YINGLI GREEN ENERGY HOLDING CO LTD
Form 20-F
June 15, 2009

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

(Mark One)

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

OR

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2008

OR

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

OR

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

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

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

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

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

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

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

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

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

Indicate the number of outstanding shares of each of the Issuer s classes of capital or common stock as of the close of the period covered by the annual report: 127,447,821 Ordinary Shares

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

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

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

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

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

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

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

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

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

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

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

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

YINGLI GREEN ENERGY HOLDING COMPANY LIMITED

ANNUAL REPORT ON FORM 20-F

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

Unless otherwise indicated, references in this annual report to:

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

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

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

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

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

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

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

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

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

PART I

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

Not Applicable.

Item 2. *Offer Statistics and Expected Timetable*

Not Applicable.

Item 3. *Key Information*

A. Selected Financial Data

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

Yingli Green Energy was incorporated on August 7, 2006. For the period from August 7, 2006 (date of inception) through September 4, 2006, Yingli Green Energy did not engage in any business or operations. On September 5, 2006, Baoding Yingli Group Co., Ltd., or Yingli Group, an entity controlled by Mr. Liansheng Miao, our chairperson and chief executive officer, who also controls our controlling shareholder, Yingli Power, transferred its 51% equity interest in Tianwei Yingli to Yingli Green Energy. As Yingli Group and we were entities under common control at the time of the transfer, the 51% equity interest in Tianwei Yingli were recorded by us at the historical cost to Yingli Group, which approximated the historical carrying values of the assets and liabilities of Tianwei Yingli. For financial statements reporting purposes, Tianwei Yingli is deemed to be our predecessor for periods prior to September 5, 2006.

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The selected consolidated income statement data and other consolidated financial data for the period from January 1, 2006 through September 4, 2006 have been derived from the audited consolidated financial statements of our predecessor, Tianwei Yingli, included elsewhere in this annual report. The selected consolidated income statement data (other than per ADS data) and other consolidated financial data for the period from August 7, 2006 (date of inception) through December 31, 2006 and for the years ended December 31, 2007 and 2008 and the selected consolidated balance sheet data as of December 31, 2007 and 2008 have been derived from our audited consolidated financial statements included elsewhere in this annual report. The consolidated financial statements of each of Yingli Green Energy and Tianwei Yingli have been prepared in accordance with accounting principles generally accepted in the United States, or U.S. GAAP.

The selected consolidated income statement data and other consolidated financial data for the years ended December 31, 2004 and 2005 and the selected consolidated balance sheet data as of December 31, 2004 and 2005 have been derived from Tianwei Yingli s audited consolidated financial statements not included in this annual report. The selected consolidated balance sheet data as of December 31, 2006 have been derived from our audited consolidated financial statements not included in the annual report.

	Predecessor			Yingli Green Energy			
	For the Year Ended December 31, 2004	For the Year Ended December 31, 2005	For the Period from January 1, 2006 through September 4, 2006	For the Period from August 7, 2006 through December 31, 2006	For the Year Ended December 31, 2007	For the Year Ended December 31, 2008	
	(In thousands of RMB)			(In thousands, except per share and per ADS data) RMB	RMB	RMB	US$
Consolidated Income Statement Data							
Net revenues	120,483	361,794	883,988	754,793	4,059,323	7,553,015	1,107,074
Gross profit	25,180	108,190	272,352	179,946	956,840	1,629,609	238,858
Income from operations	13,744	83,675	234,631	132,288	679,543	1,153,300	169,044
Interest expense	(6,411)	(5,278)	(22,441)	(25,789)	(64,834)	(149,193)	(21,868)
Foreign currency exchange losses, net	(0.6)	(1,812)	(3,406)	(4,693)	(32,662)	(66,286)	(9,716)
Gain (loss) on debt extinguishment		2,165		(3,908)			
Income tax benefit (expense)(1)	(1,221)	(12,736)	(22,546)	(22,968)	(12,928)	5,588	819
Minority interests(1)	76	36	76	(45,285)	(192,612)	(293,300)	(42,990)
Net income(1)(2)	6,089	65,954	186,223	30,017	389,020	666,764	97,730
Net income applicable to ordinary shareholders(1)				23,048	335,869	666,764	97,730
Basic earnings per share applicable to				0.36	3.00	5.23	0.77

ordinary shareholders(1)(2)(3)				
Diluted earnings per share(1)(2)(3)	0.36	2.89	5.15	0.75
Basic earnings per ADS(1)(2)(3)	0.36	3.00	5.23	0.77
Diluted earnings per ADS(1)(2)(3)	0.36	2.89	5.15	0.75

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	Predecessor For the Year Ended December 31, 2004	Predecessor For the Year Ended December 31, 2005	Predecessor For the Period from January 1, 2006 through September 4, 2006	Yingli Green Energy For the Period from August 7, 2006 through December 31, 2006	Yingli Green Energy For the Year Ended December 31, 2007	Yingli Green Energy For the Year Ended December 31, 2008
	(In percentages)					
Other Consolidated Financial Data						
Gross profit margin(4)	20.9%	29.9%	30.8%	23.8%	23.6%	21.6%
Operating profit margin(4)	11.4%	23.1%	26.5%	17.5%	16.7%	15.3%
Net profit margin(1)(4)	5.1%	18.2%	21.1%	4.0%	9.6%	8.8%

	Predecessor As of December 31, 2004	Predecessor As of December 31, 2005	Yingli Green Energy As of December 31, 2006	Yingli Green Energy As of December 31, 2007	Yingli Green Energy As of December 31, 2008	Yingli Green Energy As of December 31, 2008
	(In thousands of RMB)		(In thousands of RMB)	(In thousands of RMB)	(In thousands of RMB)	(In thousands of US$)
Consolidated Balance Sheets Data						
Cash	21,739	14,865	78,455	961,077	1,108,914	162,538
Accounts receivable, net	6,120	40,505	281,921	1,240,844	1,441,949	211,352
Inventories	17,499	106,566	811,746	1,261,207	2,040,731	299,118
Prepayments to suppliers	12,617	123,452	134,823	1,056,776	774,014	113,450
Total current assets(5)	62,233	334,673	1,722,295	5,074,225	6,062,020	888,534
Long-term prepayments to suppliers			226,274	637,270	674,164	98,815
Property, plant and equipment, net	120,980	341,814	583,498	1,479,829	3,385,682	496,252
Total assets(1)(5)	204,076	704,775	2,813,461	7,658,896	11,068,683	1,622,380
Short-term borrowings and current portion of long-term bank borrowings(6)	92,000	346,757	267,286	1,261,275	2,044,200	299,626
Total current liabilities(5)	131,208	561,808	649,002	1,519,577	2,829,419	414,719
Convertible senior notes				1,262,734	1,241,908	182,031
Long-term bank borrowings, excluding the current portion					662,956	97,172

Total liabilities(1)(5)	132,836	567,617	1,339,878	2,902,272	4,922,621	721,528
Minority interests(1)	606	569	387,716	754,799	1,395,151	204,493
Ordinary shares(3)			4,745	9,884	9,922	1,454
Total owners / shareholders equity(1)	70,634	136,589	68,530	4,001,825	4,750,911	696,359

	For the Year Ended December 31,				
	2004	**2005**	**2006**	**2007**	**2008**
Consolidated Operating Data					
PV modules sold (in megawatts)(7)	4.7	11.9	51.3	142.5	281.5
Average selling price of PV modules (per watt in US$)(8)	2.83	3.49	3.82	3.86	3.88

(1) Our previously reported unaudited 2008 financial results have been revised to reflect a decrease in the income tax benefit from RMB 19.5 million to RMB 5.6 million due to a revised calculation of deferred taxes resulting from a change in the enacted income tax rate from 15% to 25% for calendar years starting from 2012 in respect of Tianwei Yingli.

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

The net income effects, basic and diluted earnings per share effects of the tax holiday for the years ended December 31, 2007 and 2008 are as follows:

	For the Year Ended December 31,		
	2007	2008	
	RMB	RMB	US$
	(In thousands, except per share data)		
Net income(1)	78,357	196,873	28,856
Basic earnings per share(1)	0.80	1.55	0.23
Diluted earnings per share(1)	0.78	1.52	0.22

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

(4) Gross profit margin, operating profit margin and net profit margin represent gross profit, operating profit and net profit, respectively, divided by net revenues.

(5) Certain balance sheet accounts prior to January 1, 2008 have been reclassified to conform to the presentation for the balance sheet as of December 31, 2008 for comparative purposes.

(6) Includes loans guaranteed or entrusted by related parties, which amounted to RMB 80.0 million, RMB 234.0 million, RMB 233.0 million, RMB 470.2 million and nil, as of December 31, 2004, 2005, 2006, 2007 and 2008, respectively.

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

(8) We compute average selling price of PV modules per watt for a given period as the total sales of PV modules divided by the total watts of the PV modules sold during such period, and translated into U.S. dollars at the noon buying rate at the end of such period as certified by the United States Federal Reserve Board.

Exchange Rate Information

The conversion of Renminbi into U.S. dollars in this annual report is based on the noon buying rate in The City of New York for cable transfers of Renminbi as certified for customs purposes by the Federal Reserve Bank of New York. Unless otherwise noted, all translations from Renminbi to U.S. dollars in this annual report were made at a rate of RMB 6.8225 to US$1.00, the noon buying rate in effect as of December 31, 2008. We make no representation that any Renminbi or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or Renminbi, as the case may be, at any particular rate, the rates stated below, or at all. The PRC government imposes control over its foreign currency reserves in part through direct regulation of the conversion of Renminbi into foreign exchange and through restrictions on foreign trade. On June 5, 2009, the noon buying rate as set forth in the H.10 statistical release of the Federal Reserve Board was RMB 6.8329 to US$1.00.

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

	Noon Buying Rate(1)			
Period	Period End	Average(2)	High	Low
	(RMB per US$1.00)			
2004	8.2765	8.2768	8.2771	8.2765
2005	8.0702	8.1826	8.2765	8.0702
2006	7.8041	7.9579	8.0702	7.8041
2007	7.2946	7.5806	7.8127	7.2946
2008	6.8225	6.9477	7.2946	6.7800
2008				
December	6.8225	6.8539	6.8842	6.8225
2009				
January	6.8392	6.8360	6.8403	6.8225
February	6.8395	6.8363	6.8470	6.8241
March	6.8329	6.8360	6.8438	6.8240
April	6.8180	6.8304	6.8361	6.8180
May	6.8278	6.8235	6.8326	6.8176
June (through June 5)	6.8329	6.8304	6.8331	6.8264

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

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

B. Capitalization and Indebtedness

Not Applicable.

C. Reasons for the Offer and Use of Proceeds

Not Applicable.

D. Risk Factors

Risks Related to Us and the PV Industry

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

Demand for our products substantially depends on the general economic conditions in our target markets. The economies of many countries around the world, including those in our target markets, have recently experienced and may continue to experience a period of slow economic growth and adverse credit market conditions. As PV system projects generally require significant upfront capital expenditures, our customers have historically relied on financing for the purchase of our products. As a result of weakened macroeconomic conditions and in particular continuing adverse credit market conditions, our customers have experienced difficulty in obtaining financing on attractive terms or at all. As a result, the growth in demand for PV modules has declined significantly since the fourth quarter of 2008 and we cannot assure you that demand for our PV modules will not decline further.

In addition, the supply of PV modules has increased due to production capacity expansion by PV module manufacturers worldwide in recent years which, together with weakened demand for PV modules, has resulted in a decline of prices of PV modules beginning in the fourth quarter of 2008. Decreases in the prices of other energy resources such as oil may also have contributed to the decline of prices of PV modules. The average selling price of our PV modules decreased from US$4.04 per watt in the third quarter of 2008 to US$3.19 per watt in the fourth quarter of 2008. While we have achieved cost savings through vertical integration, economies of scale and technological improvements, the decrease in the average selling price of our PV modules primarily caused our gross profit margin to decrease significantly from 22.3% in the third quarter of 2008 to 13.2% in the fourth quarter of 2008. We are continuing our efforts to achieve additional cost savings, including the integration of polysilicon production in-house. However, there can be no assurance that our cost saving efforts will successfully improve our profitability or prevent our profit margin from further declining under the current macroeconomic conditions. If we experience further declines in demand for our products or decreases in the average selling price of our PV modules, our financial condition and results of operation could be materially and adversely affected.

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

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

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

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

The scope of the government incentives for solar power depends, to a large extent, on political and policy developments in a given country related to environmental, economic or other concerns, which could lead to a significant reduction in or a discontinuation of the support for renewable energy sources in such country. For example, in September 2008, Spain set a cap of 500 megawatts for feed-in tariffs for solar power in 2009, which may significantly reduce incentives for new solar energy project installations. In addition, in certain countries, including countries to which we export PV products, government financial support of PV products has been, and may continue to be, challenged as being unconstitutional or otherwise unlawful. A significant reduction in the scope or discontinuation of government incentive programs would have a material adverse effect on the demand for our PV modules as well as our results of operations.

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We had experienced, and may experience in the future, industry-wide shortage of polysilicon. Our failure to obtain polysilicon in sufficient quantities, of appropriate quality and in a timely manner could disrupt our operations, prevent us from operating at full capacity or limit our ability to expand as planned, which will reduce, and limit the growth of, our manufacturing output and revenue.

Polysilicon is the most important raw material used in the production of our PV products. To maintain competitive manufacturing operations, we depend on timely delivery by our suppliers of polysilicon in sufficient quantities and of appropriate quality. The global supply of polysilicon is controlled by a limited number of producers, and until the fourth quarter of 2008, there had been an industry-wide shortage of polysilicon in recent years. The shortage of polysilicon was the result of a combination of factors, including a significant increase in demand for polysilicon due to the rapid growth of the PV industry, the significant lead time required for building additional capacity for polysilicon production and significant competing demand for polysilicon from the semiconductor industry.

Partly as a result of the industry-wide shortage, we had from time to time faced the prospect of a shortage of polysilicon and late or failed delivery of polysilicon from suppliers. We may experience actual shortage of polysilicon or late or failed delivery in the future for the following reasons, among others. First, the terms of our polysilicon contracts with, or purchase orders to, our suppliers may be altered or cancelled by the suppliers with limited or no penalty to them, in which case we may not be able to recover damages fully or at all. Second, we generally do not have a history of long-term relationships with polysilicon suppliers who may be able to meet our polysilicon needs consistently or on an emergency basis, while compared to us, many of our competitors who also purchase polysilicon from our suppliers have had longer and stronger relationships with and greater buying power and bargaining leverage over our suppliers. While we acquired Cyber Power Group Limited, or Cyber Power, a development stage enterprise with plans to begin production of polysilicon in the second half of 2009, we currently do not have any polysilicon production capacity and we do not expect to have a polysilicon production capacity that meets our polysilicon needs in the near future. As a result, we expect to continue to rely on third-party polysilicon suppliers.

If we fail to obtain delivery of polysilicon in amounts and according to time schedules as agreed with our suppliers, or at all, we may be forced to reduce production or secure alternative sources of polysilicon in the spot market, which may not provide polysilicon in amounts or quality required by us or at comparable or affordable prices, or at all. Our failure to obtain the required amounts and quality of polysilicon on time and at affordable prices can seriously hamper our ability to meet our contractual obligations to deliver PV products to our customers. Any failure by us to meet such obligations could have a material adverse effect on our reputation, retention of customers, market share, business and results of operations and may subject us to claims from our customers and other disputes. In addition, our failure to obtain sufficient amounts of polysilicon of the appropriate quality could result in underutilization of our existing and new production facilities and an increase of our marginal production cost, and may prevent us from implementing capacity expansion as currently planned. Any of the above events could have a material adverse effect on our business, financial condition and results of operations.

Our failure to obtain polysilicon at acceptable prices could adversely affect our business, financial condition and results of operations.

Our average purchase price of polysilicon per kilogram decreased by 38.6% in 2008 compared to 2007 and we believe the spot prices of polysilicon will continue to fall during 2009. However, our efforts to reduce production costs and improve profitability may be unsuccessful if the price of any of our raw materials, in particular polysilicon, increases in the future. For example, the industry-wide shortage of polysilicon had resulted in a significant increase in polysilicon prices in recent years. Our average purchase price of polysilicon per kilogram had increased by 185.5% in 2006 compared to 2005 and 30.2% in 2007 compared to 2006. The increase in the price of polysilicon has largely contributed to the increase in our production costs for PV modules in recent years and may continue to have the same effect in the future if the price of polysilicon increases, which may have a material adverse effect on our business, financial condition and results of operations.

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

In 2006, 2007 and 2008, our five largest suppliers supplied in the aggregate approximately 83.6%, 73.9% and 55.0%, respectively, of our total polysilicon purchases. If we fail to develop or maintain our relationships with these or our other suppliers, we may be unable to manufacture our products, our products may only be available at a higher cost or after a long delay, or we could be prevented from delivering our products to our customers in the required quantities, at competitive prices and on acceptable terms of delivery. Problems of this kind could cause us to experience order cancellations, decreased revenue and loss of market share. In general, the failure of a supplier to supply materials and components that meet our quality, quantity and cost requirements in a timely manner due to lack of supplies or other reasons could impair our ability to manufacture our products or could increase our costs, particularly if we are unable to obtain these materials and components from alternative sources in a timely manner or on commercially reasonable terms. Some of our suppliers have a limited operating history and limited financial resources, and the contracts we entered into with these suppliers do not clearly provide for remedies to us in the event any of these suppliers is not able to, or otherwise does not, deliver, in a timely manner or at all, any materials it is contractually obligated to deliver. While we acquired Cyber Power, a development stage enterprise with plans to begin production of polysilicon, in January 2009, we do not expect to begin trial production of solar-grade polysilicon in-house until the end of 2009 or early 2010 and we do not expect to have a polysilicon production capacity that meets our polysilicon needs in the near future. As a result, we expect to continue to rely on third-party polysilicon suppliers for our polysilicon needs and any disruption in the supply of polysilicon to us may adversely affect our business, financial condition and results of operations.

