each Convertible Bond will be redeemable upon maturity at an amount equal to the U.S. dollar equivalent of its RMB principal amount multiplied by 105.90% together with any accrued but unpaid interest (the "Redemption Amount").

*Conversion.* The Convertible Bonds may be converted into ordinary shares at the option of the holders at any time on or after April 10, 2007 until March 11, 2012. The number of ordinary shares to be issued on conversion will be determined by dividing the RMB principal amount of the Convertible Bonds to be converted (translated into Pound Sterling at the fixed exchange rate of RMB15.0633 to £ 1.00) by the conversion price in effect at the conversion date. The conversion price is initially £ 5.88 per share and is subject to adjustment upon the occurrence of specified events. Based on the conversion price of £ 5.88 the number of ordinary shares to be allotted and issued by the Company on full conversion of the Convertible Bonds will be approximately 10,485,231.

*Call Options.* The Company has the option to redeem all, but not part, of the Convertible Bonds at a price equal to the U.S. dollar equivalent amount of the early redemption amount with any accrued but unpaid interest:

(1) on, or at any time after, March 26, 2009 and prior to the maturity date if the closing price of the shares (converted to RMB at the prevailing RMB-to-Pound Sterling exchange rate) for a 30-trading day period prior to the date on which notice of such redemption is published is at least 130% of the applicable early call redemption amount divided by the conversion ratio; or

(2) when the aggregate principal amount of the Convertible Bonds outstanding is less than 10% of the aggregate principal amount originally issued.

The early redemption amount of a bond will be determined such that it provides the holder a gross yield of 2.215%.

*Put Options.* The holders have the option to require the Company to redeem all or some of the Convertible Bonds at the U.S. dollar equivalent amount of the early call redemption amount plus any accrued but unpaid interest at the occurrence of a change of control or a delisting of the Company's shares on Alternative Investment Market of the London Stock Exchange ("AIM"). In addition, on the third anniversary (March 26, 2010), the holders will have a right to redeem all or some of the bonds at a redemption price equal to the U.S. dollar equivalent of its RMB principal amount multiplied by 103.47% together with any accrued but unpaid interest (the "Early Redemption Amount").



No beneficial conversion feature charge was recognized for the issuance of the Convertible Bonds as the estimated fair value of the ordinary shares was less than the conversion price on the date of issuance.

The embedded conversion option, call options, and put options are not bifurcated and recognized as derivatives.

For the year ended December 31, 2010, approximately RMB214,800,000 (\$31,464,690) par value convertible bond was repurchased using cash of \$32,715,276. The Company recorded a net gain on the repurchase of convertible bonds of \$5,891 for the year ended December 31, 2010.

As of December 31, 2009, 2010 and 2011, the carrying value of the Convertible Bonds was \$32,474,501, \$nil and \$nil, respectively. The early redemption premium of \$4,158,936 is amortized from March 26, 2007, the date of issuance, to March 26, 2010, the earliest redemption date, using the straight-line method, which approximates the effective interest rate method. For the year ended December 31, 2009, 2010 and 2011, the Company recognized total finance cost on the Convertible Bonds of \$3,511,053, \$241,117 and \$nil, respectively.

ii) On March 15, 2011, the Company issued \$175,000,000 of U.S. Dollar-Settled 4.125% Convertible Senior Notes (“Notes”) due March 15, 2018, which are convertible into American Depositary Shares (the “ADSs”) , each currently representing two ordinary shares of the Company. On April 7 2011, an over-allotment option up to \$25,000,000 aggregate principal amount of Notes were fully exercised by initial purchasers. The key terms of the Notes are as follows:

*Interest.* The Notes bear interest at the rate of 4.125% per annum, payable semi-annually in arrears on March 15 and September 15, commencing September 15, 2011.

*Redemption at maturity.* Each Note will be redeemable upon maturity at price of 100% of principal amount plus accrued interest, if any, from March 15, 2016.

*Conversion.* The Notes may be converted into ADSs at the option of the holders at any time prior to maturity. The conversion price is initially \$10.5473 per ADS and is subject to adjustment upon the occurrence of specified events but will not be adjusted for accrued and unpaid interest, if any. Based on the conversion price of \$10.5473 per ADS, the number of ADSs to be allotted and issued by the Company on full conversion of the Notes will be approximately 18,962,269.

*Put Options.* The holders have the option to require the Company to redeem all or any portion of the Notes on March 15, 2016 (the "repurchase date"), at a repurchase price equal to 100% of the principle amount plus any accrued and unpaid interest, if any, to, but excluding the repurchase date.