For instance, due to a shortage of raw materials for the production of PV modules, increased market demand for polysilicon raw materials, the failure by some polysilicon suppliers to achieve expected production volumes and certain other factors, a few of our polysilicon suppliers failed to fully perform on their polysilicon supply contractual commitments to us, and we consequently did not receive part of the contractually agreed quantities of polysilicon raw materials from these suppliers which represented approximately 19.0% and 1.4% of the total committed quantities polysilicon supplies under contracts entered into by us in 2007 and 2008, respectively. We subsequently cancelled or renegotiated these polysilicon supply contracts. While we in each case were able to replace such expected deliveries of polysilicon through purchases from the spot market and new supply contracts, we cannot assure you that any future failure of our suppliers to deliver agreed quantities of polysilicon could be substantially replaced in a timely manner or at all through spot market purchases or new supply contracts or that the price of such purchases or terms of such contracts will be favorable to us.

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

We currently expect that our results of operations will, for the foreseeable future, continue to depend on the sale of our PV modules to a relatively small number of customers until we become successful in significantly expanding our customer base or diversifying product offerings. In 2006, 2007, 2008, sales to our customers that individually exceeded 10% of our net revenues accounted for approximately 38.9%, 45.2% and 11.6%, respectively, of our net revenues. Our relationships with such key customers have been developed over a short period of time and are generally in their early stages. We cannot assure you that we will continue to generate significant revenues from these customers or that we will be able to maintain these customer relationships. In addition, our business is affected by competition in the market for the products that many of our major customers sell, and any decline in the businesses of our customers could reduce the purchase of our products by these customers. The loss of sales to any of these customers could also have a material adverse effect on our business, prospects and results of operations.

In addition, a significant portion of our outstanding accounts receivable are derived from sales to a limited number of customers. As of December 31, 2006, 2007 and 2008, our five largest outstanding accounts receivable balance accounted for approximately 85.4%, 83.2% and 81.2%, respectively, of our total outstanding accounts receivable. We are exposed to the credit risk of these customers, some of which are new customers with whom we have not had extensive business dealings historically. The failure of any of these customers to meet their payment obligations would materially and adversely affect our financial position, liquidity and results of operations.

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

The PV market is intensely competitive and rapidly evolving. The number of PV product manufacturers had rapidly increased due to the growth of actual and forecasted demand for PV products and the relatively low barriers to entry. The weakened demand for PV modules due to weakened macroeconomic conditions, combined with the increased supply of PV modules due to production capacity expansion by PV module manufacturers worldwide in recent years, has caused the price of PV modules to decline beginning in the fourth quarter of 2008. The average selling price of our PV modules decreased from US$4.04 per watt in the third quarter of 2008 to US$3.19 per watt in the fourth quarter of 2008. We expect that the prices of PV products, including PV modules, may continue to decline over time due to increased supply of PV products, reduced manufacturing costs from economies of scale, advancement of manufacturing technologies and cyclical downturns in the price of polysilicon. If we fail to attract and retain customers in our target markets for our current and future core products, namely PV modules and PV systems, we will be unable to increase our revenues and market share.

In 2006, 2007 and 2008, a significant portion of our revenues have been derived from overseas markets, particularly Germany and Spain and we expect these trends to continue. In these markets, we often compete with local and international producers of PV products that are substantially larger than us, including the solar energy divisions of large conglomerates such as BP Solar and Sharp Corporation, PV module manufacturers such as SunPower Corporation and Suntech Power Holdings Co., Ltd., and integrated PV product manufacturers such as SolarWorld AG, Renewable Energy Corporation and Trina Solar Limited.

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

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

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

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

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

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

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

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

Under existing supply contracts with many of our polysilicon suppliers and our equipment suppliers, consistent with the industry practice, we make advance payments to our suppliers prior to the scheduled delivery dates for polysilicon and equipment. In many such cases, we make the advance payments without receiving collateral for such payments. As a result, our claims for such payments would rank as unsecured claims, which would expose us to the credit risks of our suppliers in the event of their insolvency or bankruptcy. Under such circumstances, our claims against the defaulting suppliers would rank below those of secured creditors, which would undermine our chances of obtaining the return of our advance payments. In addition, if the market price of polysilicon decreases after we prepay our suppliers, we may not be able to adjust historical payments insofar as they relate to future deliveries. Furthermore, if demand for our products decreases, we may incur costs associated with carrying excess materials. Accordingly, any of the above scenarios may have a material adverse effect on our financial condition, results of operations and liquidity.

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

Our future success depends on our ability to expand our manufacturing capacity. If we are unable to do so, we will not be able to attain the desired level of economies of scale in our operations or lower our marginal production costs to the level necessary to effectively maintain our pricing and other competitive advantages. We have made substantial capital expenditures for our future growth. For example, in October 2007, we formed a new subsidiary, Yingli China, through which we are constructing new facilities to increase annual manufacturing capacity for each of polysilicon ingots and wafers, PV cells and PV modules by an additional 200 megawatts in the third quarter of 2009. In addition, we plan to establish in-house polysilicon manufacturing facilities and, in January 2009, we acquired Cyber Power, a development stage enterprise with plans to begin trial production of solar-grade polysilicon by the end of 2009 or early 2010. Our growth strategy has required and will continue to require substantial capital expenditures, significant engineering efforts, timely delivery of manufacturing equipment, dedicated management attention and the recruitment and training of new employees and is subject to significant risks and uncertainties, including:

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

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

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

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

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

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

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

Our strategy includes plans to grow both organically and through acquisitions, participation in joint ventures or other strategic alliances with suppliers or other companies in China and overseas along the PV industry value chain. For example, in January 2009, we completed the acquisition of Cyber Power, a development stage enterprise with plans to begin trial production of solar-grade polysilicon by the end of 2009 or early 2010. Joint ventures and

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strategic alliances may expose us to new operational, regulatory, market and geographic risks as well as risks associated with additional capital requirements.

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

- our inability to integrate new operations, personnel, products, services and technologies;
- unforeseen or hidden liabilities, including exposure to lawsuits associated with newly acquired companies;
- the diversion of resources from our existing businesses;
- disagreement with joint venture or strategic alliance partners;
- contravention of regulations governing cross-border investment;
- failure to comply with laws and regulations as well as industry or technical standards of the overseas markets into which we expand;
- our inability to generate sufficient revenues to offset the costs and expenses of acquisitions, strategic investments, joint venture formations or other strategic alliances; and
- potential loss of, or harm to, employees or customer relationships.

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

We may not be able to establish in-house polysilicon manufacturing capacity on a timely basis or at all.

We plan to commence our own polysilicon production on a pilot basis by the end of 2009 or early 2010 and must procure the necessary equipment and other facilities to establish our in-house polysilicon production facility. If we do not have, or are unable to raise, sufficient funds to finance the procurement of necessary equipment and other facilities, or if equipment suppliers fail to deliver, or delay the delivery of, our equipment for any reason, the implementation of our polysilicon production plan would be materially and adversely affected. In addition, there is a limited number of suppliers for the principal polysilicon manufacturing equipment we intend to use and if we experience any problems with such suppliers that we are unable to resolve, we may not be able to replace such suppliers at reasonable costs and on a timely basis or at all or to implement our polysilicon production plans. To carry out our polysilicon production plans, we will need to integrate the personnel we have hired to create an effective team and infrastructure to oversee the construction, start-up and operation of our production facility. We cannot assure you that we will be able to establish our own polysilicon production capacity on a timely basis or at all. Our ability to successfully establish polysilicon manufacturing capacity is subject to various risks and uncertainties, including:

- the need to procure polysilicon production equipment at reasonable costs and on a timely basis;
- the need to procure supplies of consumables and other materials at reasonable costs and on a timely basis;

the need to raise additional funds to finance our purchase of equipment and the construction of manufacturing facilities on reasonable terms;

construction delays and cost overruns;

difficulties in recruitment and training of additional skilled employees, including technicians and managers at different levels;

diversion of significant management attention and other resources; and

delays or denials of required permits and approvals for our plant construction and operations, including but not limited to environmental approvals, by relevant government authorities.

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We have no prior experience in polysilicon production and may not be successful in producing polysilicon cost-effectively.

We do not have prior experience and may face significant challenges relating to polysilicon production. The technology used to manufacture polysilicon is complex, requires costly equipment and is continuously being modified in an effort to improve yields and product performance. Microscopic impurities such as dust and other contaminants, difficulties in the manufacturing process, disruptions in the supply of utilities or defects in the key materials and tools used to manufacture polysilicon could interrupt manufacturing, reduce yields or cause a portion of the polysilicon to be difficult or costly to use in wafer production, which would negatively affect our profitability. If we are unable to build our polysilicon production capability on a timely basis, or if we face technological difficulties in our production of polysilicon, we may be unable to achieve cost-effective production of polysilicon, which could prevent us from successfully implementing our business plans.

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

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

In January 2009, we acquired Cyber Power, a development stage enterprise with plans to begin trial production of solar-grade polysilicon by the end of 2009 or early 2010. Production of polysilicon requires the use of volatile materials and chemical reactions sensitive to temperature, pressure and requires the use of external controls to maintain safety and provide commercial production yields. The occurrence of a catastrophic event as a result of a natural disaster or human error or otherwise at our future polysilicon production facilities could threaten, disrupt or destroy a significant portion or all of our polysilicon production capacity at such facility for a significant period of time. Furthermore, our polysilicon production facilities will be highly reliant on our ability to maintain temperatures and pressure at appropriate levels, the supply of steam at a consistent pressure, the availability of adequate electricity and our ability to control the application of such electricity. Accordingly, mistakes in operating our equipment or an interruption in the supply of electricity at our production facilities could result in the production of substandard polysilicon or substantial shortfalls in production and could reduce our production capacity for a significant period of time. Damage or loss of revenue from any such events or disruptions may not be adequately covered by insurance, and could also damage our reputation, any of which could have a material adverse effect on our business, financial condition and results of operations.

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

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

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

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

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

We incurred net foreign currency exchange losses of RMB 8.1 million in 2006 on a combined basis primarily due to changes in the exchange rate between the U.S. dollar and Renminbi. We recognized a net foreign currency exchange loss of RMB 32.7 million in 2007, primarily due to foreign currency exchange losses related to sales and prepayments to suppliers denominated in U.S. dollars, which were partially offset by foreign currency gains due to the increased sales denominated in Euro during this period as the Euro appreciated against the Renminbi and increased bank borrowings denominated in U.S. dollars during this period as the U.S. dollar depreciated against the Renminbi. In 2008, we recognized a net foreign currency exchange loss of RMB 66.3 million (US$9.7 million) primarily due to depreciation of the U.S. dollar and the Euro against the Renminbi, which was partially offset by a gain of RMB 106.9 million (US$15.7 million) from foreign currency forward contracts realized in the fourth quarter of 2008. In addition, we have entered into hedging and foreign currency forward arrangements to limit our exposure to foreign currency exchange risk. However, we will continue to be exposed to foreign currency exchange risk to the extent that our hedging and foreign currency forward arrangements do not cover all of our expected revenues denominated in foreign currencies. We cannot predict the effect of exchange rate fluctuations on our foreign currency exchange gains or losses in the future. We may continue to reduce the effect of such exposure through hedging or other similar arrangements, but because of the limited availability of such instruments in China, we cannot assure you that we will always find a hedging arrangement suitable to us, or that such derivative activities will be effective in managing our foreign currency exchange risk.

In addition, our reporting currency is Renminbi and our sales denominated in foreign currencies need to be translated into Renminbi when they are recorded as our revenues. Therefore, depreciation of foreign currencies in which our sales are denominated, such as the Euro and the U.S. dollar, against the Renminbi will cause our reported revenues to decline. For example, the decrease in our total net revenues in the fourth quarter of 2008 was partially attributable to the depreciation of the Euro against the Renminbi in the fourth quarter of 2008 as a majority of our PV module shipments in the quarter were under contracts denominated in Euros, and the depreciation of the Euro against the Renminbi in the first quarter of 2009 has also adversely affect our total net revenues. Any further depreciation of foreign currencies in which our sales are denominated against the Renminbi will continue to adversely affect our revenues and results of operations.

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

We are making efforts to improve our manufacturing processes and improve the quality of our PV products. We plan to undertake research and development to continue to reduce the thickness of our wafers and develop more advanced products. We believe the efficient use of polysilicon is essential to reducing our manufacturing costs. We have been exploring several measures to improve the efficient use of polysilicon in our manufacturing process, including reducing the thickness of silicon wafers. However, the use of thinner silicon wafers may have unforeseen negative consequences, such as increased breakage and reduced reliability and conversion efficiency of our PV cells and modules. As a result, reducing the thickness of silicon wafers may not lead to the cost reductions we expect to achieve, while at the same time it may reduce customer satisfaction with our products, which in turn could have a material adverse effect on our customer relationships, reputation and results of operations. In addition, we also plan to reduce manufacturing costs by utilizing polysilicon scraps and lower-grade polysilicon to produce monocrystalline silicon suitable for combining into our production of ingots and wafers. However, while the addition of monocrystalline silicon to our production of ingots and wafers may reduce costs of polysilicon supply, we cannot assure you that such benefits will not be outweighed by the additional costs of equipment and production costs to produce monocrystalline silicon.

We are also exploring ways to improve our PV module production. Additional research and development efforts will be required before our products in development may be manufactured and sold at a commercially viable level. We cannot assure you that such efforts will improve the efficiency of manufacturing processes or yield new products that are commercially viable. In addition, the failure to realize the intended benefits from our product development initiatives could limit our ability to keep pace with the rapid technological changes, which in turn would hurt our business and prospects.

Failure to achieve satisfactory output of our PV modules and PV systems could result in a decline in sales.

The manufacture of PV modules and PV systems is a highly complex process. Disruptions or deviations in one or more components of the manufacturing process can cause a substantial decrease in output and, in some cases, disrupt production significantly or result in no output. We have from time to time experienced lower-than-anticipated manufacturing output during the ramp-up of production lines. This often occurs during the production of new products, the installation of new equipment or the implementation of new process technologies. As we bring additional lines or facilities into production, we may operate at less than intended capacity during the ramp-up period and produce less output than expected. This would result in higher marginal production costs which could have a material adverse effect on our profitability.

Unsatisfactory performance of or defects in our products may cause us to incur additional warranty expenses, damage our reputation and cause our sales to decline.

Currently, our PV modules sold to customers outside of China typically carry a five-year limited warranty for defects in materials and workmanship, although historically our PV modules were typically sold with a two-year limited warranty for such defects. In addition, our PV modules typically carry a ten-year and twenty-five-year limited warranty against declines of initial power generation capacity by more than 10.0% and 20.0%, respectively. As a result, we bear the risk of extensive warranty claims long after we sell our products and recognize revenues. As we began selling PV modules only since January 2003, a small portion of our PV modules has been in use for more than five years. For our PV systems in China, we provide a one-to five-year limited warranty against defects in modules, storage batteries and certain other system parts. As of December 31, 2007 and 2008, our accrued warranty costs amounted to RMB 60.8 million and RMB 123.6 million (US$18.1 million), respectively. In addition, because our products have only been in use for a relatively short period of time, our assumptions regarding the durability and reliability of our products may not be accurate, and because our products have relatively long warranty periods, we cannot assure you that the amount of accrued warranty by us for our products will be adequate in light of the actual performance of our products. If we experience a significant increase in warranty claims, we may incur significant repair and replacement costs associated with such claims. Furthermore, widespread product failures will damage our reputation and customer relationships and may cause our sales to decline, which in turn could have a material adverse effect on our financial condition and results of operations.

We have limited insurance coverage and may incur losses resulting from product liability claims, business interruption or natural disasters.

We are exposed to risks associated with product liability claims if the use of our PV products results in injury. Since our PV products are components of electricity producing devices, it is possible that users could be injured or killed by our PV products, whether by product malfunctions, defects, improper installation or other causes. We do not maintain any business interruption insurance coverage. As a result, we may have to pay, out of our own funds, for financial and other losses, damages and liabilities, including those in connection with or resulting from third-party product liability claims and those caused by natural disasters and other events beyond our control, which could have a material adverse effect on our financial condition and results of operations.

We obtain some of the equipment used in our manufacturing process from a small number of selected suppliers and if our equipment is damaged or new or replacement equipment is not delivered to us in a timely manner or is otherwise unavailable, our ability to deliver products timely will suffer, which in turn could result in cancellations of orders and loss of revenue for us.

Some of the equipment used in our production of polysilicon ingots, wafers, PV cells and PV modules, such as ingot casting furnaces, diffusion furnaces and wire saws, have been customized to our specifications, are not readily available from multiple vendors and would be difficult to repair or replace. There are also limited sources of supply for the principal polysilicon manufacturing equipment we intend to use and we may not be able to replace such sources at reasonable costs and on a timely basis or at all. If any of our key equipment suppliers were to experience financial difficulties or go out of business, we may have difficulties with repairing or replacing our key equipment in the event of any damage to or a breakdown of such equipment. Furthermore, new or replacement equipment may not be delivered to us in a timely manner. In such cases, our ability to deliver products in a timely manner would suffer, which in turn could result in cancellations of orders from our customers and loss of revenue for us. In addition, the equipment we need for our expansion is in high demand. A supplier s failure to deliver the equipment in a timely manner, in sufficient quantity and on terms acceptable to us could delay our capacity expansion and otherwise disrupt our production schedule or increase our production costs.

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

Historically, we required many of our customers to make an advance payment of a certain percentage of their orders, a business practice that helped us to manage our accounts receivable, prepay our suppliers and reduce the amount of funds that we needed to finance our working capital requirements. However, this practice has diminished, which in turn has increased our need to obtain additional short-term borrowings to fund our current cash requirements. Currently, a significant portion of our revenue is derived from credits sales to our customers, generally with payments due within two months. As a result, the general decrease in the use of cash advance payments has negatively impacted our short-term liquidity and, coupled with increased sales to a small number of major customers, exposed us to additional and more concentrated credit risk since a significant portion of our outstanding accounts receivable is derived from sales to a limited number of customers. As of December 31, 2006, 2007 and 2008, our five largest outstanding accounts receivable balance accounted for approximately 85.4%, 83.2% and 81.2%, respectively, of our total outstanding accounts receivable. The failure of any of these customers to meet their payment obligations would materially and adversely affect our financial position, liquidity and results of operations. Although we have been able to maintain adequate working capital primarily through short-term borrowing, our initial public offering, our convertible senior notes offering and other debt issuances and long-term bank borrowings, in the future we may not be able to secure additional financing on a timely basis or on terms acceptable to us or at all.

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

In 2006, 2007 and 2008, we sold 95.1%, 98.5% and 97.5%, respectively, of our products to customers outside of China, including customers in Germany, Spain, Japan, France, South Korea, the United States, Italy and Belgium. We intend to further grow our business activities in international markets, in particular in the United States, Spain and selected countries in southern Europe and Southeast Asia where we believe the PV market is likely to grow significantly in the near term. The marketing and sale of our PV products to international markets expose us to a number of risks, including, but not limited to:

- fluctuations in foreign currency exchange rates;

increased costs associated with maintaining the ability to understand the local markets and follow their trends, as well as develop and maintain effective marketing and distributing presence in various countries;

the availability of advances from our customers;

providing customer service and support in these markets;

difficulty with staffing and managing overseas operations;

failure to develop appropriate risk management and internal control structures tailored to overseas operations;

difficulty and cost relating to compliance with the different commercial and legal requirements of the overseas markets in which we offer or plan to offer our products and services;

failure to obtain or maintain certifications for our products or services in these markets;

inability to obtain, maintain or enforce intellectual property rights;

unanticipated changes in prevailing economic conditions and regulatory requirements; and

trade barriers such as export requirements, tariffs, taxes and other restrictions and expenses.

Our business in foreign markets requires us to respond timely and effectively to rapid changes in market conditions in the relevant countries. Our overall success as a global business depends, in part, on our ability to succeed in different legal, regulatory, economic, social and political conditions. We may not be able to develop and implement policies and strategies that will be effective in each location where we do business. To the extent that we conduct business in foreign countries by means of participations or joint ventures, there are additional risks. See We may undertake acquisitions, investments, joint ventures or other strategic alliances, which may have a material adverse effect on our ability to manage our business, and such undertakings may be unsuccessful. A change in one or more of the factors described above may have a material adverse effect on our business, prospects, financial condition and results of operations.

We require a significant amount of cash to fund our operations as well as meet future capital requirements. If we cannot obtain additional capital when we need it, our growth prospects and future profitability may be materially and adversely affected.

We require a significant amount of cash to fund our operations. We will also require cash to meet future capital requirements, which are difficult to predict in the rapidly changing PV industry. In particular, we will need capital to fund the expansion of our facilities, the construction of our in-house polysilicon production facilities, as well as research and development activities in order to remain competitive. Although we believe that our current cash and available lines of credit will be sufficient to meet our anticipated cash needs, including cash needs for working capital and capital expenditures, future acquisitions, expansions, or market changes or other developments may cause us to require additional funds.

Our ability to obtain additional financing in the future is subject to a variety of uncertainties, including:

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

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

economic, political and other conditions in China and elsewhere.

In particular, as a result of weakened macroeconomic conditions resulting from the global financial crisis, including continuing adverse credit market conditions, we have experienced and may continue to experience increasing difficulty in obtaining financing on acceptable terms or at all. We cannot assure that financing will be available in amounts or on terms acceptable to us, if at all. If we are unable to obtain sufficient funding in a timely manner or on commercially acceptable terms or at all, our growth prospects and future profitability may be materially and adversely affected. Furthermore, the sale of additional equity or equity-linked securities would result in further dilution to our shareholders and the incurrence of indebtedness has and may continue to result in increased fixed obligations and has and could continue to lead to the imposition of financial or other restrictive covenants that would restrict our operations.

We have issued, and may issue in the future, equity securities or securities convertible into our ordinary shares, which may cause our existing shareholders to incur further dilution upon conversion of such securities.

We have issued, and may issue in the future, equity securities or securities convertible into our ordinary shares. In the event that the securities convertible into our ordinary shares are converted, our existing shareholders may incur further dilution. For example, in January 2009, we entered into a note purchase agreement with Trustbridge Partners II, L.P., or Trustbridge. Under the terms of the note purchase agreement, we have agreed to issue up to an aggregate amount of US$50 million of senior secured convertible notes due 2012, or senior secured convertible notes, to Trustbridge, or its affiliates. The senior secured convertible notes were convertible at any time into our ordinary shares at an initial conversion rate of 17,699 ordinary shares per US$100,000 principal amount of senior secured convertible notes (based on US$5.65 per ADS, the average volume weighted average price of our ADSs on the New York Stock Exchange for the 20-trading day period immediately preceding to the entry into the note purchase agreement). Under the terms of the indenture governing the notes, the conversion rate is subject to certain anti-dilution adjustments. For example, on June 30, 2010 and the last day of each quarter thereafter, the conversion rate will be adjusted to equal to US$100,000 divided by the average volume weighted average price of our ADSs on the New York Stock Exchange for the 20-trading day period immediately preceding to such date, if such adjustment results in an increase in the number of our ordinary shares issuable upon conversion. In addition, upon the public release of our financial results for each of the full year 2008, the second quarter 2009 and the full year 2009, the conversion rate will be adjusted to equal to US$100,000 divided by the average volume weighted average price of our ADSs on the New York Stock Exchange for the 20-trading day period immediately following such public release, if such adjustment results in an increase in the number of our ordinary shares issuable upon conversion. In March 2009, the conversion rate was adjusted to the rate of 22,933.1499 ordinary shares per US$100,000 principal amount of the senior secured convertible notes as a result of our public release of our financial results for the full year 2008. See Item 7.B. Major Shareholders and Related Party Transactions Related Party Transactions Cyber Power Acquisition and Issuance of Senior Secured Convertible Notes for additional information. If we issue an aggregate of US$50 million of the senior secured convertible notes and all such notes are converted at the current conversion rate described above, we would be required to issue an aggregate of 11,466,574 ordinary shares. In June 2009, we issued 2,000,000 ordinary shares to Trustbridge as a result of the conversion of approximately US$8.7 million of the senior secured convertible notes. As of the date of this annual report, approximately US$11.3 million of the senior secured convertible notes were outstanding.

In connection with a credit agreement between Yingli China and a fund managed by Asia Debt Management Hong Kong Limited, or ADM Capital, entered into in January 2009, we issued 4,125,000 warrants to ADM Capital under the terms of a warrant agreement entered into in April 2009. The warrants are exercisable with respect to approximately one-fifth of the warrants every six months beginning in April 7, 2009 until April 7, 2012. On April 30, 2012, the warrantholders rights to exercise the warrants will terminate and we will be obligated to purchase all unexercised warrants at a price of US$7.00 per warrant. Each warrant provides for the right to acquire one ordinary share at an initial strike price of US$5.64, which is based on the 20-trading day volume weighted average closing price per ADS on the New York Stock Exchange for the period prior to the issuance of the warrant, subject to customary anti-dilution and similar adjustments. In addition, the strike price of the warrants will be adjusted to the volume weighted average closing price per ADS on the New York Stock Exchange for the 20-trading day period commencing on the first business day following the announcement of our 2008 audited annual results if such adjusted strike price is less than 95% of the strike price then in effect, provided that such adjusted strike price may not be lower than 65% of the initial strike price. Furthermore, subject to certain exceptions and conditions, we have agreed to register under the Securities Act any ordinary shares delivered upon the exercise of warrants. We may at our discretion settle the warrants in cash, ordinary shares or a mix of cash and ordinary shares.

In addition, although we believe that our current cash and available lines of credit will be sufficient to meet our anticipated cash needs, including cash needs for working capital and capital expenditures, if our future acquisitions, expansions, or market changes or other developments cause us to require additional funds, we may issue additional securities convertible into our ordinary shares, and our existing shareholders could incur substantial dilution.

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Our substantial indebtedness could adversely affect our business, financial condition and results of operations, as well as our ability to meet any of our payment obligations under the debentures and our other debt.

We currently have a significant amount of debt and debt service requirements. As of December 31, 2008, we had RMB 2,044.2 million (US$299.6 million) in outstanding short-term borrowings (including the current portion of long-term bank borrowings) and RMB 663.0 million (US$97.2 million) in outstanding long-term bank borrowings (excluding the current portion). In addition, as of December 31, 2008, we had outstanding convertible senior notes of RMB 1,241.9 million (US$182.0 million), which may fall due on December 15, 2010 upon the exercise of the holders put option.

This level of debt could have significant consequences on our future operations, including:

- making it more difficult for us to meet our payment and other obligations under the debentures and our other outstanding debt;

- resulting in an event of default if we fail to comply with any of the financial and other restrictive covenants contained in our debt agreements, which event of default could result in cross-defaults in all of our other debt obligations which would lead to all of our debt becoming immediately due and payable;

- reducing the availability of our cash flow to fund working capital, capital expenditures, acquisitions and other general corporate purposes as a result of interest payments, and limiting our ability to obtain additional financing for these purposes;

- subjecting us to the risk of increased sensitivity to interest rate increases on our indebtedness with variable interest rates;

- limiting our flexibility in planning for, or reacting to, and increasing our vulnerability to, changes in our business, the industry in which we operate and the general economy; and

- placing us at a competitive disadvantage compared to our competitors that have less debt or are otherwise less leveraged.

Any of these factors could have an adverse effect on our business, financial condition and results of operations as well as our ability to meet our payment obligations under the debentures and our other debt.

Our ability to meet our payment and other obligations under our debt instruments depends on our ability to generate significant cash flow in the future. This, to some extent, is subject to general economic, financial, competitive, legislative and regulatory factors as well as other factors that are beyond our control. We cannot assure you that our business will generate adequate cash flow from operations to support our operations and service our debt obligations, or that future borrowings will be available to us under our existing or any future credit facilities or otherwise, in an amount sufficient to enable us to meet our payment obligations under our outstanding debt while continuing to fund our other liquidity needs. If we are not able to generate sufficient cash flow to service our debt obligations, we may need to refinance or restructure our debt, sell assets, reduce or delay capital investments, or seek to raise additional capital. If we are unable to implement one or more of these alternatives, we may not be able to meet our payment and other obligations under our outstanding debt.

If we fail to comply with financial covenants under our loan agreements, our financial condition, results of operations and business prospects may be materially and adversely affected.

A number of our loan agreements contain financial covenants that require us to maintain certain financial ratios, including debt to EBITDA ratios. We may not be able to comply with some of those financial covenants from time to time. For example, the worsening operating environment that has generally affected companies operating in our industry since the fourth quarter of 2008 has led to potential breaches of certain financial covenants under some of our loan agreements. In response to such potential breaches, we have had to negotiate with the relevant lenders terms of prepayment or to amend those financial covenants to prevent actual breaches from occurring, for example, by resetting the financial covenants for the relevant periods in the relevant loan agreements or beginning testing for compliance with financial covenants at a later date. However, if we need to negotiate with lenders again in the future with respect to prepayment or to amend financial covenants or other relevant provisions under such loan agreements to address potential breaches, we cannot assure you that we would be able to reach agreements with the lenders to avoid a breach. Furthermore, in connection with any future amendments to such covenants, our lenders may impose additional operating and financial restrictions on us and otherwise seek to modify the terms of our existing loan agreements in ways that are adverse to us. Although there have been signs of general economic recovery since the second quarter of 2009, we cannot assure you that such recovery will continue or be sustained or will ultimately have a positive effect on the general operating environment of our industry. As a result, we cannot assure you that we will be able to continue to comply with the financial covenants under our loan agreements in the future. If the operating environment continues to deteriorate, we may not be able to comply with some of the financial covenants under some of our loan agreements in future periods. If we are in breach of one or more financial covenants under any of our loan agreements and are not able to obtain waivers from the lenders or prepay such loan, such breach would constitute an event of default under the loan agreement. As a result, repayment of the indebtedness under the relevant loan agreement may be accelerated, which may in turn require us to repay the entire principal amount including interest accrued, if any, of certain of our other existing indebtedness prior to their maturity under cross-default provisions in our existing loan agreements, including the convertible senior notes we issued in December 2007. If we are required to repay a significant portion or all of our existing indebtedness prior to their maturity, we may lack sufficient financial resources to do so. Furthermore, a breach of those financial covenants will also restrict our ability to pay dividends. Any of those events could have a material adverse effect on our financial condition, results of operations and business prospects.

We have significant short-term borrowings outstanding, and we may not be able to obtain extensions when they mature.

As of December 31, 2007 and 2008, our outstanding short-term borrowings from banks (including the current portion of long-term bank borrowings) were RMB 1,261.3 million and RMB 2,044.2 million (US$299.6 million), respectively, and bore a weighted average interest rate of 5.97% and 6.73%, respectively, of which RMB 470.2 million and nil, respectively, were arranged or guaranteed by related parties.

Generally, these loans contain no specific renewal terms, although we had traditionally negotiated renewal of certain of the loans shortly before they would mature. However, we cannot assure you that we will be able to renew similar loans in the future as they mature. If we are unable to obtain renewals of any future loans or sufficient alternative funding on reasonable terms, we will have to repay these borrowings with additional funding from Tianwei Yingli s equity interest holders, including us, or cash generated by our future operations, if any. We cannot assure you that our business will generate sufficient cash flow from operations to repay our future borrowings.

Most of our production, storage, administrative and research and development facilities are located in close proximity to one another in an industrial park in China. Any damage or disruption at these facilities would have a material adverse effect on our business, financial condition and results of operations.

Our production, storage, administrative, research and development facilities are located in close proximity to one another in an industrial park in Baoding, Hebei Province, China. A natural disaster or other unanticipated catastrophic event, including power interruption, and war, could significantly disrupt our ability to manufacture our products and operate our business. If any of our production facilities or material equipment were to experience any significant damage or downtime, we would be unable to meet our production targets and our business would suffer.

Our manufacturing processes generate noise, waste water, gaseous and other industrial wastes. This creates a risk of work-related accidents and places high demands on work safety measures. No major injuries have occurred at our facilities in connection with work-related accidents to date. Nonetheless, we cannot assure you that accidents involving serious or fatal injuries will not occur at our facilities. Furthermore, there is a risk of contamination and environmental damage associated with hazardous substances used in our production processes. The materialization of any of the above risks could have a material adverse effect on our business, financial condition and results of operations.

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Our controlling shareholder has significant influence over our management and their interests may not be aligned with our interests or the interests of our other shareholders, including holders of our ADSs.

Yingli Power, which is 100% beneficially owned by the family trust of and controlled by Liansheng Miao, the chairperson of our board of directors and our chief executive officer and the vice chairperson and the chief executive officer of Tianwei Yingli, currently beneficially owns approximately 42.00% of our outstanding ordinary shares. Yingli Power has significant influence over us, including on matters relating to mergers, consolidations and the sale of all or substantially all of our assets, election of directors and other significant corporate actions. The interests of this shareholder may conflict with our interests or the interests of our others shareholders.

Tianwei Baobian has significant influence over Tianwei Yingli, our principal operating entity, from which we currently derive substantially all of our revenue and earnings, and Tianwei Baobian may influence Tianwei Yingli from taking actions that are in the best interest of us or Tianwei Yingli. In addition, Tianwei Baobian will have significant influence over us if it exercises the subscription right, and Tianwei Baobian s interests may not be aligned with our interests or the interests of our shareholders.

Tianwei Baobian currently owns a 25.99% equity interest in Tianwei Yingli, our principal operating entity from which we derive substantially all of our revenue and earnings. Tianwei Baobian has significant influence over Tianwei Yingli through its board representation in Tianwei Yingli and other rights in accordance with the joint venture contract with us and the articles of association of Tianwei Yingli.

Tianwei Baobian is entitled to appoint three of the nine directors of Tianwei Yingli. Tianwei Baobian is also entitled to appoint a director to serve as the chairperson of the board of Tianwei Yingli. Tianwei Baobian may have different views and approaches with respect to the management and operation of Tianwei Yingli from those of us. Tianwei Baobian may disagree with us in the management and operation of Tianwei Yingli and may vote against actions that we believe are in the best interest of Tianwei Yingli or us. For example, directors appointed by Tianwei Baobian may vote against matters that require unanimous approval of all directors. Directors appointed by Tianwei Baobian may also hinder or delay adoption of relevant resolutions by not attending a board meeting, thereby preventing achievement of a quorum and forcing the meeting to be postponed for no more than seven days. See Item 4.A. History and Development of the Company Restructuring Joint Venture Contract Tianwei Yingli s Management Structure Board of Directors. Due to Tianwei Baobian s ability to exercise influence over Tianwei Yingli through its appointed directors, and through its other rights under the joint venture contract, any significant deterioration of our relationship or our disagreement with Tianwei Baobian may cause disruption to Tianwei Yingli s business, which could in turn result in a material adverse effect on our business prospects, financial condition and results of operations.

Tianwei Baobian may also have disagreement or dispute with us with respect to our respective rights and obligations on matters such as the exercise of Tianwei Baobian s right to subscribe for ordinary shares newly issued by us in exchange for its equity interest in Tianwei Yingli. Except in limited circumstances, we may not be able to unilaterally terminate the joint venture contract in the event of such disagreement or dispute even if such termination would be in our best interest. See Item 4.A. History and Development of the Company Restructuring Joint Venture Contract Tianwei Yingli s Management Structure Unilateral Termination of the Joint Venture Contract. Any such disputes may result in costly and time-consuming litigations or other dispute resolution proceedings which may significantly divert the efforts and resources of our management and disrupt our business operations.

Furthermore, Tianwei Baobian may transfer all or a part of its equity interest in Tianwei Yingli pursuant to the joint venture contract entered into between Tianwei Baobian and us. If we fail to exercise our right of first refusal in accordance with the procedures set forth in the joint venture contract and are thus deemed to have consented to any such proposed transfer by Tianwei Baobian to a third party or if Tianwei Baobian transfers its equity interest in Tianwei Yingli to its affiliates, such third party or such Tianwei Baobian s affiliate will become a holder of Tianwei

Yingli s equity interest. The interests of such third party or such Tianwei Baobian s affiliate may not be aligned with our interests or the interest of Tianwei Yingli. See Item 4.A. History and Development of the Company Restructuring Joint Venture Contract Tianwei Yingli s Management Structure Right of First Refusal.