*Capped call transaction.* In connection with the pricing of the Notes, the Company has entered into a capped call transaction with an affiliate of one of the initial purchasers of the Notes (the "hedge counterparty"). The capped call transaction is expected generally to reduce potential dilution to the Company's ordinary shares and ADSs upon conversion of the Notes. The cap price under the capped call transaction is \$15.0675 per ADS, and the premium of preliminary and over-allotment option is \$21,504,779 and \$3,197,500, respectively. The premium was first credited to additional paid-in capital, and then to retained earnings once additional paid-in capital was reduced to zero. No beneficial conversion feature charge was recognized for the issuance of the Notes as the estimated fair value of the ordinary shares was less than the conversion price on the date of issuance.

The embedded conversion option and put options are not bifurcated and recognized as derivatives.

For the year ended December 31, 2011, approximately \$88,384,000 par value Notes was repurchased using cash of \$57,055,127. The related deferred issuance costs of \$2,978,934 were expensed. The Company recorded a net gain of \$28,349,939 on the repurchase of the Notes. As a result of the repurchase of these Notes, a portion of the premium paid in connection with the capped call facility of \$861,280 was refunded.

As of December 31, 2011, the carrying value of the Notes was \$111,616,000. For the year ended December 31, 2011, the Company paid issuance costs of \$6,054,937, which are being amortized from the date of issuance, to the redemption date, using the straight-line method, which approximates the effective interest rate method. The amortization expense was \$881,172 for the year ended December 31, 2011.

## 12. COMMON SHARES

On May 22, 2009, the Company issued 4,000,000 common shares, equivalent to 2,000,000 American Depositary Shares, for early redemption of Convertible Bonds.

On October 5, 2009, the Company issued 31,000,000 common shares, equivalent to 15,500,000 American Depositary Shares, in an additional public offering on the New York Stock Exchange for proceeds of \$73,625,000. The Company incurred share issuance costs of \$5,517,092 which were netted against the proceeds.

## 13. SHARE REPURCHASE PROGRAM

In August 2011, the Company adopted a share repurchase program enabling it to repurchase up to an aggregate of \$100 million of its ADSs, each representing its two ordinary shares. As of December 31, 2011, the Company repurchased an aggregate of 645,424 ADSs, representing 1,290,848 ordinary shares, on the open market for total cash consideration of \$1,943,822.

## 14. SHARE BASED COMPENSATION

### *Share Award to Employees*

In November 2006, the Company entered into an agreement with Mr. Panjian Li (“Mr. Li”), Chief Executive Officer of ReneSola America, and with Binghua Huang (“Mr. Huang”), Chief Technology Officer of the Company, to grant 40,000 and 20,000 common shares, respectively, each year for a period of five and three years, respectively, commencing January 2008. The fair value of the shares was \$4.47 per share based on the market price as of the grant date. These shares do not have an exercise price and vest at no cost to Mr. Li or Mr. Huang.

A summary of the status of nonvested shares is presented below:

| Number of shares | Weighted Average Grant-Date Fair | Aggregate Intrinsic | Weighted Average Remaining |
|------------------|----------------------------------|---------------------|----------------------------|
|------------------|----------------------------------|---------------------|----------------------------|

|                                |           | value | value | Contractual life |
|--------------------------------|-----------|-------|-------|------------------|
| Nonvested at January 1, 2011   | 40,000    | 4.47  | —     | 0.91             |
| Vested                         | (40,000 ) | 4.47  | —     |                  |
| Nonvested at December 31, 2011 | —         | —     | —     | —                |
| Vested at December 31, 2011    | 593,333   | 2.80  | —     |                  |

Compensation cost of \$240,702, \$ 177,926 and \$162,241 has been recorded in general and administrative expenses for the years ended December 31, 2009, 2010 and 2011, respectively. At December 31, 2011, there was no unrecognized compensation cost. The total fair value of shares vested during the year ended December 31, 2009, 2010 and 2011 was \$234,644, \$78,215 and \$37,600, respectively.

### ***2007 Share Incentive Plan***

On September 27, 2007, the Company adopted the ReneSola Ltd 2007 Share Incentive Plan (the “Plan”) that provides for grant of share options, restricted shares and restricted share units to employees in the Plan. A maximum of 7,500,000 authorized but unissued shares of the Company have been reserved and allocated to the Plan, whose shares were subsequently registered and are issuable upon exercise of outstanding options granted under the Plan. The Plan shall be administered by the Compensation Committee of the Board of Directors (the “Committee”).