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In addition, the Baoding State-Owned Assets Supervision and Administration Commission completed the transfer of all of its equity interest in Tianwei Group, Tianwei Baobian s controlling shareholder, to China South Industries Group Corporation, or China South. It is unclear how Tianwei Baobian s business strategy with respect to its shareholding in Tianwei Yingli will change subsequent to the acquisition by China South of Tianwei Group and how such change, if any, will affect the management and operation of Tianwei Yingli.

Furthermore, Tianwei Baobian may exercise the subscription right, and if it exercises the subscription right, it will become a significant shareholder of us. If Tianwei Baobian becomes our shareholder, it will have significant influence over our and Tianwei Yingli s business, including decisions regarding mergers, consolidations and the sale of all or substantially all of our or Tianwei Yingli s assets, election of directors and other significant corporate actions. If Tianwei Baobian becomes our shareholder, its interests may not be aligned with ours or our shareholders.

We may not be able to obtain adequate funding to acquire the equity interest in Tianwei Yingli held by Tianwei Baobian.

Under the joint venture contract entered into between Tianwei Baobian and us, Tianwei Baobian may request us to make best efforts to purchase from Tianwei Baobian all but not part of its equity interest in Tianwei Yingli. Upon such request by Tianwei Baobian, we will undertake to use our best efforts to assist Tianwei Baobian in completing the transfer of such equity interest held by Tianwei Baobian. The manner and the price at which Tianwei Baobian sells its equity interest in Tianwei Yingli will be decided by mutual agreement between Tianwei Baobian and us based on the fair market value of its and our equity interest in Tianwei Yingli, respectively, and in accordance with relevant PRC laws and regulations. If the purchase of Tianwei Baobian s equity interest in Tianwei Yingli is required to be paid in cash, we may not be able to obtain adequate funding in time and on terms acceptable to us, if at all, to pay for such purchase price.

Negative rumors or media coverage of Tianwei Baobian, our affiliates or business partners, could materially and adversely affect our reputation, business and financial condition.

Since all of Tianwei Yingli s equity interests are held together by us and Tianwei Baobian, negative rumors or media coverage of Tianwei Baobian, whether or not accurate and whether or not applicable to us, may have a material adverse effect on our reputation, business and financial condition. For example, in October 2006, there were news articles containing allegations, among others, that Tianwei Baobian had materially overstated its results of operations related to the export sales of Tianwei Yingli s PV product components and its local tax rates in its published financial statements. We cannot assure you that there will not be similar or other negative rumors or media coverage related to Tianwei Baobian, our affiliates or business partners in the future.

If the acquirer of the parent of our minority partner in Tianwei Yingli or any affiliate of such acquirer engages in sanctioned activities inconsistent with the laws and policies of other countries, some of our shareholders may divest our shares and prospective investors may decide not to invest in our shares.

The United States and other countries maintain economic and other sanctions against several countries and persons engaged in specified activities, such as support of the proliferation of weapons of mass destruction and of terrorism. The parent company of Tianwei Baobian, which owns 25.99% in our principal operating subsidiary Tianwei Yingli, was acquired by China South. North China Industries Corporation, an affiliate of China South, which was designated by the U.S. State Department under the Iran Nonproliferation Act of 2000 as engaged in the transfer to Iran of equipment and technology having the potential to make a material contribution to the development of weapons of mass destruction. To the extent our affiliates resulted from such acquisition are involved in activities that, if performed by a U.S. person, would be illegal under U.S. sanctions, reputational issues relating to Tianwei Yingli or us may arise. Investors in the United States may choose not to invest in, and to divest any investments in, issuers that are associated even indirectly with sanctioned activities.

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Our joint venture partner, Tianwei Baobian, has entered into competing businesses with us which may adversely affect our business, prospects, financial condition and results of operations.

Our joint venture contract with Tianwei Baobian and Tianwei Yingli s articles of association does not impose non-competition restrictions upon Tianwei Baobian. While Tianwei Baobian s current principal business is the manufacture of large electricity transformers, Tianwei Baobian has entered into the PV business through investments in various companies that are engaged in the manufacture of polysilicon, ingots, wafers, PV cells or PV modules. As these companies continue to expand their business, they may compete with us for both supply of raw materials and customers and we may not have any legal right to prevent them from doing so. In addition, the parent of Tianwei Baobian has also made investments in the PV business. Because of Tianwei Baobian s familiarity with and its ability to influence Tianwei Yingli s business, competition from Tianwei Baobian or its affiliates could have a material adverse effect on our business, prospects, financial condition and results of operations.

The grant of employee share options and other share-based compensation could adversely affect our net income.

We adopted our 2006 stock incentive plan in December 2006. Our board of directors approved in April 2007 and our shareholders approved in May 2007 amendment No. 1 to the 2006 stock incentive plan to increase the number of ordinary shares we are authorized to issue under the 2006 stock incentive plan. Under the 2006 stock incentive plan, as amended, we may grant to our directors, employees and consultants up to 2,715,243 restricted shares and options to purchase up to 5,525,415 of our ordinary shares. As of the date of this annual report, we have granted to 13 executive officers, 176 employees, three non-employee and four independent directors options to purchase 4,829,213 ordinary shares in the aggregate (excluding forfeited options) and an aggregate of 1,566,636 restricted but unvested shares (excluding forfeited restricted shares) to DBS Trustee Limited, or the trustee, for the benefit of 70 directors, officers, employees and one non-employee. See Item 6.B. Directors, Senior Management and Employees Compensation of Directors and Executive Officers 2006 Stock Incentive Plan. In accordance with the Financial Accounting Standards Board, or FASB, Statement of Financial Accounting Standard (Revised 2004), *Share-Based Payment*, or SFAS No. 123R, we account for compensation costs for all share-based awards including share options granted to our directors and employees using a fair-value based method, which may have a material and adverse effect on our reported earnings. Moreover, the additional expenses associated with share-based compensation may reduce the attractiveness of such incentive plan to us. However, if we reduce the scope of our stock incentive plan, we may not be able to attract and retain key personnel, as share options are an important tool to recruit and retain qualified and desirable employees.

New labor laws in the PRC may adversely affect our results of operations.

On June 29, 2007, the PRC government promulgated a new labor law, namely, the Labor Contract Law of the PRC, or the New Labor Contract Law, which became effective on January 1, 2008. The Implementation Rules of the New Labor Contract Law were subsequently promulgated and became effective on September 18, 2008. The PRC government also promulgated the Law on Mediation and Arbitration of Labor Disputes on December 29, 2007, which came into effect on May 1, 2008. The New Labor Contract Law imposes stricter requirements in terms of signing labor contracts, paying remuneration, stipulating probation and penalties and dissolving labor contracts. It also requires the terms of employment contracts to be placed in writing within one month of the commencement of an employment relationship, which may make hiring temporary workers more difficult. These newly enacted labor laws and regulations impose greater liabilities on employers and may significantly increase the costs to an employer if it decides to reduce its workforce. In the event we decide to significantly change or decrease our workforce, the New Labor Contract Law could adversely affect our ability to enact such changes in a manner that is most advantageous to our business or in a timely and cost effective manner, which may materially and adversely affect our financial condition and results of operations.

Our results of operations are difficult to predict, and if we do not meet the market expectations, the price of our ADSs or our convertible notes will likely decline.

Our results of operations are difficult to predict and have fluctuated from time to time in the past. We expect that our results of operations may continue to fluctuate from time to time in the future. It is possible that our results of operations in some reporting periods will be below market expectations. Our results of operations will be affected by a number of factors as set forth in Item 5 Operating and Financial Review and Prospects. If our results of operations for a particular reporting period are lower than the market expectations for such reporting period, investors may react negatively, and as a result, the price of our ADSs or our convertible notes may materially decline.

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

There is limited historical information available about us upon which you can base your evaluation of our business and prospects. We started selling PV modules in January 2003 and have experienced a high growth rate since then. As a result, our historical results of operations may not provide a meaningful basis for evaluating our business, financial performance and prospects. We may not be able to achieve a similar growth rate in future periods and at higher volumes. Accordingly, you should not rely on our results of operations for any prior periods as an indication of our future performance. You should consider our business and prospects in light of the risks, expenses and challenges that we will face as an early-stage company seeking to develop and manufacture new products in a rapidly developing market.

Our limited intellectual property protection inside and outside of China may undermine our competitive position and subject us to intellectual property disputes with third parties, both of which may have a material adverse effect on our business, results of operations and financial condition.

As of the date of this annual report, we had a total of 12 issued patents in China. Other than the know-how available in the public domain, we have developed in-house unpatented technical know-how that we use to manufacture our products. Many elements of our manufacturing processes involve proprietary know-how, technology or data, either developed by us in-house or transferred to us by our equipment suppliers, which are not covered by patents or patent applications, including manufacturing technologies and processes and production line and equipment designs. We rely on a combination of patent, trademark, anti-unfair competition and trade secret laws, as well as nondisclosure agreements and other methods to protect our intellectual property rights. Nevertheless, these measures provide only limited protection and the actions we take to protect our intellectual property rights may not be adequate. Third parties may infringe or misappropriate our proprietary technologies or our other intellectual property rights, which could have a material adverse effect on our business, financial condition or results of operations. Policing the unauthorized use of proprietary technology can be difficult and expensive. Also, litigation may be necessary to protect our trade secrets or determine the validity and scope of the proprietary rights of others. We cannot assure you that the outcome of such potential litigation will be in our favor. Such litigation may be costly and may divert management attention as well as our other resources away from our business. In addition, we have no insurance coverage against litigation costs and would have to bear all costs arising from such litigation to the extent we are unable to recover them from other parties. An adverse determination in any such litigation could result in the loss of our intellectual property rights and may harm our business, prospects and reputation.

We have exported, and expect to continue to export, a substantial portion of our PV products outside of China. Because we do not have, and have not applied for, any patents for our proprietary technologies outside of China, it is possible that others may independently develop substantially equivalent technologies or otherwise gain access to our proprietary technologies and obtain patents for such intellectual properties in other jurisdictions, including the countries to which we export our PV modules. If any third parties are successful in obtaining patents for technologies that are substantially equivalent to or the same as our proprietary technologies in any of our markets before we are and enforce their intellectual property rights against us, our ability to sell products containing the allegedly infringing intellectual property in those markets will be materially and adversely affected. If we are required to stop selling such allegedly infringing products, seek license and pay royalties for the relevant intellectual properties or redesign such products with non-infringing technologies, our business, results of operations and financial condition will be materially and adversely affected.

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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, in large part, on our ability to use and develop technology and know-how without infringing the intellectual property rights of third parties. The validity and scope of claims relating to PV technology patents involve complex scientific, legal and factual questions and analysis and, therefore, may be highly uncertain. The steps we take in our product development to ensure that we are not infringing the existing intellectual property rights of others, such as review of related patents and patent applications prior to our product developments, may not be adequate. While we are not currently aware of any action pending or threatened against us, we may be subject to litigation involving claims of patent infringement or violation of intellectual property rights of third parties. The defense and prosecution of intellectual property suits and related legal and administrative proceedings can be both costly and time-consuming and may significantly divert the efforts and resources of our technical and management personnel. An adverse determination in any such litigation or proceedings to which we may become a party could subject us to significant liability to third parties, require us to seek licenses from third parties, to pay ongoing royalties, or to redesign our PV modules or subject us to injunctions prohibiting the manufacture and sale of our PV modules or the use of our technologies. Protracted litigation could also cause our customers or potential customers to defer or limit their purchase or use of our PV modules until the resolution of such litigation.

Our business depends substantially on the continuing efforts of our executive officers and key technical personnel, and our ability to maintain a skilled labor force. Our business may be materially and adversely affected if we lose their services.

Our future success depends substantially on the continued services of our executive officers, in particular Liansheng Miao, our chief executive officer, Xiangdong Wang, our vice president, Zhiheng Zhao, our vice president, Zongwei Li, our chief financial officer, Seok Jin Lee, our chief operating officer, Dengyuan Song, our chief technology officer, Jingfeng Xiong, our vice president and Stuart Brannigan, our managing director of Europe. We do not maintain key man life insurance on any of our executive officers. If one or more of our executive officers are unable or unwilling to continue in their present positions, we may not be able to replace them readily, if at all. In addition, if any of our executive officers join a competitor or forms a competing company, we may lose some of our customers. Each of our executive officers has entered into an employment agreement with us, which contains confidentiality and non-competition provisions. However, if any disputes were to arise between one of our executive officers and us, we cannot assure you of the extent to which such officer s employment agreement could be enforced in China.

Furthermore, recruiting and retaining capable personnel, particularly experienced engineers and technicians familiar with our PV products manufacturing processes, is vital to maintaining the quality of our PV products and to continuously improving our production methods. There is substantial competition for qualified technical personnel, and we cannot assure you that we will be able to attract or retain qualified technical personnel. If we are unable to attract and retain qualified employees, key technical personnel and our executive officers, our business may be materially and adversely affected.

Failure to manage our growth, or otherwise develop appropriate internal organizational structures, internal control environment and risk monitoring and management systems in line with our fast growth could result in a material adverse effect on our business, prospects, financial condition and results of operations.

Our business and operations have been expanding rapidly. Significant management resources must be expended to develop and implement appropriate structures for internal organization and information flow, an effective internal control environment and risk monitoring and management systems in line with our fast growth as well as to hire and integrate qualified employees into our organization. It is challenging for us to hire, integrate and retain qualified employees in key areas of operations, such as engineers and technicians who are familiar with the PV industry. In addition, disclosure and other ongoing obligations associated with being a public company further increase the challenges to our finance and accounting team. It is possible that our existing risk monitoring and management system, which recently underwent further development as a result of our fast growth and initial public offering, could prove to be inadequate. If we fail to appropriately develop and implement structures for internal organization and information flow, an effective internal control environment and a risk monitoring and management system, we may not be able to identify unfavorable business trends, administrative oversights or other risks that could materially and adversely affect our business, prospects, financial condition and results of operations.

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

The failure by us to control the use of, or to adequately restrict the discharge of, hazardous substances could subject us to potentially significant monetary damages and fines or suspensions in our business operations. Our manufacturing processes generate noise, waste water, gaseous and other industrial wastes and are required to comply with national and local regulations regarding environmental protection. We believe we are currently in compliance with present environmental protection requirements in all material respects, and have obtained all necessary environmental permits other than for the 200-megawatt expansion of Tianwei Yingli s manufacturing facilities and Yingli China s 100-megawatt manufacturing facilities, for which we are currently conducting environmental protection acceptance procedures that we expect to complete by the end of July 2009. In addition, if more stringent regulations are adopted in the future, the costs of compliance with these new regulations could be substantial. If we fail to comply with any future environmental regulations, we may be required to pay substantial fines, suspend production or cease operations. See Item 4.B. Business Overview PRC Government Regulations Environmental Regulations .

The ordinary shares underlying our ADSs purchased or received upon the conversion of the convertible notes could become redeemable by us without your approval.

The ordinary shares underlying the ADSs in our issued and outstanding share capital have not been issued and the ordinary shares receivable upon the conversion of the convertible notes will not be issued on the express terms that they are redeemable. However, our board of directors may pass resolutions to allow us to redeem the ordinary shares from the holders and two-thirds of the votes cast by the holders of the ordinary shares may approve such variation of share rights. The minority shareholders will not be able to prevent their share rights being varied in such a way and their ordinary shares could become redeemable by us as a result.

We have adopted a shareholders rights plan, which, together with the other anti-takeover provisions of our articles of association, could discourage a third party from acquiring us, which could limit our shareholders opportunity to sell their shares, including ordinary shares represented by our ADSs, at a premium.

On May 11, 2007, we adopted our third amended and restated articles of association, which became effective immediately upon completion of our initial public offering in June 2007. Our current articles of association contain provisions that limit the ability of others to acquire control of our company or cause us to engage in change-of-control transactions. On October 17, 2007, our board of directors adopted a shareholders rights plan, which was amended on June 2, 2008. Under this rights plan, one right was distributed with respect to each of our ordinary shares outstanding at the closing of business on October 26, 2007. These rights entitle the holders to purchase ordinary shares from us at half of the market price at the time of purchase in the event that a person or group obtains ownership of 15% or more of our ordinary shares (including by acquisition of the ADSs representing an ownership interest in the ordinary shares) or enters into an acquisition transaction without the approval of our board of directors.

This rights plan and the other anti-takeover provisions of our articles of association could have the effect of depriving our shareholders of an opportunity to sell their shares at a premium over prevailing market prices by discouraging third parties from seeking to obtain control of our company in a tender offer or similar transaction. Our existing authorized ordinary shares confer on the holders of our ordinary shares equal rights, privileges and restrictions. The shareholders have, by virtue of adoption of our third amended and restated articles of association, authorized the issuance of shares of par value of US$0.01 each without specifying any special rights, privileges and restrictions. Therefore, our board of directors may, without further action by our shareholders, issue our ordinary shares, or issue shares of such class and attach to such shares special rights, privileges or restrictions, which may be different from those associated with our ordinary shares. Preferred shares could also be issued quickly with terms calculated to delay or prevent a change in control of our company or make removal of management more difficult. If our board of directors decides to issue ordinary shares or issue preferred shares, the price of our ADSs and the notes may fall and the voting and other rights of the holders of our ordinary shares and ADSs may be materially and adversely affected.

A simple majority of the holders of our shares who vote at a general meeting may sub-divide any of our shares into shares of a smaller par value and may determine that, among the shares so sub-divided, some of such shares may have preferred or other rights or restrictions that are different from those applicable to other such shares.

Under our articles of association, a simple majority of the holders of our shares who vote at a general meeting may sub-divide any of our shares into shares of a smaller par value than is fixed by our articles of association, subject to the Companies Law of the Cayman Islands, and may by such resolution determine that, among the shares so sub-divided, some of such shares may have preferred or other rights or restrictions that are different from those applicable to the other such shares resulting from the sub-division. Any sub-divided shares will be allocated on a pro-rated basis among the holders of our shares, and a two-thirds vote of any class of shares having special rights or restrictions as a result of such sub-division will be required to further vary the special rights or restrictions attached to such shares. The purpose of this provision is to give flexibility to the shareholders to vary the share capital by effecting a sub-division and alter the rights attaching to the sub-divided shares in order to facilitate transactions where shareholders provide benefits or contribute assets to the Company in consideration of an enhancement of the rights of their shares rather than an issue of new shares. However, as the minority shareholders will not be able to prevent the majority shareholders from effecting such sub-division and designation of special rights or restrictions, such rights of our majority shareholders may discourage investors making an investment in us, which may have a material adverse effect on the price of our ADSs and the notes.

The quorum for the general meeting of our shareholders is one-third of our issued voting shares. Accordingly, shareholder resolutions may be passed without the presence of the majority of our shareholders in person or by proxy.

The quorum required for the general meeting of our shareholders is two shareholders entitled to vote and present in person or by proxy or, if the shareholder is a corporation, by its duly authorized representative representing not less than one-third in nominal value of our total issued voting shares. Therefore, subject to obtaining the requisite approval from a majority of the shareholders so present, a shareholder resolution may be passed at our shareholder meetings without the presence of the majority of our shareholders present in person or by proxy. Such rights by the holders of the minority of our shares may discourage investors from making an investment in us, which may have a material adverse effect on the price of our ADSs and the notes.

If a poll is not demanded at our shareholder meetings, voting will be by show of hands and shares will not be proportionately represented.

Voting at any of our shareholder meetings is by show of hands unless a poll is demanded. A poll may be demanded by the chairperson of the meeting, or by at least three shareholders present in person or by proxy, or by any shareholder or shareholders present in person or by proxy holding at least 10% of the total voting rights of all shareholders having the right to vote at the meeting, or by a shareholder or shareholders present in person or by proxy holding shares conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on the shares conferring that right. If a poll is demanded, each shareholder present in person or by proxy will have one vote for each ordinary share registered in his name. If a poll is not demanded, voting will be by show of hands and each shareholder present in person or by proxy will have one vote regardless of the number of shares registered in his name. In the absence of a poll, shares will therefore not be proportionately represented.

If we are or become a passive foreign investment company, or a PFIC, it could result in adverse U.S. federal income tax consequences to U.S. investors.

We believe that we were not a PFIC for our taxable year ended on December 31, 2008, and we do not expect to become one for our current taxable year or in the future, although there can be no assurance in this regard. If, however, we are or become a PFIC, U.S. investors could be subject to additional U.S. federal income taxes on gain recognized with respect to the ADSs or ordinary shares and on certain distributions, plus an interest charge on certain taxes treated as having been deferred under the PFIC rules. Non-corporate U.S. investors will not be eligible for reduced rates of taxation on any dividends received from us, if we are a PFIC in the taxable year in which such dividends are paid or in the preceding taxable year. U.S. investors are urged to consult their tax advisors concerning the U.S. federal income tax consequences of holding ADSs or ordinary shares if we are considered a PFIC in any taxable year.

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.

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

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

While the Chinese economy has grown significantly in the past 20 years, the growth has been uneven, both geographically and among various sectors of the economy. The PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures benefit the overall Chinese economy, but may have a negative effect on us. For example, our financial condition and results of operations may be materially and adversely affected by government control over capital investments or changes in tax regulations that are applicable to us.

In addition, we cannot assure you that the Chinese economy will continue to grow, or that if there is growth, such growth will be steady and uniform, or that if there is a slowdown, such slowdown will not have a negative effect on our business. For example, the Chinese economy experienced high inflation in the second half of 2007 and the first half of 2008. China s consumer price index soared 7.9% during the six months ended June 30, 2008 as compared to the same period in 2007. To combat inflation and prevent the economy from overheating, the PRC government adopted a number of tightening macroeconomic measures and monetary policies, including increasing interest rates, raising statutory reserve rates for banks and controlling bank lending to certain industries or economic sectors. However, due in part to the impact of the global crisis in financial services and credit markets and other factors, the growth rate of China s gross domestic product has decreased to 6.8% in the fourth quarter of 2008, down from 11.9% reached in the second quarter of 2007. As a result, beginning in September 2008, among other measures, the PRC government began to loosen macroeconomic measures and monetary policies by reducing interest rates and decreasing the statutory reserve rates for banks. In addition, in November 2008 the PRC government announced an economic stimulus package in the amount of US$586 billion. We cannot assure you that the various macroeconomic measures, monetary policies and economic stimulus package adopted by the PRC government to guide economic growth and the allocation of resources will be effective in sustaining the fast growth rate of the Chinese economy.

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

Any adverse change in the economic conditions or government policies in China could have a material adverse effect on the overall economic growth and the level of renewable energy investments and expenditures in China, which in turn could lead to a reduction in demand for our products and consequently have a material adverse effect on our businesses.

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

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

The PRC rule on mergers and acquisitions may subject us to sanctions, fines and other penalties and affect our future business growth through acquisition of complementary business.

On August 8, 2006, six PRC government and regulatory authorities, including the PRC Ministry of Commerce, or the MOFCOM, and the Chinese Securities Regulatory Commission, or the CSRC, promulgated a rule entitled Provisions regarding Mergers and Acquisitions of Domestic Enterprises by Foreign Investors , or the M&A Rule, which became effective on September 8, 2006. The M&A Rule, among other things, established procedures and requirements that could make merger and acquisition activities by foreign investors time-consuming and complex, including requirements in some instances that the MOFCOM be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise. In the future, we may grow our business in part by acquiring complementary businesses, although we do not have any plans to do so at this time. Complying with the requirements of the M&A Rule to complete such transactions could be time-consuming, and any required approval processes, including obtaining approval from the MOFCOM, may delay or inhibit the completion of such transactions, which could affect our ability to expand our business or maintain our market share.

Recent PRC regulations relating to overseas investment by PRC residents may restrict our overseas and cross-border investment activities and adversely affect the implementation of our strategy as well as our business and prospects.

In 2005, the PRC State Administration of Foreign Exchange, or SAFE, issued a number of rules regarding offshore investments by PRC residents. The rule currently in effect, the Notice on Issues Relating to the Administration of Foreign Exchange in Fund-Raising and Return Investment Activities of Domestic Residents Conducted Via Offshore Special Purpose Companies, known as SAFE Notice 75, was issued in October 2005 and the complementation procedures of such rules have been further clarified by Circular No. 106 issued by SAFE on May 29, 2007. SAFE Notice 75 requires PRC residents to register with and/or receive approvals from SAFE in connection with certain offshore investment activities. Since we are a Cayman Islands company that is controlled by Yingli Power Holding Company Ltd., whose controlling shareholder is Mr. Liansheng Miao, our chairperson and chief executive officer and a PRC resident, Mr. Miao is subject to the registration requirements under SAFE Notice 75.

Mr. Miao made the requisite SAFE registration with respect to his investment in Yingli Power Holding Company Ltd. and us in August 2006. Mr. Miao amended his SAFE registration in June 2007 and January 2008, in connection with our initial public offering in June 2007 and the secondary and convertible senior notes offerings in December 2007, respectively. We have requested our other beneficial owners who are PRC residents to make the necessary applications and filings in connection with our initial public offering and secondary offering as required under SAFE Notice 75 and its implementation rules. However, we cannot assure you that all of our beneficial owners who are PRC residents have complied with our request to apply for or obtain any registrations or approvals required under these or other regulations or legislation.

If Mr. Miao or any of our other beneficial owners who are PRC residents fails to comply with the registration procedures set forth in SAFE Notice 75, Mr. Miao or such beneficial owner who is a PRC resident could be subject to fines and legal penalties and Tianwei Yingli could face restrictions on its foreign currency exchange activities, including the payment of dividends and other distributions to its equity interest holders and Tianwei Yingli s ability to receive capital from us. Any of these events could materially and adversely affect our results of operations, acquisition opportunities, financing alternatives and our ability to pay dividends to our shareholders. See Item 4.B. Business Overview PRC Government Regulations Regulation of Foreign Exchange in Certain Onshore and Offshore Transactions .

Dividends we may receive from our operating subsidiaries located in the PRC may be subject to PRC withholding tax.

The Enterprise Income Tax Law, or the EIT Law, provides that a maximum income tax rate of 20% may be applicable to dividends payable to non-PRC investors that are non-resident enterprises , to the extent such dividends are derived from sources within the PRC, and the State Council has reduced such rate to 10% through the implementation rules. Furthermore, a circular issued by the Ministry of Finance and the State Administration of Taxation on February 22, 2008 stipulates that undistributed earnings generated prior to January 1, 2008 are exempt from enterprise income tax. We are a Cayman Islands holding company and Yingli International is a British Virgin Islands intermediate holding company. Substantially all of our income may be derived from dividends we receive from our operating subsidiaries located in the PRC. Thus, dividends paid to us in respect of earnings accumulated beginning on January 1, 2008 by our subsidiaries in China, if any, will be subject to the 10% income tax if we are considered as non-resident enterprises under the EIT Law. If we are subject under the EIT Law to such 10% income tax for any dividends we may receive from our subsidiaries, it will materially and adversely increase our income tax expense.

We and some of our subsidiaries may be deemed resident enterprises under the EIT Law and be subject to PRC taxation as to our worldwide income.

The EIT Law also provides that enterprises established outside of China whose de facto management bodies are located in China are considered resident enterprises and are generally subject to the uniform 25% enterprise income tax rate as to their worldwide income. Under the implementation rules for the EIT Law issued by the State Council, de facto management is defined as substantial and overall management and control over the manufacturing and business operations, personnel, accounting, properties and other factors. Under the implementation rules for the EIT Law issued by the State Council, a de facto management body is defined as a body that has substantial and overall management and control over the manufacturing and business operations, personnel, accounting, properties and other factors of an enterprise. On April 22, 2009, the State Administration of Taxation promulgated a circular which sets out criteria for determining whether de facto management bodies are located in China for overseas incorporated, domestically controlled enterprises. However, as this circular only applies to enterprises incorporated under laws of foreign countries or regions that are controlled by PRC enterprises or groups of PRC enterprises, it remains unclear how the tax authorities will determine the location of de facto management bodies for overseas incorporated enterprises that are controlled by individual PRC residents like us and some of our subsidiaries. Therefore, although substantially all of our management is currently located in the PRC, it remains unclear whether the PRC tax authorities would require or permit our overseas registered entities to be treated as PRC resident enterprises. If the PRC tax authorities determine that Yingli Green Energy and some of our subsidiaries, such as Yingli International, Yingli Capital, Yingli Hong Kong, Cyber Power and Cyber Lighting, are PRC resident enterprises, we and such subsidiaries may be subject to the enterprise income tax at the rate of 25% as to our global income, which could have an impact on our effective tax rate and an adverse effect on our net income and results of operations, although dividends distributed from our PRC subsidiaries to us would be exempt from the PRC dividend withholding tax, since such income distribution is exempted under the EIT Law if paid to PRC resident recipients.

Dividend payable by us to non-PRC holders of our ordinary shares or ADS and gain on the sale of our ordinary shares or ADSs may become subject to taxes under PRC tax laws.

Under the EIT Law and implementation rules issued by the State Council, PRC income tax at the rate of 10% is applicable to payments of dividends to investors that are non-resident enterprises, which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such payments of dividends have their sources within the PRC. Similarly, any gain realized on the transfer of ADSs or ordinary shares by such investors is also subject to the 10% PRC income tax if such gain constitutes income derived from sources within the PRC. It is currently unclear what constitutes income derived from sources within the PRC. Therefore, it is unclear whether dividends we may pay with respect to our ordinary shares or ADSs, or the gain you may realize from the transfer of our ordinary shares or ADSs, would be treated as income derived from sources within the PRC and be subject to PRC tax. It is also unclear whether non-PRC holders of our ordinary shares or ADSs would be able to claim the benefit of income tax treaties or agreements entered into between China and other countries or regions.

If we are required under the EIT Law to withhold PRC income tax on dividends payable to non-PRC holders of our ordinary shares or ADSs, or if you are required to pay PRC income tax on the transfer of our ordinary shares or ADSs, the value of your investment in our ordinary shares or ADSs may be materially and adversely affected.

Restrictions on currency exchange may limit our ability to receive dividends from Tianwei Yingli, Yingli China and Yingli Beijing and their ability to obtain overseas financing.

Under the Foreign Currency Administration Rules, the foreign exchange incomes of domestic entities and individuals can be remitted into China or deposited abroad, subject to the terms and conditions to be issued by SAFE. Tianwei Yingli, Yingli China and Yingli Beijing are able to pay dividends to their shareholders, including us, in foreign currencies without prior approval from SAFE, by complying with certain procedural requirements. However, we cannot assure you that the PRC government will not take measures in the future to restrict access to foreign currencies for current account transactions, including payment of such dividends.

Foreign exchange transactions for capital account items, such as direct equity investments, loans and repatriation of investments, by Tianwei Yingli, Yingli China and Yingli Beijing continue to be subject to significant foreign exchange controls and require the approval of PRC governmental authorities, including SAFE. In particular, if Tianwei Yingli, Yingli China or Yingli Beijing borrows foreign currency-denominated loans from us or other foreign lenders, these loans must be registered with the local offices of SAFE. These limitations could affect their ability to obtain additional equity or debt funding that is denominated in foreign currencies.

PRC regulation of direct investment and loans by offshore holding companies to PRC entities may delay or limit us from making additional capital contributions or loans to our PRC subsidiaries.

Any capital contributions or loans that we, as an offshore entity, make to Tianwei Yingli, Yingli China or Yingli Beijing, our PRC subsidiaries, are subject to PRC regulations. For example, any of our loans to our PRC subsidiaries cannot exceed the difference between the total amount of investment our PRC subsidiaries are approved to make under relevant PRC laws and the respective registered capital of our PRC subsidiaries, and must be registered with the local branch of SAFE as a procedural matter. In addition, our capital contributions to our PRC subsidiaries must be approved by MOFCOM or its local counterpart. We cannot assure you that we will be able to obtain these approvals on a timely basis, or at all. If we fail to obtain such approvals, our ability to make equity contributions or provide loans to our PRC subsidiaries or to fund their operations may be negatively affected, which could adversely affect their liquidity and its ability to fund its working capital and expansion projects and meet its obligations and commitments.

In addition, our capital contributions and, in limited circumstances, loans, to Tianwei Yingli are also subject to approvals by Tianwei Baobian, the holder of the minority equity interest in Tianwei Yingli. See Item 4.A. History and Development of the Company Joint Venture Contract Increase or Reduction of Tianwei Yingli s Registered Capital.

We rely principally on dividends and other distributions on equity paid by our PRC operating subsidiaries, including Tianwei Yingli and Yingli China, and limitations on their ability to pay dividends to us could have a material adverse effect on our business and results of operations.

We are a holding company and we rely principally on dividends and other distributions on equity paid by our PRC operating subsidiaries, including Tianwei Yingli and Yingli China, for our cash and financing requirements, including the funds necessary to pay dividends and other cash distributions to our shareholders, service any debt we may incur and pay our operating expenses. If Tianwei Yingli or Yingli China incurs debt on their own behalf in the future, the instruments governing the debt may restrict their ability to pay dividends or make other distributions to us.

As entities established in China, Tianwei Yingli and Yingli China are subject to certain limitations with respect to dividend payments. PRC regulations currently permit payment of dividends only out of accumulated profits as determined in accordance with accounting standards and regulations in China. Following its conversion into a Sino-foreign equity joint venture, Tianwei Yingli is also required to set aside each year a percentage, as decided by its board of directors, of its after-tax profits based on PRC accounting standards to its reserve fund, enterprise development fund and employee bonus and welfare fund. As of December 31, 2008, such restricted reserves of Tianwei Yingli amounted to RMB 144.1 million (US$21.1 million) and its accumulated profits that were unrestricted and were available for distribution amounted to RMB 1,940.2 million (US$284.4 million). As a foreign investment enterprise, Yingli China is required to allocate at least 10% of its after-tax profits to its reserve fund and employee bonus and welfare fund until the cumulative amount of such reserve fund reaches 50% of its registered capital. These reserve funds may not be distributed as cash dividends. As of December 31, 2008, such restricted reserves of Yingli China amounted to RMB 0.2 million (US$0.02 million) and its accumulated profits that were unrestricted and were available for distribution amounted to RMB 1.5 million (US$0.2 million). In addition, if any of our PRC subsidiaries incurs debt on its own behalf in the future, the instruments governing the debt may restrict its ability to pay dividends or make other distributions to us. Limitations on the ability of Tianwei Yingli or Yingli China to pay dividends to us could adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our businesses, pay dividends, or otherwise fund and conduct our business. Accordingly, if for any of the above or other reasons, we do not receive dividends from Tianwei Yingli or Yingli China, our liquidity, financial condition and ability to make dividend distributions to our shareholders will be materially and adversely affected.

SAFE rules and regulations may limit our ability to convert and transfer the net proceeds from our financings to our PRC subsidiaries, which may adversely affect the business expansions of our PRC subsidiaries, and we may not be able to convert the net proceeds from our financings into Renminbi to invest in or acquire any other PRC companies.

On August 29, 2008, SAFE promulgated Circular 142, or SAFE Notice 142, a notice regulating the conversion by a foreign invested company of foreign currency into Renminbi by restricting how the converted Renminbi may be used. The notice requires that the registered capital of a foreign-invested company settled in Renminbi converted from foreign currencies may only be used for purposes within the business scope approved by the applicable governmental authority and may not be used for equity investments within the PRC. In addition, SAFE strengthened its oversight of the flow and use of the registered capital of a foreign-invested company settled in Renminbi converted from foreign currencies. The use of such Renminbi capital may not be changed without SAFE s approval, and may not in any case be used to repay Renminbi loans if the proceeds of such loans have not been used. Violations of SAFE Notice 142 may result in severe penalties, such as heavy fines. As SAFE Notice 142 may significantly limit our ability to transfer the net proceeds from our financings to our PRC subsidiaries, the business

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expansions of our PRC subsidiaries may be adversely affected. In addition, we may not be able to convert the net proceeds from our financings into Renminbi to invest in or acquire any other PRC companies.