Except as otherwise noted in the award agreements with the employee or consultant, the options can be exercised within six years from the award date, except for participant’s termination of employment or service. The vesting schedule and the exercise price per share will be determined by the Committee and set forth in the individual award agreement. In the event of any distribution, share split, or recapitalization of the Company, the Committee shall make such proportionate and equitable adjustments, if any, to reflect such change with respect to (a) the aggregate number and type of shares that may be issued under the Plan and (b) the terms and conditions of any outstanding awards. Except as may otherwise be provided in any award agreement, if a change of control occurs and a participant’s awards are not converted, assumed, or replaced by a successor, such awards shall become fully exercisable and all forfeiture restrictions on such awards shall lapse.

*Options to Employees*

From January to December 2010, the Company granted 4,290,000 share options to certain employees with exercise price of \$2.51 to \$5.44. From January to December 2011, the Company granted 1,450,000 share options to certain employees with exercise prices of \$0.74 to \$4.54. The Company has used the Black Scholes model to estimate the fair value of the options using the following assumptions:

|                 | Average risk-free rate of return | Weighted average expected option life | Volatility rate | Dividend yield |   |
|-----------------|----------------------------------|---------------------------------------|-----------------|----------------|---|
| Granted in 2010 | 1.30-2.40                        | %4.5 years                            | 69.36-92.03     | %0             | % |
| Granted in 2011 | 0.81-2.20                        | %4.5 years                            | 60.02-82.78     | %0             | % |

Expected volatilities based on the average of the standard deviation of the daily stock prices of the Company and other selected comparable companies in the same industry. The expected term of options represents the period of time that options granted are expected to be outstanding. The risk-free rate of return is based on the US Treasury bond yield curve in effect at the time of grant for periods corresponding with the expected term of the option.

A summary of the option activity is as follows:

|   | Number of Options | Weighted Average Exercise Prices | Weighted Average Remaining Contractual Life | Aggregate Intrinsic Value |
|---|-------------------|----------------------------------|---|---------------------------|
| Options   |                   |                                  |   |                           |
| Outstanding on January 1, 2011                  | 7,190,500         | 2.55                             | 3.62  |                           |
| Granted   | 1,450,000         | 1.90                             | 4.65  |                           |
| Exercised                                       | (58,100 )         | 2.54                             | 2.38  |                           |
| Forfeited                                       | (1,248,800)       | 2.79                             | N/A   |                           |
| Outstanding on December 31, 2011                | 7,333,600         | 2.80                             | 2.94  | 12,500                    |
| Vested or expected to vest at December 31, 2011 | 6,784,627         | 2.76                             | 2.93  | 12,500                    |
| Exercisable at December 31, 2011                | 2,425,600         | 2.82                             | 1.88  | —                         |

On June 23, 2009, the exercise price was modified for all the outstanding share options granted before June 23, 2009, which resulted in the incurrence of incremental compensation costs. The incremental costs were \$892,813, \$485,502 and \$379,650 for the year ended 2009, 2010 and 2011 respectively. Unrecognized costs, to be expensed over the remaining vesting period are expected to be \$307,501 during the next two years.

The weighted average fair value of options granted during the years ended December 31, 2009, 2010 and 2011 was \$1.82, \$2.93 and \$0.94, respectively.

Total intrinsic value of options exercised for the years ended December 31, 2009, 2010 and 2011 was \$nil, \$3,659,042 and \$104,671, respectively.

Compensation cost of \$3,055,471, \$3,756,640 and \$4,197,299 has been charged against income during the year ended December 31, 2009, 2010 and 2011, respectively. As of December 31, 2011, there was \$7,584,927 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 3.47 years.

## **15. EMPLOYEE BENEFITS**

In accordance with the relevant rules and regulations in the PRC, employees of the Company are covered by retirement benefit plans established by the local government. These plans are defined contribution plans and Zhejiang Yuhui, Sichuan ReneSola and JC Solar have contributed 14%, 20% and 20% separately of the basic salaries of its employees to such plans. In addition, Zhejiang Yuhui, Sichuan ReneSola and JC Solar are required by PRC law to contribute approximately 17.3%, 19.1% and 21.5% separately of the basic salaries of its employees for medical insurance benefits, housing funds, unemployment and other statutory benefits. Other than the contribution, there is no further obligation for payments to employees under these plans.

The total contribution was \$2,364,683, \$3,672,565 and \$7,803,659, for the years ended December 31, 2009, 2010 and 2011, respectively.

## 16. DISTRIBUTION OF PROFIT

As stipulated by the relevant laws and regulations applicable to China's foreign investment enterprises, the Company's PRC subsidiaries are required to make appropriations from net income as determined under accounting principles generally accepted in the PRC ("PRC GAAP") to non-distributable reserves which include a general reserve, an enterprise expansion reserve and a staff welfare and bonus reserve. Wholly-owned PRC subsidiaries are not required to make appropriations to the enterprise expansion reserve but appropriations to the general reserve are required to be made at not less than 10% of the profit after tax as determined under PRC GAAP. The staff welfare and bonus reserve is determined by the board of directors.