All employee participants in our existing stock option plans who are PRC citizens may be required to register with SAFE. We may also face regulatory uncertainties that could restrict our ability to adopt additional option plans for our directors and employees under PRC law.

On March 28, 2007, SAFE issued the Operating Procedures on Administration of Foreign Exchange regarding PRC Individuals Participating in Employee Stock Ownership Plan and Stock Option Plan of Overseas Listed Companies, or the Stock Option Rule. It is not clear whether the Stock Option Rule covers any type of equity compensation plans or incentive plans which provide for the grant of ordinary share options or authorize the grant of restricted share awards. For any plans which are so covered and are adopted by an overseas listed company, the Stock Option Rule requires the employee participants who are PRC citizens to register with SAFE or its local branch within ten days of the beginning of each quarter. In addition, the Stock Option Rule also requires the employee participants who are PRC citizens to follow a series of requirements on making necessary applications for foreign exchange purchase quota, opening special bank account and filings with SAFE or its local branch before they exercise their stock option.

The Stock Option Rule has not yet been made publicly available or formally promulgated by SAFE, but SAFE has begun enforcing its provisions. Nonetheless, it is not predictable whether it will continue to enforce this rule or adopt additional or different requirements with respect to equity compensation plans or incentive plans.

We have contacted the Baoding branch of SAFE and attempted to submit documents prepared for their registration. The officials at the local SAFE branch in Baoding acknowledged receipt of such documents but refused to indicate whether they would affect the registration under the Stock Option Rule. We are seeking further guidance from the relevant government authorities and will promptly take all steps to comply with their requirements when they become available. To date, we have not received any notice from SAFE or its local branch in Baoding regarding any legal sanctions to us or our employees. If it is determined that our employee stock option plan is subject to the Stock Option Rule, failure to comply with such provisions may subject us and the participants of our employee stock option plan who are PRC citizens to fines and legal sanctions and prevent us from further granting options under our employee stock option plan to our employees, which could adversely affect our business operations.

We face risks related to health epidemics and other outbreaks of contagious diseases, including avian influenza, or avian flu, swine influenza, or swine flu, and Severe Acute Respiratory Syndrome, or SARS.

Our business could be adversely affected by the effects of avian flu, SARS or another epidemic or outbreak. During 2007 and early 2008, there have been reports of outbreaks of a highly pathogenic avian flu, caused by the H5N1 virus, in certain regions of Asia and Europe. In 2005 and 2006, there were reports on the occurrences of avian flu in various parts of China, including a few confirmed human cases. Since April 2009, there have been reports on the occurrences of swine flu, caused by the H1N1 virus, in Mexico, the United States, China and certain other countries and regions around the world. An outbreak of avian flu or swine flu in the human population could result in a widespread health crisis that could adversely affect the economies and financial markets of many countries, particularly in Asia. Additionally, any recurrence of SARS, a highly contagious form of atypical pneumonia, similar to the occurrence in 2003 which affected China, Hong Kong, Taiwan, Singapore, Vietnam and certain other countries, would also have similar adverse effects. These outbreaks of contagious diseases, and other adverse public health developments in China, would have a material adverse effect on our business operations. These could include restrictions on our ability to travel or to ship our products outside of China, as well as cause temporary closure of our manufacturing facilities. Such closures or travel or shipment restrictions would severely disrupt our business operations and adversely affect our financial condition and results of operations. We have not adopted any written preventive measures or contingency plans to combat any future outbreak of avian flu, swine flu, SARS or any other epidemic.

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Risks Related to Our ADSs

The market price for our ADSs has been volatile.

The market price for our ADSs has been and will continue to be highly volatile. Since our ADSs became listed on the NYSE on June 8, 2007, the trading prices of our ADSs have ranged from US$2.50 to US$41.50 per ADS, and the last reported trading price on June 12, 2009 was US$13.76 per ADS. The price of our ADSs may continue to fluctuate in response to factors including the following:

- announcements of technological or competitive developments;
- regulatory developments in our target markets affecting us, our customers or our competitors;
- announcements regarding patent litigation or the issuance of patents to us or our competitors;
- announcements of studies and reports relating to the conversion efficiencies of our products or those of our competitors;
- actual or anticipated fluctuations in our quarterly results of operations;
- changes in financial projections or estimates about our financial or operational performance by securities research analysts;
- changes in the economic performance or market valuations of other PV technology companies;
- addition or departure of our executive officers and key research personnel;
- release or expiry of lock-up or other transfer restrictions on our outstanding ordinary shares or ADSs; and
- sales or perceived sales of additional ordinary shares or ADSs.

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

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

Sales of our ADSs in the public market in the future, or the perception that these sales could occur, could cause the market price of our ADSs to decline. As of the date of this annual report, we had 129,989,700 ordinary shares outstanding, including 74,574,434 ordinary shares represented by ADSs. All ADSs sold in our initial public offering and the secondary offering are freely transferable without restriction or additional registration under the Securities Act of 1933, as amended, or the Securities Act. All of the remaining ordinary shares outstanding are, subject to the applicable requirements of Rule 144 under the Securities Act, available for sale. Under the terms of the note purchase agreement with Trustbridge, we have agreed to issue up to an aggregate amount of US$50 million of senior secured convertible notes due 2012 to Trustbridge or its affiliates. We will issue an aggregate of 11,466,574 ordinary shares to Trustbridge or its affiliates upon the conversion of our senior secured convertible notes, assuming the issuance of an aggregate of US$50 million of the senior secured convertible notes and all such notes are converted at the adjusted conversion rate of 22,933.1499 ordinary shares per US$100,000 in principal amount of the senior secured convertible notes. In June 2009, we issued 2,000,000 ordinary shares to Trustbridge as a result of the conversion of approximately US$8.7 million of the senior secured convertible notes. As of the date of this annual report, approximately US$11.3 million of the senior secured convertible notes were outstanding. In connection with a credit agreement between Yingli Capital and ADM Capital, we have issued 4,125,000 warrants to ADM Capital under the terms of a warrant agreement entered into in April 2009. Each warrant provides for the right to acquire one ordinary share at an initial strike price of US$5.64, which is based on the 20-trading day volume weighted average closing price per ADS on the New York Stock Exchange for the period prior to the issuance of the warrant, subject to customary anti-dilution and similar adjustments. We may at our discretion settle the warrants in cash, ordinary shares or a mix of cash and ordinary shares. All ordinary shares issued in connection with conversion of our senior secured convertible notes or the settlement in shares of any warrants granted to ADM Capital will be available for sale promptly after issuance, subject to compliance with applicable securities laws and rules.

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Holders of ADSs have fewer rights than shareholders and must act through the depositary to exercise those rights.

Holders of ADSs do not have the same rights of our shareholders and may only exercise the voting rights with respect to the underlying ordinary shares in accordance with the provisions of the deposit agreement. As a holder of ADSs, you will not be treated as one of our shareholders and you will not have shareholder rights. Instead, the depositary will be treated as the holder of the shares underlying your ADSs. However, you may exercise some shareholders rights through the depositary, and you will have the right to withdraw the shares underlying your ADSs from the deposit facility.

Under our current articles of association, the minimum notice period required to convene a general meeting will be ten days. When a general meeting is convened, you may not receive sufficient notice of a shareholders meeting to permit you to withdraw your ordinary shares to allow you to cast your vote with respect to any specific matter. In addition, the depositary and its agents may not be able to send voting instructions to you or carry out your voting instructions in a timely manner. We plan to make all reasonable efforts to cause the depositary to extend voting rights to you in a timely manner, but we cannot assure you that you will receive the voting materials in time to ensure that you can instruct the depositary to vote your ADSs. Furthermore, the depositary and its agents will not be responsible for any failure to carry out any instructions to vote, for the manner in which any vote is cast or for the effect of any such vote. As a result, you may not be able to exercise your right to vote and you may lack recourse if your ADSs 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 depositary for our ADSs will give us a discretionary proxy to vote our ordinary shares underlying your ADSs if you do not vote at shareholders meetings, except in limited circumstances, which could adversely affect your interests.

Under the deposit agreement for the ADSs, the depositary will give us a discretionary proxy to vote our ordinary shares underlying your ADSs at shareholders meetings if you do not vote, unless:

- we have failed to provide the depositary with the notice of meeting and related voting materials at least 30 days prior to the date of such shareholders meeting;
- we have instructed the depositary that we do not wish a discretionary proxy to be given;
- we have informed the depositary that there is substantial opposition as to a matter to be voted on at the meeting;
- a matter to be voted on at the meeting would have a material adverse effect on shareholders; or
- voting at the meeting is made on a show of hands.

The effect of this discretionary proxy is that you cannot prevent our ordinary shares underlying your ADSs from being voted, absent the situations described above, and it may make it more difficult for shareholders to influence our management. Holders of our ordinary shares are not subject to this discretionary proxy.

You may not receive distributions on our ordinary shares or any value for them if it is illegal or impractical to make them available to you.

The depositary of our ADSs has agreed to pay you the cash dividends or other distributions it or the custodian for our ADSs receives on our ordinary shares or other deposited securities after deducting its fees and expenses. You will receive these distributions in proportion to the number of our ordinary shares your ADSs represent. However, the depositary is not responsible if it is unlawful or impractical to make a distribution available to any holders of ADSs. For example, it would be unlawful to make a distribution to a holder of ADSs if it consists of securities that require registration under the Securities Act but that are not properly registered or distributed pursuant to an applicable exemption from registration. The depositary is not responsible for making a distribution available to any holders of ADSs if any government approval or registration required for such distribution cannot be obtained after reasonable efforts are made by the depositary. We have no obligation to take any other action to permit the distribution of our ADSs, ordinary shares, rights or anything else to holders of our ADSs. This means that you may not receive the distributions we make on our ordinary shares or any value for them if it is illegal or impractical for us to make them available to you. These restrictions may have a material and adverse effect on the value of your ADSs.

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

Your ADSs are transferable on the books of the depositary. However, the depositary may close its transfer books at any time or from time to time when it deems expedient in connection with 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.

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

We may from time to time distribute rights to our shareholders, including rights to acquire our securities. However, we cannot make rights available to you in the United States unless we register the rights and the securities to which the rights relate under the Securities Act or an exemption from the registration requirements is available. Also, under the deposit agreement, the depositary bank will not make rights available to you unless the distribution to ADS holders of both the rights and any related securities are either registered under the Securities Act, or exempted from registration under the Securities Act with respect to all holders of ADSs. We are under no obligation to file a registration statement with respect to any such rights or securities or to endeavor to cause such a registration statement to be declared effective. Moreover, we may not be able to establish an exemption from registration under the Securities Act. Accordingly, as a holder of our ADSs, you may be unable to participate in our rights offerings and may experience dilution in your holdings.

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

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

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

As a result of all of the above, shareholders of a Cayman Islands company may have more difficulty in protecting their interests in the face of actions taken by management, members of the board of directors or controlling shareholders than they would as shareholders of a company incorporated in a jurisdiction in the United States. For example, contrary to the general practice in most corporations incorporated in the United States,

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Cayman Islands law does not require that shareholders approve sales of all or substantially all of a company s assets. The limitations described above will also apply to the depositary who is treated as the holder of the shares underlying your ADSs.

You may have difficulty enforcing judgments obtained against us.

We are a Cayman Islands company and substantially all of our assets are located outside of the United States. Substantially all of our current operations are conducted in the PRC. In addition, most of our directors and officers are nationals and residents of countries other than the United States and a substantial majority of the assets of these persons are located outside the United States. As a result, it may be difficult for you to effect service of process within the United States upon these persons. It may also be difficult for you to enforce judgments obtained in U.S. courts based on the civil liability provisions of the U.S. federal securities laws against us and our officers and directors, most of whom are not residents in the United States and the substantial majority of whose assets are located outside of the United States. In addition, there is uncertainty as to whether the courts of the Cayman 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. In addition, it is uncertain whether such Cayman Islands or PRC courts would be competent to hear original actions brought in the Cayman Islands or the PRC against us or such persons predicated upon the securities laws of the United States or any state.

Item 4. *Information on the Company*

A. History and Development of the Company

History

Our predecessor and current principal operating subsidiary, Tianwei Yingli, was established as a PRC limited liability company in August 1998. The initial holders of equity interests in Tianwei Yingli included Yingli Group, and Baoding Gaoxin District Development Co., Ltd., a PRC company engaged in project investment and development in the national high-tech zone in the Baoding area which is wholly owned by the Management Committee of Baoding Gaoxin District, a local government agency. Mr. Liansheng Miao is the founder of Yingli Group and currently holds 100% equity interest in Yingli Group. Through a series of equity transfers among holders of Tianwei Yingli s equity interests and additional equity contributions into Tianwei Yingli from 1998 to 2005, Tianwei Baobian and Yingli Group became the only two holders of equity interests in Tianwei Yingli as of December 9, 2005 and held 51% and 49% equity interest in Tianwei Yingli, respectively, until the restructuring described below.

In 2002, Tianwei Yingli established Chengdu Yingli in Chengdu, Sichuan, China, together with unrelated parties, with Tianwei Yingli initially holding a 55% equity interest in Chengdu Yingli. Chengdu Yingli sells and installs PV systems. In May 2004, Tianwei Yingli acquired an additional 9% equity interest and increased its equity interest in Chengdu Yingli to 64%. In July 2007, we acquired the remaining 36% equity interest and increased our equity interest in Chengdu Yingli to 100%. In 2004, Tianwei Yingli acquired a 10% equity interest in Tibetan Yingli. Tibetan Yingli sells and installs PV systems. In September 2005, Tianwei Yingli acquired an additional 40% of the equity interest in Tibetan Yingli and increased its equity interest in Tibetan Yingli to 50%. In September 2004, Tibetan Yingli established Tibetan Keguang Industrial and Trading Corporation Limited, or Tibetan Keguang, a PRC limited liability company. The principal business of Tibetan Keguang is the assembly of PV modules. In July 2007, we acquired a 30% equity interest in Dongfa Tianying for RMB 3.0 million. Dongfa Tianying manufactures and sells tempered glass and accessories. We sold our equity interest in Dongfa Tianying in April 2009. In August 2007, we established Yingli Green Energy (International) Holding Company Limited, or Yingli International, a British Virgin Islands company limited by shares as our wholly-owned subsidiary. Yingli International is primarily engaged in the sales and marketing of PV products and relevant accessories and investment in renewable energy projects. In October 2007, we established

Yingli Energy (China) Company Ltd., or Yingli China, a PRC limited liability company, as our indirectly wholly-owned subsidiary. Yingli China is primarily engaged in the research, manufacturing, sale and installation of renewable energy products. In November 2007, we established Yingli Green Energy Europe GmbH, or Yingli Europe, a German limited liability company, as our indirectly wholly-owned subsidiary. Yingli Europe is primarily engaged in the sale and marketing of PV products and relevant accessories in

Europe. In November 2007, we also established Yingli Energy (Beijing) Co., Ltd., or Yingli Beijing, a PRC limited liability company, with Yingli International holding 90% equity interest in Yingli Beijing. Yingli Beijing is primarily engaged in the sale and manufacture of PV modules and PV systems. In December 2007, we established Yingli Green Energy Greece Sales GmbH, or Yingli Greece, a German limited liability company, with Yingli International holding 60% equity interest in Yingli Greece. Yingli Greece is primarily engaged in the production, sale and marketing of PV products and relevant products in Greece, Cyprus, the Balkans and the Middle East.

In February 2008, we established Yingli Shuntong (Beijing) International Forwarder Corporation Limited, or Yingli Shuntong, a PRC limited liability company, as a wholly-owned subsidiary of Yingli Beijing. Yingli Shuntong is primarily engaged in freight logistic services. In July 2008, we established Yingli Green Energy Capital Holding Company Limited, or Yingli Capital, a British Virgin Islands company limited by shares, as our wholly-owned subsidiary. Yingli Capital is principally engaged in the investment in renewable energy, provision of financing services and execution of other commercial and financing services. In August 2008, we established Yingli Green Energy Capital Holding (Hong Kong) Company Limited, or Yingli Hong Kong, a company incorporated in Hong Kong, as a wholly-owned subsidiary of Yingli Capital. The principal business of Yingli Hong Kong is investment in renewable energy, provision of financing services and execution of other commercial and financing activities. In January 2009, we completed the acquisition of Cyber Power Group Limited, or Cyber Power, which, through its principal operating subsidiary in China, Fine Silicon Co., Ltd., is expected to begin trial production of solar-grade polysilicon by the end of 2009 or early 2010. See Item 7.B. Major Shareholders and Related Party Transactions Related Party Transactions Cyber Power Acquisition and Issuance of Senior Secured Convertible Notes.

In May 2009, we established Yingli Green Energy International Trading Limited, or YGE International Trading, as a wholly-owned subsidiary of Yingli China, and Yingli Green Energy Hong Kong Trading Limited, or Yingli HK Trading, as a wholly-owned subsidiary of Tianwei Yingli. Each of YGE International Trading and Yingli HK Trading is a Hong Kong limited liability company. The principal business of both YGE International Trading and Yingli HK Trading is the sale of PV products and purchase of raw materials. In May 2009, we also invested in and became a holder of a 10% equity interest in Beijing Zhongjieneng Badaling Photovoltaic Generation Technology Co., Ltd., a PRC company engaged in the development of photovoltaic electricity generation technologies.

Our principal executive offices are located at No. 3055 Middle Fuxing Road, Baoding, Hebei Province, People s Republic of China. Our telephone number at this address is (86 312) 8929-700 and our fax number is (86 312) 3151-880. Our agent for service of process in the United States is Law Debenture Corporate Services Inc., located at 400 Madison Avenue, New York, New York 10017. Our registered office in the Cayman Islands is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

Investor inquiries should be directed to us at the address and telephone number of our principal executive offices set forth above. Our website is www.yinglisolar.com. The information contained on our website is not part of this annual report.

We had capital expenditures of RMB 254.8 million, RMB 976.3 million and RMB 2,036.3 million (US$298.5 million) in 2006, 2007 and 2008, respectively. As of December 31, 2008, we committed an aggregate of RMB 960.6 million (US$140.8 million) to purchase property, plant and equipment for our capacity expansion. Our capital expenditures were used primarily to build manufacturing facilities for our PV products. We estimate that we will make capital expenditures in 2009 in the aggregate of approximately RMB 2.4 billion, which will be used primarily to build manufacturing facilities for our PV products and the manufacture of polysilicon. We currently plan to increase our overall annual manufacturing capacity of each of polysilicon ingots and wafers, PV cells and PV modules to 600 megawatts in the third quarter of 2009 and to establish in-house polysilicon manufacturing facilities. We plan to fund part of the capital expenditures for these plans with additional borrowings from third parties, including banks, and if any, cash from operations.

Restructuring

Yingli Green Energy was incorporated on August 7, 2006 in the Cayman Islands as part of a restructuring of the equity interest in Tianwei Yingli to facilitate investments by foreign financial investors in Tianwei Yingli and the listing of our shares on an overseas stock market to achieve such investors investment goal and exit and liquidity strategies. This restructuring involved the following transactions:

On June 7, 2006, Yingli Power was established in the British Virgin Islands by its sole shareholder, Mr. Liansheng Miao;

On August 7, 2006, in connection with the incorporation of Yingli Green Energy, Yingli Power subscribed for 50 million of our ordinary shares at par value of US$0.01 per share and became our sole shareholder. On September 25, 2006, Yingli Power subscribed for an additional 9.8 million of our ordinary shares for a consideration of US$0.1 million;

On August 9, 2006, Yingli Group and Tianwei Baobian made additional equity contributions to Tianwei Yingli, as a result of which, (i) the registered capital of Tianwei Yingli was increased from RMB 75 million to RMB 100 million; (ii) Yingli Group increased its equity interest in Tianwei Yingli from 49% to 51%; and (iii) the equity interest of Tianwei Baobian in Tianwei Yingli was correspondingly decreased from 51% to 49%;

On August 25, 2006, we entered into a Sino-foreign equity joint venture company contract with Tianwei Baobian under which we granted to Tianwei Baobian a right to subscribe for newly issued ordinary shares of us in exchange for all but not part of Tianwei Baobian s equity interest in Tianwei Yingli. Tianwei Baobian may exercise this subscription right only after certain conditions (as described below) are satisfied; and

On September 5, 2006, Yingli Group transferred all of its 51% equity interest in Tianwei Yingli to us in a transaction between entities under common control for cash consideration of approximately RMB 134.6 million (US$17 million as translated at the applicable rate at the historical transaction date). As a result of such transfer, Tianwei Yingli became our subsidiary. For financial statements reporting purposes, Tianwei Yingli is deemed to be our predecessor.

Private Equity Investments and Other Financings Following the Restructuring

On September 28, 2006, we issued to Inspiration Partners Limited 8,081,081 Series A preferred shares for an aggregate purchase price of approximately US$17.0 million. On the same date, we also issued to TB Management Ltd., an affiliate of Inspiration Partners Limited, a warrant to purchase 678,811 of our ordinary shares at an exercise price of US$2.10 per share, which has since been transferred to its affiliate, Fairdeal Development Ltd., and which was exercised on May 23, 2007. All outstanding Series A preferred shares held by Inspiration Partners Limited were automatically convertible into our ordinary shares upon the completion of our initial public offering at a conversion ratio of one-to-one, subject to certain anti-dilution provisions. The proceeds from the issuance and sale of the Series A preferred shares were used to finance the transfer to us of the 51% equity interest in Tianwei Yingli held by Yingli Group. Upon the completion of our initial public offering, all of our Series A preferred shares were converted into our ordinary shares on a one-for-one basis.

On November 13, 2006, we issued interest-bearing mandatory redeemable bonds and mandatory convertible bonds to Yingli Power in the aggregate principal amount of US$85 million and at an issue price equal to 98.75% of such aggregate principal amount. The mandatory redeemable bonds in the principal amount of US$38 million were required to be redeemed at their principal amount upon the completion of our initial public offering. The mandatory convertible bonds in the principal amount of US$47 million were automatically convertible into our equity interest at an aggregate value equal to the value of a 3.73% effective equity interest in Tianwei Yingli at the time of the conversion upon the completion of our initial public offering. The net proceeds from these bonds were used (i) up to US$62 million, to increase our equity interest in Tianwei Yingli from 53.98% to 62.13% (which event occurred on December 18, 2006), (ii) up to US$17 million, to further increase our equity interest in Tianwei Yingli, (iii) US$4.5 million to be held in a restricted account to be used to service the first three interest payments falling due under these bonds and (iv) the remaining proceeds for general corporate purpose and working capital. Upon the completion of our initial public offering in June 2007, we redeemed the mandatory redeemable bonds and issued 5,340,088 of our ordinary shares to Yingli Power upon conversion of the mandatory convertible bonds.

In connection with the issuance of these bonds, on November 13, 2006, our controlling shareholder, Yingli Power, issued to Deutsche Bank AG, Singapore Branch, floating rate notes in the aggregate principal amount of US$85 million and at an issue price equal to 98.75% of such aggregate principal amount. The floating rate notes consisted of US$55 million mandatory redeemable notes and US$30 million mandatory exchangeable notes exchangeable into equity interests in us at an aggregate value substantially equal to the value of a 3.73% equity interest in Tianwei Yingli at the time of the exchange upon the completion of our initial public offering, the terms of which (other than the allocation of the principal amounts between the redeemable and convertible or exchangeable portions) were substantially similar to the terms of the mandatory redeemable bonds and the mandatory convertible bonds issued by us to Yingli Power. Yingli Power used the proceeds from the issuance of the floating rate notes to subscribe for the mandatory redeemable bonds and the mandatory convertible bonds issued by us. Yingli Power pledged to Deutsche Bank AG, Singapore Branch all of its then existing equity interest in us and its other tangible and intangible asset as collateral for its obligations under these floating rate notes. Upon the completion of our initial public offering in June 2007, Yingli Power redeemed the mandatory redeemable notes and delivered 4,612,816 of our ordinary shares to Deutsche Bank AG, Singapore Branch, and several underlying investors of these notes upon exchange of the mandatory exchangeable notes.

On October 10, 2006, we amended the joint venture contract with Tianwei Baobian to make an equity contribution of US$17 million to Tianwei Yingli. The equity contribution was consummated on November 20, 2006, which increased our equity interest in Tianwei Yingli to 53.98% from 51%. This equity contribution was funded with advance payments in an aggregate amount of US$17 million from three of our Series B preferred shareholders described below.

On November 13, 2006, we further amended the joint venture contract with Tianwei Baobian to make an additional equity contribution of US$62 million to Tianwei Yingli. The equity contribution was consummated on December 18, 2006 and was funded with proceeds from the issuance of the mandatory convertible bonds and the mandatory redeemable bonds. This equity contribution increased our equity interest in Tianwei Yingli to 62.13% from 53.98%.

During the period from December 20, 2006 through January 13, 2007, we issued to Baytree Investments (Mauritius) Pte Ltd, or Baytree Investments, an affiliate of Temasek Holdings (Private) Limited, and 13 other investors, including J.P. Morgan Securities Ltd., a total of 24,405,377 Series B preferred shares for an aggregate purchase price of US$118 million, or at US$4.835 per share. Upon our initial public offering, all of our Series B preferred shares were converted into our ordinary shares on a one-for-one basis.

On December 18, 2006, we further amended the joint venture contract with Tianwei Baobian for us to make an additional equity contribution of US$118 million to Tianwei Yingli. The equity contribution was consummated on June 20, 2007 and was funded with proceeds from the Series B and the other financings. This equity contribution increased our equity interest in Tianwei Yingli to 70.11% from 62.13%.

On September 28, 2007, we further amended the joint venture contract with Tianwei Baobian to make an additional equity contribution of the U.S. dollar equivalent of RMB 1,750.84 million to Tianwei Yingli, increasing Tianwei Yingli s registered capital from RMB 1,624.38 million to RMB 3,375.22 million. The equity contribution was consummated on March 14, 2008 and was funded with part of the proceeds from our initial public offering. This equity contribution increased our equity interest in Tianwei Yingli to 74.01% from 70.11%.

In connection with a convertible loan to Tianwei Yingli from China Foreign Economic and Trade & Investment Co., Ltd., or FOTIC, a trust and investment company established in China, FOTIC acted as a nominee for certain third-party individuals. This convertible loan was made on May 17, 2006. Under a repayment and termination agreement dated December 29, 2006 among Tianwei Yingli, FOTIC, China Sunshine Investment Co., Ltd., or China Sunshine, a British Virgin Islands investment holding company, and us, Tianwei Yingli repaid the convertible loan in the principal amount of RMB 85.6 million plus accrued interest of RMB 4.3 million on December 29, 2006. As a condition of repayment, under the repayment and termination agreement, we issued on December 29, 2006 to China Sunshine a warrant to purchase 2,068,252 of our ordinary shares at an exercise price of US$4.835 per share. On February 2, 2007, China Sunshine fully exercised this warrant at an exercise price per share of US$4.835 and purchased 2,068,252 of our ordinary shares.

Our Initial Public Offering

On June 13, 2007, we completed our initial public offering, in which we offered and sold 26,550,000 ordinary shares in the form of ADSs, raising US$274.5 million in proceeds before expenses to us, and Yingli Power sold 2,450,000 ordinary shares in the form of ADSs. Upon the exercise of the underwriters option to purchase additional ADSs, certain of our Series A and Series B shareholders sold an aggregate of 500,000 ordinary shares in the form of ADSs.

Our Convertible Senior Notes Offering and Secondary Offering

In December 2007, we completed our convertible senior notes offering and secondary offering, in which we offered and sold an aggregate principal amount of US$172.5 million zero coupon convertible senior notes due 2012 and raised an aggregate of US$168.2 million in proceeds, before expenses, and several of our shareholders sold an aggregate of 6,440,000 ordinary shares in the form of ADSs.

Our Guaranteed Senior Secured Convertible Notes

In January 2009, we entered into a note purchase agreement with Trustbridge, under the terms of which we have agreed to issue up to an aggregate amount of US$50 million of senior secured convertible notes due 2012 to Trustbridge or its affiliate. See Item 7.B. Major Shareholders and Related Party Transactions Related Party Transactions Cyber Power Acquisition and Issuance of Senior Secured Convertible Notes.

ADM Capital Warrants

In January 2009, Yingli China entered into a credit agreement with ADM Capital, which closed in April 2009. Under the terms of the credit agreement, ADM Capital provided Yingli China with a three-year loan facility of US$50.0 million for its production capacity expansion and general corporate uses. In connection with the closing of the credit agreement, we entered into a warrant agreement whereby we issued to ADM Capital 4,125,000 warrants. Each warrant provides for the right to acquire one ordinary share at an initial strike price of US$5.64, which is based on the 20-trading day volume weighted average closing price per ADS on the New York Stock Exchange for the period prior to the issuance of the warrant, subject to customary anti-dilution and similar adjustments. See Item 5.F. Operating and Financial Review and Prospects Tabular Disclosure of Contractual Obligations.

Joint Venture Contract

Tianwei Baobian was established under the PRC law in September 1999 and its common shares have been listed on the Shanghai Stock Exchange since January 2001. The principal business of Tianwei Baobian is the manufacture of large electricity transformers. The controlling shareholder of Tianwei Baobian is Baoding Tianwei Group Co., Ltd., or Tianwei Group, a wholly state-owned limited liability company established in the PRC in January 1991. The controlling person of Tianwei Group is China South. Tianwei Baobian became a shareholder of Tianwei Yingli in April 2002.

We entered into a joint venture contract with Tianwei Baobian on August 25, 2006 and amended the joint venture contract on October 10, 2006, November 13, 2006, December 18, 2006 and September 28, 2007, respectively. The joint venture contract is governed by PRC law and sets forth the respective rights and obligations of us and Tianwei Baobian relating to Tianwei Yingli. The major provisions of this joint venture contract include the following:

Tianwei Yingli s Management Structure

Board of Directors

The board of directors of Tianwei Yingli, or the board, is its highest authority and has the power to decide all matters important to Tianwei Yingli.

The board consists of nine directors, six of whom are appointed by us and three of whom are appointed by Tianwei Baobian. Each director is appointed for a term of three years and may serve consecutive terms if re-appointed by the party which originally appointed such director. Each director may be removed by its appointing party, at any time, with or without cause and may be replaced by a nominee appointed by such party before the expiration of such director s term of office.

The chairperson of the board is the legal representative of Tianwei Yingli. The chairperson has the right to vote as any other director and does not have a casting vote. Tianwei Baobian is entitled to appoint a director to serve as the chairperson of the board and we are entitled to appoint a director to serve as the vice chairperson of the board.

A unanimous approval of all directors present in person or by proxy at the meeting of the board or, in the event of a written resolution, a unanimous approval of all directors, is required for resolutions involving the following matters:

- amendment to the articles of association of Tianwei Yingli;
- merger of Tianwei Yingli with another entity;
- division of Tianwei Yingli;
- termination or dissolution of Tianwei Yingli; and
- increase, reduction or transfer of the registered capital of Tianwei Yingli.

Resolutions of the board involving any other matters may be adopted by the affirmative vote of a simple majority of all directors present in person or by proxy at a meeting of the board.

The board is required to meet at least once each quarter. In addition to the regular meetings, the board may hold interim meetings. Each director has one vote at a meeting of the board. Board meetings are convened and presided over by the chairperson or, in his or her absence, by the vice chairperson or, in the absence of the vice chairperson, by a director elected by the majority of the directors. The board may adopt written resolutions in lieu of a board meeting, as long as the resolutions to be adopted are delivered to all directors and affirmatively signed and adopted by each director. The board members are required to act in accordance with board resolutions and may not do anything to jeopardize the interests of Tianwei Yingli.

A quorum for a meeting of the board is two thirds of the board members present, in person (including through telephone or video conference) or by proxy. If a meeting has been duly called and a quorum in person or by proxy is not present, no resolutions made at the meeting will be valid, and the director presiding over this meeting is required to postpone the meeting for no more than seven working days and send written notice of postponement to all directors. Any director who fails to attend the postponed meeting in person or by proxy will be deemed to be present at the meeting and be counted in the quorum, but such director will be deemed to have waived his or her voting rights.

Supervisors

Tianwei Yingli is required to have two supervisors. Tianwei Baobian and we each appoint one supervisor. Each supervisor is appointed for a term of three years and may serve consecutive terms if re-appointed by the party which originally appointed such supervisor. The supervisors may attend board meetings as non-voting members and make inquiries and suggestions as to matters submitted to board meetings for resolution. The major duties and powers of the supervisors are as follows:

inspect financial affairs of Tianwei Yingli;

monitor acts of directors and senior managers in the performance of their duties to Tianwei Yingli, and propose removal of directors or senior managers who have violated any laws, regulations, the articles of association of Tianwei Yingli or any board resolutions;

demand directors and senior managers to correct any of their act that harms Tianwei Yingli s interests; and

propose interim meetings of the board.

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Senior Management

Tianwei Yingli is required to have one chief executive officer and one chief financial officer. We nominate the chief executive officer for appointment by the board. The chief executive officer serves a term of three years and may serve consecutive terms if re-nominated by us and re-appointed by the board. The chief executive officer has overall responsibilities for the daily operation and management of Tianwei Yingli and reports directly to the board. The chief executive officer nominates the chief financial officer for appointment by the board. The chief financial officer is responsible for financial matters of Tianwei Yingli and reports to the chief executive officer.

Subscription Right

Under the joint venture contract, we granted to Tianwei Baobian a right to subscribe for ordinary shares newly issued by us in exchange for all but not part of Tianwei Baobian s equity interest in Tianwei Yingli. Tianwei Baobian may exercise the subscription right if, and only if, the following conditions are satisfied:

- we have completed our initial public offering;
- our ordinary shares are listed on a qualified securities exchange, which is defined under the joint venture contract to include, among others, the NYSE; and
- Tianwei Baobian or its affiliates obtains all necessary approvals from relevant PRC government authorities for acquiring our ordinary shares as a result of exercising the subscription right.

Subject to applicable laws in the PRC, the Cayman Islands, any jurisdiction in which our ordinary shares are listed and any jurisdiction in which a qualified securities exchange, including the NYSE, is located and further subject to the listing rules of such exchange, Tianwei Baobian may exercise the subscription right by sending a written notice to us within one month following the first date on which all conditions listed above are satisfied, accompanied by copies of related approvals and opinion of counsel.

Prior to exercising its subscription right, Tianwei Baobian is required to retain an asset valuation firm reasonably acceptable to us to obtain a valuation of Tianwei Baobian s equity interest in Tianwei Yingli in accordance with internationally accepted valuation methods and relevant PRC laws and regulations. The valuation report will need to be acknowledged by both Tianwei Baobian and us. Under relevant PRC laws and regulations, the value of Tianwei Baobian s equity interest in Tianwei Yingli agreed by Tianwei Baobian and us for the purpose of Tianwei Baobian s exercise of the subscription right shall not be lower than 90% of the value of such equity interest as indicated in the valuation report.

The number of our new ordinary shares that we are obligated to issue to Tianwei Baobian upon its exercise of the subscription right will be calculated according to the following formula:

(1) Tianwei Baobian and we have agreed that the effective equity interest percentage in Tianwei Yingli indirectly held by Tianwei Baobian by way of its ownership of the equity interest in us following its exercise of the subscription right must be equal to the equity interest percentage in Tianwei Yingli directly held by Tianwei Baobian immediately prior to the exercise of the subscription right.

In addition, Tianwei Baobian may request us to make best efforts to purchase from Tianwei Baobian all but not part of its equity interest in Tianwei Yingli. Upon such request by Tianwei Baobian, we will undertake to use our best efforts to assist Tianwei Baobian in completing the transfer of such equity interest held by Tianwei Baobian. The manner and the price at which Tianwei Baobian sells its equity interest in Tianwei Yingli will be decided by mutual agreement between Tianwei Baobian and us based on the fair market value of its and our equity interest in Tianwei Yingli, respectively, and in accordance with relevant PRC laws and regulations.