The general reserve is used to offset future extraordinary losses. The subsidiary may, upon a resolution passed by the shareholder, convert the general reserve into capital. The staff welfare and bonus reserve is used for the collective welfare of the employees. The enterprise expansion reserve is for the expansion of Zhejiang Yuhui's operations and can be converted to capital subject to approval by the relevant authorities. These reserves represent appropriations of the retained earnings determined in accordance with the Chinese law.

In addition to the general reserve, the Company's PRC subsidiaries are required to obtain approval from the local PRC government prior to distributing any registered share capital. Accordingly, both the appropriations to general reserve and the registered share capital of the Company's PRC subsidiaries are considered as restricted net assets amounting to \$430,057,497 and \$ 670,474,546 as of December 31, 2010 and 2011, respectively.

## 17. EARNINGS PER SHARE

Basic and diluted earnings per share have been calculated as follows:

|  | Years ended December 31, |                |             |
|--|--------------------------|----------------|-------------|
|  | 2009                     | 2010           | 2011        |
| Net income (loss) attributed to holder of common shares      | \$(71,903,667 )          | \$ 168,996,086 | \$ 332,964  |
| Net income (loss) adjusted for dilutive securities           | (71,903,667 )            | 168,996,086    | 332,964     |
| Weighted-average number of common shares outstanding—basic   | 147,553,679              | 172,870,921    | 173,496,901 |
| Dilutive effect of non-vested shares                         | —                        | 2,240,810      | 373,261     |
| Weighted-average number of common shares outstanding—diluted | 147,553,679              | 175,111,731    | 173,870,162 |

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|                                   |          |           |         |
|-----------------------------------|----------|-----------|---------|
| Basic earnings (loss) per share   | \$ (0.49 | ) \$ 0.98 | \$ 0.00 |
| Diluted earnings (loss) per share | \$ (0.49 | ) \$ 0.97 | \$ 0.00 |

Diluted earnings per share excludes 10,830,075, nil and 23,918,618 common shares issuable upon the assumed conversion of the convertible debt, share options and restricted shares for the year ended December 31, 2009, 2010 and 2011, respectively, as their effect would have been anti-dilutive.

In 2010 and 2011, the Company issued 750,500 and 40,000 ordinary shares to its share depository bank which will be used to settle stock option awards upon their exercise, respectively. No consideration was received by the Company for this issuance of ordinary shares. These ordinary shares are legally issued but are treated as escrowed shares for accounting purposes and therefore, have been excluded from the computation of earnings per share. Any ordinary shares not used in the settlement of stock option awards will be returned to the Company.

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**18. RELATED PARTY BALANCES AND TRANSACTIONS*****(a) Related party balances***

Amounts due from related parties is comprised of the following amounts receivable from the sales of goods :

|   | At December 31, |             |
|---|-----------------|-------------|
|   | 2010            | 2011        |
| Zhejiang Yuhuan <sup>(1)</sup>            | \$389,091       | \$339,376   |
| Jinko and its subsidiaries <sup>(2)</sup> | —               | \$5,867,668 |
| Total                                     | \$389,091       | \$6,207,044 |

Amounts due to related parties are comprised of the following amounts payable to the purchase of raw materials:

|   | At December 31, |             |
|---|-----------------|-------------|
|   | 2010            | 2011        |
| Zhejiang Yaohui <sup>(3)</sup>            | —               | \$1,160,512 |
| Jinko and its subsidiaries <sup>(2)</sup> | \$24,691        | \$3,752,565 |
| Total                                     | \$24,691        | \$4,913,077 |

***(b) Related party transactions***

During the years ended December 31, 2009, 2010 and 2011, related party transactions were as follows:

|  | Years ended December 31, |        |           |
|--|--------------------------|--------|-----------|
|  | 2009                     | 2010   | 2011      |
| Sale of goods to Jinko and its subsidiaries <sup>(2)</sup>               | —                        | —      | 6,757,761 |
| Purchase of raw materials from Jinko and its subsidiaries <sup>(2)</sup> | 15,652,186               | —      | 4,487,954 |
| Purchase of raw materials from Zhejiang Yaohui <sup>(3)</sup>            | —                        | —      | 3,672,150 |
| Processing service provided to Jinko <sup>(2)</sup>                      | 42,409                   | —      | —         |
| Rental payment to Zhejiang Yuhuan <sup>(1)</sup>                         | 63,244                   | 63,815 | —         |
| Rental expense to Zhejiang Yuhuan <sup>(1)</sup>                         | 2,928                    | 2,954  | 11,140    |

In January 2009, Mr. Xianshou Li and his family individually or jointly provided guarantees of up to RMB900,000,000 (\$142,995,600), for short-term and long-term borrowings from various domestic banks from January 24, 2009 to January 24, 2014.