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Tianwei Yingli s Registered Capital

Tianwei Yingli currently has a registered capital of RMB 3,375.2 million. We currently hold 74.01% of Tianwei Yingli s equity interest, and Tianwei Baobian currently holds the remaining 25.99%. The registered capital of a company refers to the total amount of the capital subscribed by the equity interest holders of such company, as registered with relevant authorities. A shareholder of a company is entitled to the rights to and interests in such company in proportion to the fully paid amount of the registered capital of such company for which such shareholder subscribes or as otherwise agreed among the shareholders of such company. Such rights and interests include the rights to nominate directors to the board and receive dividends in proportion to the fully paid amount of the registered capital subscribed by such equity interest holders or as otherwise agreed among such equity interest holders. Under the PRC law, the rights and interests of a shareholder to a limited liability company are generally referred to as equity interest.

Increase or Reduction of Tianwei Yingli s Registered Capital

Approval by the Board and the Relevant PRC Authority

Any increase or reduction of Tianwei Yingli s registered capital is subject to unanimous approval of all directors present in person or by proxy at a meeting of the board or, in the event of a written resolution, the unanimous approval of all directors, as well as approval of the relevant PRC authority.

Preemptive Right

If the board resolves to increase Tianwei Yingli s registered capital, both Tianwei Baobian and we have the preemptive right to make additional contributions to the registered capital in proportion to its and our respective equity interests in Tianwei Yingli as of the date of the board s resolution. If Tianwei Baobian and we choose to make such additional contributions, we are obligated to pay in full our respective additional contributions within 30 days after the relevant PRC authority approves the increase of Tianwei Yingli s registered capital.

If a party notifies the board in writing of its decision not to make all or part of the additional contribution that it is entitled to make, or fails to pay in full its additional contribution within 30 days after the approval by the relevant PRC authority (such party being the non-contributing party), the other party has the right, but not the obligation, to make an additional contribution to the extent that the first party fails or elects not to contribute (such other party, if it so contributes, being the contributing party). In this event, the board will retain an independent asset valuation firm to obtain a valuation of Tianwei Yingli in accordance with internationally accepted valuation methods and relevant PRC laws and regulations. If the non-contributing party does not make any additional contribution to Tianwei Yingli s registered capital while the contributing party does, the contributing party s shareholding percentage in Tianwei Yingli immediately after its contribution will be calculated as follows:

(1) Fair market value means the expected value of Tianwei Yingli immediately following the contribution by the contributing party to Tianwei Yingli s registered capital.

Our Additional Contribution to Tianwei Yingli s Registered Capital with Proceeds from our Public Offering or Private Placements

Notwithstanding the above, if we intend to use proceeds from our public offering or any private placement transaction to make additional contributions to Tianwei Yingli s registered capital, Tianwei Baobian must cause all directors appointed by Tianwei Baobian to vote in favor of an increase of Tianwei Yingli s registered capital, and to take all actions necessary to obtain the approval of the relevant PRC authority. In such event, the board shall retain

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an independent asset valuation firm to obtain a valuation of Tianwei Yingli in accordance with internationally accepted valuation methods and relevant PRC laws and regulations. The percentage of our equity interest in Tianwei Yingli immediately after we make an additional contribution to Tianwei Yingli s registered capital with proceeds of our public offering or any private placement transaction will be calculated as follows:

(1) Fair market value means the expected value of Tianwei Yingli immediately following our contribution to Tianwei Yingli s registered capital with proceeds from our public offering or from a private placement transaction, as the case may be. After our additional contribution as described above, Tianwei Baobian s equity interest in Tianwei Yingli will be diluted in the same proportion as our equity interest in Tianwei Yingli immediately prior to such additional contribution.

Transfer of Equity Interests in Tianwei Yingli

All or part of the equity interests in Tianwei Yingli held by Tianwei Baobian and us may be transferred to third parties subject to the provisions described below.

Right of First Refusal

The party intending to transfer all or any part of its equity interest in Tianwei Yingli (such party being the transferring party) is required to send a written notice, or the offer notice, to the other party (such party being the non-transferring party) and the board of Tianwei Yingli, notifying them of the transferring party s intent to transfer such equity interest, or the offered interest, the terms and conditions of the proposed transfer and the identity of the proposed third-party transferee. The non- transferring party may exercise its right of first refusal by sending a written notice, or the acceptance notice, to the transferring party within 30 days after receipt of the offer notice, notifying the transferring party of the non-transferring party s intent to acquire all, but not less than all, of the offered interest.

The non-transferring party will be deemed to have consented to the proposed transfer if the transferring party has not received an acceptance notice within 30 days after the non-transferring party s receipt of the offer notice. In such an event, the transferring party may transfer the offered interest to the proposed third-party transferee within 60 days after expiration of the 30-day period as provided above and on terms no more favorable than specified in the offer notice, and the non-transferring party is obligated to sign a statement indicating its consent and waiver of its right of first refusal.

Notwithstanding the right of first refusal as described above, after completion of our initial public offering and listing of our ADSs on the NYSE, all or any part of the interest in Tianwei Yingli held by Tianwei Baobian or us may be transferred to its or our respective affiliates, and the other party is obligated to consent to such transfer.

Approval by the Board and the Relevant PRC Authority

Any transfer of an equity interest in Tianwei Yingli is subject to the unanimous approval of all directors present in person or by proxy at a meeting of the board or, in the event of a written resolution, the unanimous approval of all directors. Such transfer is also subject to the approval of relevant PRC authorities.

In the case of any transfer of an equity interest in Tianwei Yingli to a third party with a deemed consent of the non-transferring party or any affiliate transfer following the completion of our initial public offering and listing of our ADSs on the NYSE, each as described above, the non-transferring party is obligated to (i) cause each director appointed by it to consent to such transfer and approve related amendments to the articles of association of Tianwei

Yingli at a board meeting and (ii) use its best efforts to obtain the approval of relevant PRC authorities.

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No Transfer to Tianwei Yingli s Competitors

Under an amendment to the joint venture contract dated October 10, 2006, Tianwei Baobian and we may not transfer any of its or our equity interest, as applicable, in Tianwei Yingli to any third party that is engaged in a competing business with Tianwei Yingli.

Encumbrance

Neither Tianwei Baobian nor we may mortgage, pledge, charge or otherwise encumber all or any part of its or our respective equity interests, as applicable, in Tianwei Yingli without the prior written consent of the other party or the approval of relevant PRC authorities.

Profit Distribution

The maximum amount of dividend payable by Tianwei Yingli to its equity interest holders is calculated based on its retained earnings as calculated under PRC accounting regulations, and prior to the payment of dividends, Tianwei Yingli is required to pay income taxes according to PRC laws and make allocations of retained earnings to the reserve fund, enterprise development fund and employee bonus and bonus and welfare fund each at a percentage decided by the board each fiscal year. Any dividends paid by Tianwei Yingli are required to be distributed to Tianwei Baobian and us in proportion to its and our respective equity interests in Tianwei Yingli. Tianwei Yingli may not distribute any profit to its equity interest holders until all losses incurred in previous fiscal years are fully recovered. Undistributed profits accumulated in previous fiscal years may be distributed together with profits from the current fiscal year.

Unilateral Termination of the Joint Venture Contract

Either Tianwei Baobian or we may unilaterally terminate the joint venture contract if:

- Tianwei Yingli or the other equity interest holder is bankrupt, enters into a liquidation or dissolution proceeding, ceases business or becomes incapable of repaying debts that are due,

- an event of force majeure occurs and is continuing for over six months and the equity interest holders of Tianwei Yingli cannot find an equitable solution, or

- Tianwei Yingli s business license is terminated, cancelled or revoked.

Under the joint venture contract, force majeure is defined as any event which (i) is beyond the control of the parties thereto, (ii) is not foreseeable, or if foreseeable, unavoidable and (iii) prevents either party from performing all or a material part of its respective obligations.

Under the Company Law and other relevant PRC laws and regulations, the business license of a company may be terminated, cancelled or revoked by the relevant registration authority if such company:

- obtains its company registration by making false statement of registered capital, submitting false certificates or by concealing material facts through other fraudulent means, and the registration authority deems such activities to be a material noncompliance with applicable laws and regulations;

- fails to commence operation for more than six months without proper cause, or suspends operation on its own without proper cause for more than six consecutive months after commencement of operation;

conducts illegal activities jeopardizing the national security and social public interests;

engages in relevant business activities which require special permits or approval without obtaining such permits or approval, and the registration authority deems such activities to be a material noncompliance with applicable laws and regulations;

refuses to accept the annual inspection within the time limit, or conceals facts or resorted to deception during the annual inspection, and the registration authority deems such activities to be a material noncompliance with applicable laws and regulations; or forges, alters, leases, lends or transfers its business license, and the registration authority deems such activities to be a material noncompliance with applicable laws and regulations.

Under relevant PRC laws and regulations, Tianwei Yingli s board of directors is required to establish a liquidation committee to carry out the liquidation of Tianwei Yingli upon the expiration or termination of the joint venture contract. The liquidation committee must conduct a thorough examination of Tianwei Yingli s assets and liabilities. During the course of the liquidation proceedings, Tianwei Yingli may continue its existence, but may not conduct any business activities unrelated to the liquidation process. The proceeds from the liquidation of Tianwei Yingli s assets must be used first to settle any and all of its outstanding debts, salaries, labor insurance and liquidation-related fees and taxes, and the balance of the proceeds must be distributed to Tianwei Yingli s shareholders in proportion to their respective contributions to Tianwei Yingli s registered capital. Upon completion of the liquidation, the liquidation committee must submit a liquidation report to relevant PRC authorities to effect deregistration and make a public announcement of the termination of the joint venture contract.

Dispute Resolution

All disputes arising from or in connection with the existence, interpretation, validity, termination or performance of the joint venture contract are required to be submitted to the Hong Kong International Arbitration Center for final and binding arbitration in accordance with the arbitration rules of the United Nations Commission on International Trade Law then prevailing. Before an arbitration proceeding may be commenced, (1) the party seeking arbitration must send a written notice to the other party requesting arbitration and describing the nature of the dispute and (2) within 90 days of such notice Tianwei Baobian and we must have engaged in efforts to resolve the dispute amicably, but such efforts have failed.

Governing Law

The execution, validity, interpretation and performance of the joint venture contract, as well as resolution of disputes under such contract, are governed by PRC law.

B. Business Overview

Overview

We are one of the leading vertically integrated photovoltaic, or PV, product manufacturers in the world. We design, manufacture and sell PV modules, and design, assemble, sell and install PV systems. With an overall annual manufacturing capacity of 400 megawatts for each of polysilicon ingots and wafers, PV cells and PV modules as of the date of this annual report, we believe we are currently one of the largest manufacturers of PV products in the world as measured by annual manufacturing capacity. Except for the production of polysilicon materials, which we plan to begin on a trial basis by the end of 2009 or early 2010, our current products and services substantially cover the entire PV industry value chain, ranging from the manufacture of multicrystalline polysilicon ingots and wafers, PV cells and PV modules to the manufacture of PV systems and the installation of PV systems. We believe we are one of the largest PV companies in the world to have adopted a vertically integrated business model. Our end-products include PV modules and PV systems in different sizes and power outputs. We sell PV modules under our own brand names, Yingli and Yingli Solar, to PV system integrators and distributors located in various markets around the world, including Spain, Germany, the United States and China.

In 2002, we began producing PV modules with an initial annual manufacturing capacity of three megawatts and have significantly expanded production capacities of our PV products in the past six years to the current level. We currently plan to expand our overall annual manufacturing capacity of each of polysilicon ingots and wafers, PV cells and PV modules to 600 megawatts in the third quarter of 2009. In addition, in January 2009, we completed the acquisition of Cyber Power, which, through its principal operating subsidiary in China, Fine Silicon Co., Ltd., is expected to begin trial production of solar-grade polysilicon by the end of 2009 or early 2010.

Historically, we have sold and installed PV systems in the western regions of China where substantial government-subsidized rural electrification projects are underway. We also sell PV systems to mobile communications service providers in China for use across China and plan to export our PV systems into major international markets such as Germany, Spain, Italy and the United States. In order to promote the export of our PV systems, we have participated in the design and installation of large PV system projects undertaken by our customers overseas. Historically, sales of PV systems by us have not been significant. However, we expect our sales of PV systems to increase although we expect such sales to remain relatively insignificant as a percentage of our net revenues in the near term.

Our Products and Services

Our products and services include the manufacture of polysilicon ingots and wafers, PV cells, PV modules and integrated PV systems, which encompass substantially the entire PV industry value chain, with the manufacture of polysilicon feedstock being the only significant exception. In January 2009, we acquired Cyber Power, a development stage enterprise with plans to begin production of solar-grade polysilicon. However, we do not expect to begin trial production until the end of 2009 or early 2010 and we do not expect to have a polysilicon production capacity that meets our polysilicon needs in the near future.

Polysilicon Ingots and Blocks

A polysilicon ingot is formed by melting, purifying and solidifying polysilicon feedstock into a brick-shaped ingot. Most of our ingots weigh up to 270 kilograms and reach the size of 690 millimeters x 690 millimeters x 250 millimeters. We began producing 400 kilogram multicrystalline polysilicon ingots with the size of 840 millimeters x 840 millimeters x 250 millimeters in March 2008. The polysilicon ingots are then cut into blocks. Our polysilicon blocks are generally available in the size of 156 millimeters x 156 millimeters x 209 millimeters. We use our polysilicon blocks to produce polysilicon wafers.

Polysilicon Wafers

The polysilicon blocks are then sliced into wafers with wire saws. Thinner wafers enable a more efficient use of polysilicon, and thus lower the cost per watt of power produced. The thickness of our wafers decreased from 220 microns in 2006 to 180 microns as of December 31, 2008. The diameter of our wires decreased from 140 microns in 2006 to 120 microns as of December 31, 2008. Our wafers are generally available in the size of 156 millimeters x 156 millimeters. At times historically, when, we had produced an excess amount of wafers as a result of the disparity in our wafer manufacturing capacity and the PV cell capacity, we provided the excess wafers to third-party toll manufacturers which processed wafers into PV cells and return the PV cells to us for a processing fee under toll manufacturing arrangements. Having attained annual manufacturing capacity for each of polysilicon ingots and wafers, PV cells and PV modules of 200 megawatts in July 2007, our PV cell production has reached the same level as our wafer and PV module production through the ramp-up of our manufacturing capacity. Therefore, we expect to use toll manufacturing arrangements only in limited circumstances, such as to fill potential shortfalls in manufacturing capacity along the product chain until the disparity between our wafer manufacturing capacity and the PV cell manufacturing capacity is resolved. We sent approximately 40.8%, 5.8% and nil of our polysilicon wafer output to third-party toll manufacturers for processing into PV cells in 2006, 2007 and, 2008, respectively.

PV Cells

A PV cell is a device made from a polysilicon wafer that converts sunlight into electricity by a process known as the photovoltaic effect. The conversion efficiency of a PV cell is the ratio of electrical energy produced by the cell to the energy from sunlight that reaches the cell. The conversion efficiency of PV cells is determined to a large extent by the quality of wafers used to produce the PV cells, which is, in turn, determined by the mix of different types of polysilicon raw materials used in the ingot casting process. As a substantially vertically integrated PV product manufacturer, we have sought to optimize the ratio of expensive high-purity polysilicon to cheaper polysilicon scraps used in our feedstock mix so as to minimize production cost while we continue to improve our cell conversion efficiency rates. Our average conversion efficiency was 14.5%, 15.2% and 15.6% in 2006, 2007 and 2008, respectively. As of December 31, 2008, the average conversion efficiency for our multicrystalline PV cells was 15.8%, which we believe is within the range of industry standards.

We generally use all of our PV cells in the production of our PV modules.

PV Modules

A PV module is an assembly of PV cells that are electrically interconnected, laminated and framed in a durable and weatherproof package. Currently, most of our PV modules are made with PV cells produced by us. When we had used toll manufacturing arrangements, most of our PV modules produced by third-party PV cell manufacturers under toll manufacturing arrangements used polysilicon wafers produced by us, while the raw materials used by toll manufacturers were usually supplied by an outsourcing company in order to control output quality. A small portion of our PV modules is made with PV cells provided by third-party suppliers. Our PV modules are made with a frame design that we believe enhances their ability to withstand strong wind and vibrations. A majority of PV modules produced by us have outputs ranging from 150 to 230 watts. The following table sets forth the major types of modules produced by us:

Dimensions (mm x mm)	**Weight (Kilograms)**	**Maximum Power (Watts)**	**Optimum Operating Voltage (Volts)**
1310 x 990	15.8	150 185	23
1335 x 990	16.3	150 185	23
1650 x 990	19.8	200 230	29
1650 x 1030	20.1	200 230	29

Integrated PV Systems

A PV system consists of one or more PV modules that are physically mounted and electrically interconnected with system components such as batteries and power electronics, to produce and store electricity. We produce PV systems and also design, assemble, sell and install stand-alone PV systems for lighting systems, mobile communication base stations and residential applications. In order to focus on our core PV products and their components, we no longer produce controllers, inverters and other components used in our PV systems but instead source them from third-party manufacturers and sell them to our customers as part of our PV systems. We typically install these systems on-site for our customers. For our larger PV systems, we work with the customers on-site to design, install, test and oversee the system start-up. Installation, testing and initial start-up of a PV system generally takes up to four months.

Manufacturing

We started producing PV modules in 2002 and started producing polysilicon ingots and wafers in October 2003 and PV cells in March 2004. As of the date of this annual report, we have the capacity to produce up to 400 megawatts each of polysilicon ingots and wafers, PV cells and PV modules per year. We use our polysilicon wafers and PV cells as materials in the production of PV modules. Because our manufacturing capacity for polysilicon wafers had exceeded that for PV cells in the past, we had used toll manufacturing arrangements with third-party PV cell manufacturers to process the excess wafers into PV cells for us. We also purchased additional PV cells from third-party trading companies. As we have achieved the same level of manufacturing capacity for each of polysilicon wafers, PV cells and PV modules, we have terminated a majority of our toll manufacturing arrangements with third-party toll manufacturers. We expect to use toll manufacturing arrangements only in limited circumstances, such as to fill potential shortfalls in manufacturing capacity along the product chain until the disparity between our wafer manufacturing capacity and the PV cell manufacturing capacity is resolved.