- (1) Zhejiang Yuhuan Solar Energy Source Co. Ltd. (“Zhejiang Yuhuan”) was controlled by Xianshou Li.
- (2) The brothers of Mr. Xianshou Li have been the founders and substantial shareholders of Jinko Solar Co., Ltd. (“Jinko and its subsidiaries”) from 2006 and 2007, respectively.
- (3) The director of ReneSola Ltd has been the General Manager of Zhejiang Yaohui Photovoltaic Co. Ltd.

## 19. COMMITMENTS AND CONTINGENCIES

### *a) Capital commitment*

As of December 31, 2011, the Company had commitments outstanding to purchase property, plant and equipment for \$138,689,345, of which \$138,393,330 and \$296,015 are due in 2012 and 2013, respectively.

### *b) Purchase commitments*

In order to secure future silicon materials, the Company has entered into several long-term supply agreements with overseas suppliers in 2010. Under such agreements, the suppliers agreed to provide the Company with specified quantities of silicon materials, solar wafers, and the Company has made prepayments to these suppliers in accordance with the supply contracts.

The prices of some supply contracts were fixed , and total purchases commitments under such pre-determined long-term agreements were approximately \$216.2 million. Future materials purchase commits are as follows:

| Year ending December 31 | \$<br>thousand |
|-------------------------|----------------|
| 2012                    | 119,073        |
| 2013                    | 97,159         |
| Total consideration     | 216,231        |

Additionally, the company is required to purchase 4,200,000 kg in total under purchase contracts, over the next 4 years, and the price is subject to adjustment to reflect the prevailing market price at the transactions date.

***c) Product warranties***

The Company offer warranties on its products and record an estimate of the associated liabilities. Product warranty activity during the years ended December 31, 2010 and 2011 was as follows:

|                         | At December 31, |            |
|-------------------------|-----------------|------------|
|                         | 2010            | 2011       |
|                         | \$              | \$         |
| Beginning balance       | 3,195,924       | 8,701,042  |
| Warranty provision      | 5,395,737       | 3,893,881  |
| Warranty cost incurred  | —               | (279,645 ) |
| Foreign exchange effect | 109,381         | 520,305    |
| Ending balance          | 8,701,042       | 12,835,583 |

***d) Legal matters***

The Company is a party to legal matters and claims in the normal course of its operations. While the Company believes that the ultimate outcome of these matters will not have a material adverse effect on our financial position, results of operations or cash flows, the outcome of these matters is not determinable with certainty and negative outcomes may adversely affect the Company.

In June 2011, CEP Ltd., or CEP, one of the Company's module customers, filed a lawsuit against the Company in the High Court in Hong Kong for damages of €917,280 arising from breach of the sales contract. The Company has denied CEP's assertion and defended that the termination of the sales contract was due to CEP's material breach of the sales contract by failure to open a letter of credit in accordance with the sales contract. No hearing date has been scheduled as of the date of this filing. Based on the information available to the Company, a negative outcome is not probable and the amount of loss, if any, is not reasonably estimable and as such no amount has been accrued as of December 31, 2011.

## **20. SEGMENT REPORTING**

The Company operates in two principal reportable business segments, Wafer and Cell and module. The Wafer segment involves the manufacture and sales of monocrystalline and multicrystalline solar wafers and processing services. The Cell and module segment involves manufacture and sale of PV cells and modules. Miscellaneous revenues and expenses and other unallocated costs and expenses are recorded in Other. The transactions between reportable segments relate to supplier contracts for the sales of wafers. These transactions are executed based on the stated contract prices, with similar terms and conditions as sales to third parties.

The chief operating decision maker is the chief executive officer of the Company.

The Company now only reports the segment information of net sales and gross profit, to conform to information the chief operating decision maker's receives, and better assess the financial performance and allocate resources. There are no differences between the measurements of the Company's reportable segment's gross profit and the Company's consolidated gross profit, as the Company uses the same profit measurement for both the reportable segments and the consolidated entity. The Company formerly reported the segment information of net sales, gross profit, selling and marketing expenses, general and administrative expenses, research and development expenses, interest expense and income before income tax, noncontrolling interest and equity in earnings. Furthermore, the Company's chief operating decision maker is not provided with asset information by segment. As such, no asset information by segment is presented.

The following table summarizes the Company's revenues generated from each segment:

|                     | Year Ended<br>December 31, 2009 |                 |           |                |                 |
|---------------------|---------------------------------|-----------------|-----------|----------------|-----------------|
|                     | Wafer                           | Cell and module | Other     | Elimination    | Total           |
| Net sales           | \$470,344,344                   | \$ 57,483,346   | \$660,000 | \$(18,082,911) | \$510,404,779   |
| Gross (loss) profit | \$(55,428,975 )                 | \$ 11,260,095   | \$673,655 | \$293,415      | \$(43,201,810 ) |

|                     | Year Ended<br>December 31, 2010 |                 |       |                 |                 |
|---------------------|---------------------------------|-----------------|-------|-----------------|-----------------|
|                     | Wafer                           | Cell and module | Other | Elimination     | Total           |
| Net sales           | \$911,913,455                   | \$ 540,469,534  | \$ —  | \$(246,804,128) | \$1,205,578,861 |
| Gross (loss) profit | \$269,996,288                   | \$ 80,537,398   | \$ —  | \$(2,569,958 )  | \$347,963,728   |

|              | Year Ended<br>December 31, 2011 |                 |       |                 |               |
|--------------|---------------------------------|-----------------|-------|-----------------|---------------|
|              | Wafer                           | Cell and module | Other | Elimination     | Total         |
| Net sales    | \$819,405,032                   | \$ 395,171,888  | \$ —  | \$(229,297,553) | \$985,279,367 |
| Gross profit | \$53,857,042                    | \$ 37,759,156   | \$ —  | \$(4,436,946    | \$96,053,144  |

The following table summarizes the Company's revenues generated from each product:

|  | Years ended December 31, |                 |               |
|--|--------------------------|-----------------|---------------|
|  | 2009                     | 2010            | 2011          |
| Solar wafers                             | \$426,087,954            | \$640,127,122   | \$471,661,221 |
| Service revenue from tolling arrangement | 21,897,067               | 78,040,989      | 72,470,242    |
| Solar modules                            | 56,343,280               | 475,459,658     | 381,024,666   |
| Ingots                                   | 45,046                   | —               | —             |
| Solar cells                              | 4,285,842                | 3,959,149       | 557,198       |
| Other materials                          | 1,745,590                | 7,991,943       | 59,566,240    |
| Total                                    | \$510,404,779            | \$1,205,578,861 | \$985,279,367 |

The following table summarizes the Company's revenues generated by geographic location of customers:

|                | Years ended December 31, |               |               |
|----------------|--------------------------|---------------|---------------|
|                | 2009                     | 2010          | 2011          |
| Mainland China | \$283,299,979            | \$432,244,661 | \$384,612,702 |

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|                              |               |                 |               |
|------------------------------|---------------|-----------------|---------------|
| Singapore                    | 62,473        | 37,231,290      | 2,303,270     |
| Taiwan                       | 66,961,187    | 105,628,418     | 115,391,115   |
| Hong Kong                    | 32,857,847    | 30,537,477      | 1,054,364     |
| Korea                        | 1,411,828     | 67,258,950      | 89,186,998    |
| India                        | 9,064,798     | 13,178,876      | 4,309,772     |
| Australia                    | 10,694,962    | 959,487         | 3,264,955     |
| Other Asia Pacific countries | 24,392        | 2,215,499       | 227,106       |
| Asia Pacific Total           | \$404,377,466 | \$689,254,658   | \$600,350,284 |
| Germany                      | 49,253,177    | 180,913,486     | 110,503,738   |
| Italy                        | 7,744,370     | 70,270,371      | 61,615,219    |
| Spain                        | 6,165,295     | 66,833,525      | 38,586,654    |
| Belgium                      | 19,954,494    | 8,391,253       | 31,231,396    |
| France                       | 5,599,868     | 19,558,271      | 37,126,579    |
| America                      | 8,763,799     | 60,415,307      | 64,693,678    |
| Czech Republic               | —             | 79,095,388      | 6,563,582     |
| Others                       | 8,546,310     | 30,846,602      | 34,608,237    |
| Total                        | \$510,404,779 | \$1,205,578,861 | \$985,279,367 |

Substantially all of the Company's long-lived assets are located in Mainland China.

***Major customers***

Details of the customers accounting for 10% or more of total net revenues were as follows:

|            | Years ended December 31, |               |      |
|------------|--------------------------|---------------|------|
|            | 2009                     | 2010          | 2011 |
| Customer A | \$72,031,665             | \$152,467,373 | *    |

\*: Less than 10%.

**21. SUBSEQUENT EVENTS**

Subsequent to December 31, 2011, the Company obtained new financings totaling \$208.1 million, which are comprised of \$71.5 million in new credit facilities and \$136.6 million in short-term borrowings, for its working capital needs. Such facilities and short-term borrowings have credit terms of 12 months.

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**SCHEDULE 1—RENESOLA LTD CONDENSED FINANCIAL STATEMENTS****FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2011****(Amounts expressed in U.S. dollars)****RENESOLA LTD****BALANCE SHEETS**

|   | As of December 31, |                |
|---|--------------------|----------------|
|   | 2010               | 2011           |
| <b>ASSETS</b>   |                    |                |
| Current assets:   |                    |                |
| Cash and cash equivalents   | \$ 1,192,343       | \$ 31,674,461  |
| Prepaid expenses and other current assets   | 114,240            | 290,545        |
| Derivative assets   | 8,806,349          | —              |
| Deferred convertible bond issue costs—current   | —                  | 784,456        |
| Total current assets  | 10,112,932         | 32,749,462     |
| Investment in subsidiaries  | 619,225,233        | 816,157,462    |
| Deferred convertible notes insurance costs—non-current  | —                  | 2,510,211      |
| Total assets  | \$ 629,338,165     | \$ 851,417,135 |
| <b>LIABILITIES AND EQUITY</b>   |                    |                |
| Current liabilities:  |                    |                |
| Amount due to subsidiaries  | \$ 37,948,329      | \$ 133,873,226 |
| Other current liabilities   | 2,022,258          | 1,949,704      |
| Total current liabilities   | 39,970,587         | 135,822,930    |
| Income tax payable  | 1,930,947          | 409,506        |
| Other long-term liabilities   | 972,135            | 2,582,692      |
| Convertible notes payable—non-current   | —                  | 111,616,000    |
| Total liabilities   | 42,873,669         | 250,431,128    |
| Equity:   |                    |                |
| Common shares (no par value; 500,000,000 shares authorized at December 31, 2010 and 2011; 174,596,912 shares issued and 173,846,412 shares outstanding at December 31, 2010; 174,636,912 shares issued and 172,613,664 shares outstanding at December 31, 2011) | 422,039,086        | 422,313,848    |
| Additional paid-in capital  | 19,857,905         | 4,110,849      |
| Treasury stock  | —                  | (1,943,822 )   |
| Retained earnings   | 108,386,781        | 104,859,324    |
| Accumulated other comprehensive income  | 36,180,724         | 71,645,808     |



|                              |               |               |
|------------------------------|---------------|---------------|
| Total equity                 | 586,464,496   | 600,986,007   |
| Total Liabilities and Equity | \$629,338,165 | \$851,417,135 |

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**SCHEDULE 1—RENESOLA LTD CONDENSED FINANCIAL STATEMENTS****FOR THE YEARS ENDED DECEMBER 31, 2009, 2010 and 2011****(Amounts expressed in U.S. dollars except number of shares and per share data)****RENESOLA LTD****STATEMENTS OF INCOME**

|  | Year ended December 31, |               |              |
|--|-------------------------|---------------|--------------|
|  | 2009                    | 2010          | 2011         |
| Cost of revenues—Product sales   | \$—                     | \$323,546     | \$156,416    |
| Gross loss   | —                       | (323,546 )    | (156,416 )   |
| Operating expenses(income):  |                         |               |              |
| Sales and marketing  | 8,859                   | 123,200       | 169,033      |
| General and administrative   | 18,679,602              | 8,617,628     | 5,794,283    |
| Research and development   | —                       | 54,409        | 101,350      |
| Other operating expense (income)   | (80,712 )               | 383,608       | (148,220 )   |
| Total operating expenses   | 18,607,749              | 9,178,845     | 5,916,445    |
| Loss from operations   | (18,607,749)            | (9,502,391 )  | (6,072,861 ) |
| Non-operating (expense) income:  |                         |               |              |
| Interest income  | 1,689,333               | 1,350,777     | 917,377      |
| Interest expense   | (3,984,421 )            | (814,254 )    | (6,633,937 ) |
| Foreign exchange loss  | (78,297 )               | (13,037 )     | (766 )       |
| (Gains) losses on derivative   | —                       | 14,248,017    | (20,254,867) |
| Gains on repurchase of convertible bonds                                 | 7,995,337               | 5,891         | 28,349,939   |
| Total non-operating income   | 5,621,952               | 14,777,394    | 2,377,746    |
| Income (loss) before income taxes and equity in earnings of subsidiaries | (12,985,797)            | 5,275,003     | (3,695,116 ) |
| Income tax (expense) benefit   | (200,421 )              | (124,095 )    | 1,521,441    |
| Equity in earnings (losses) of subsidiaries                              | (58,717,449)            | 163,845,178   | 2,506,639    |
| Net income (loss)  | \$(71,903,667)          | \$168,996,086 | \$332,964    |

**SCHEDULE 1—RENESOLA LTD CONDENSED FINANCIAL STATEMENTS****FOR THE YEARS ENDED DECEMBER 31, 2009, 2010 and 2011****(Amounts expressed in U.S. dollars)****RENESOLA LTD****STATEMENTS OF CASH FLOWS**

|   | Year ended December 31, |               |               |
|---|-------------------------|---------------|---------------|
|   | 2009                    | 2010          | 2011          |
| Net income (loss)   | \$(71,903,667 )         | \$168,996,086 | \$332,964     |
| Equity in earnings (losses) of subsidiaries                                   | 58,717,449              | (163,845,178) | (2,506,639 )  |
| Adjustments to reconcile net income to net cash used in operating activities: |                         |               |               |
| Amortization of deferred convertible bond issue costs and premium             | 3,510,773               | 332,668       | 881,172       |
| Allowances for doubtful receivables   | 14,568,284              | —             | —             |
| Gains on early extinguishment of debt (net of inducement charges in 2009)     | (7,995,337 )            | (5,891 )      | (28,349,939 ) |
| Share-based compensation  | 3,296,174               | 3,934,566     | 4,359,540     |
| (Gains) losses on derivatives   | —                       | (14,248,017)  | 20,254,867    |
| Changes in assets and liabilities :   |                         |               |               |
| Advances to suppliers   | (18,830,057 )           | —             | —             |
| Prepaid expenses and other current assets                                     | —                       | (114,240 )    | (176,305 )    |
| Other current liabilities   | (1,848,575 )            | 1,004,699     | (1,671,890 )  |
| Other long-term liabilities   | (138,777 )              | (138,861 )    | 1,610,557     |
| Net cash used in operating activities   | (20,623,733 )           | (4,084,168 )  | (5,265,673 )  |
| Investing activities:   |                         |               |               |
| Investment in subsidiaries  | (44,000,000 )           | (37,200,000 ) | (33,800,000 ) |
| Loans to subsidiaries   | (45,115,612 )           | 8,842,522     | —             |
| Dividend received from subsidiaries   | 12,002,097              | 5,042,201     | —             |
| Net cash received from (paid for) settlement of derivatives                   | —                       | 441,964       | (11,370,796)  |
| Net cash used in investing activities   | (77,113,515 )           | (22,873,313 ) | (45,170,796 ) |
| Financing activities:   |                         |               |               |
| Proceeds from issuance of common shares                                       | 73,625,000              | —             | —             |
| Share issuance costs  | (5,265,134 )            | —             | —             |
| Proceeds from exercise of share option  | —                       | 3,144,061     | 148,744       |
| Net proceeds from issuance of convertible notes                               | —                       | —             | 200,000,000   |

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|  |               |               |               |
|--|---------------|---------------|---------------|
| Cash paid for repurchase of common shares            | —             | —             | (1,943,822 )  |
| Cash paid for insurance cost                         | —             | —             | (7,154,772 )  |
| Purchase of capped call transaction                  | —             | —             | (23,840,999 ) |
| Cash paid for repurchase of convertible notes        | (84,121,078 ) | (32,715,276 ) | (57,055,127 ) |
| Payment of loan from subsidiaries                    | —             | —             | (29,235,437 ) |
| Borrowing from subsidiaries                          | 112,994,415   | 56,740,101    | —             |
| Net cash provided by financing activities            | 97,233,203    | 27,168,886    | 80,918,587    |
| Effect of exchange rate changes                      | (1,027 )      | (41,733 )     | —             |
| Net increase (decrease) in cash and cash equivalents | (505,072 )    | 169,672       | 30,482,118    |
| Cash and cash equivalents, beginning of year         | \$1,527,743   | \$1,022,671   | \$1,192,343   |
| Cash and cash equivalents, end of year               | \$1,022,671   | \$1,192,343   | \$31,674,461  |

Supplemental schedule of non-cash transactions

Conversion of debt to equity \$—\$—\$125,160,333

**SCHEDULE 1—RENESOLA LTD CONDENSED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2009, 2010 and 2011**

**(Amounts expressed in U.S. dollars, unless otherwise stated)**

**Note to Schedule 1**

Schedule I has been provided pursuant to the requirements of Rule 12-04(a) and 5-04(c) of Regulation S-X, which require condensed financial information as to the financial position, changes in financial position and results of operations of a parent company as of the same dates and for the same periods for which audited consolidated financial statements have been presented when the restricted net assets of consolidated subsidiaries exceed 25 percent of consolidated net assets as of the end of the most recently completed fiscal year. The condensed financial information has been prepared using the same accounting policies as set out in the accompanying consolidated financial statements except that the equity method has been used to account for investments in its subsidiaries.

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