

Canadian Solar Inc.  
Form 20-F  
May 29, 2007

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**Form 20-F**

(Mark One)

- REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**or**
- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the fiscal year ended December 31, 2006.**  
**or**
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the transition period from        to**  
**or**
- SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**Date of event requiring this shell company report**

**Commission file number: 001-33107**

**CANADIAN SOLAR INC.**

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

**N/A**

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

**Canada**

*(Jurisdiction of incorporation or organization)*

**Xin Zhuang Industry Park  
Changshu, Suzhou  
Jiangsu 215562  
People's Republic of China**

*(Address of principal executive offices)*

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

<b>Title of Each Class</b>	<b>Name of Each Exchange on Which Registered</b>
<b>Common shares with no par value</b>	<b>The NASDAQ Stock Market LLC</b>

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

*(Title of Class)*

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

*(Title of Class)*

Indicate the number of outstanding shares of each of the Issuer's classes of capital or common stock as of the close of the period covered by the annual report.

**27,270,000 common shares issued and outstanding,  
excluding 566,190 restricted shares, which were subject to restrictions on voting and dividend rights and  
transferability, as of December 31, 2006.**

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

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

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

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

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

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

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed

by a court. Yes  No

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**INTRODUCTION**

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

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

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

RMB and Renminbi are to the legal currency of China;

C\$ refers to the legal currency of Canada;

Euro or refers to the legal currency of the European Union; and

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

This annual report on Form 20-F includes our audited consolidated financial statements for the years ended December 31, 2004, 2005 and 2006 and as of December 31, 2005 and 2006.

All translations from Renminbi to U.S. dollars were made at the noon buying rate in The City of New York for cable transfers in Renminbi per U.S. dollar as certified for customs purposes by the Federal Reserve Bank of New York. Unless otherwise stated, the translation of Renminbi into U.S. dollar has been made at the noon buying rate in effect on December 29, 2006, which was RMB7.8041 to \$1.00. We make no representation that the Renminbi or dollar amounts referred to in this annual report on Form 20-F could have been or could be converted into dollars or Renminbi, as the case may be, at any particular rate or at all. See Item 3. Key Information D. Risk Factors Risk Related to Doing Business in China Fluctuation in the value of the Renminbi may have a material adverse effect on your investment. On May 25, 2007, the noon buying rate was RMB7.6527 to \$1.00.

In November 2006, we and certain selling shareholders of our company completed the initial public offering of 7,700,000 common shares and we listed our common shares on the Nasdaq Global Market of The NASDAQ Stock Market LLC, or the Nasdaq, under the symbol CSIQ.

**PART I**

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

Not Applicable.

**ITEM 2. *Offer Statistics and Expected Timetable***

Not Applicable.

**Table of Contents****ITEM 3. Key Information****A. Selected Financial Data*****Selected Consolidated Financial and Operating Data***

The following selected statement of operations data for the years ended December 31, 2004, 2005 and 2006 and the balance sheet data as of December 31, 2005 and 2006 have been derived from our audited consolidated financial statements, which have been audited by Deloitte Touche Tohmatsu CPA, Ltd., an independent registered public accounting firm. The report of Deloitte Touche Tohmatsu CPA, Ltd. on those financial statements is included elsewhere in this annual report on Form 20-F. You should read the selected consolidated financial data in conjunction with those financial statements and the related notes and Item 5. Operating and Financial Review and Prospects included elsewhere in this annual report on Form 20-F.

The audited financial statements are prepared and presented in accordance with U.S. GAAP. Our historical results do not necessarily indicate results expected for any future periods. Our selected consolidated statement of operations data for the year ended December 31, 2003 and our consolidated balance sheet data as of December 31, 2003 have been derived from our audited consolidated financial statements, which are not included in this annual report. Our selected consolidated statement of operations data for the year ended December 31, 2002 and our consolidated balance sheet data as of December 31, 2002 have been derived from our unaudited consolidated financial statements, which are not included in this annual report, but which have been prepared based on the same basis as our audited consolidated financial statements.

	<b>Year Ended December 31,</b>				
	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
	<b>(In thousands of US\$, except share and per share data, and operating data and percentages)</b>				
<b>Statement of operations data:</b>					
Net revenues	\$ 4,042	\$ 4,113	\$ 9,685	\$ 18,324	\$ 68,212
Cost of revenues <sup>(1)</sup>	2,628	2,372	6,465	11,211	55,872
Gross profit	1,414	1,741	3,220	7,113	12,340
Operating expenses <sup>(1)</sup>					
Selling expenses	81	39	269	158	2,909
General and administrative expenses	405	1,039	1,069	1,708	7,923
Research and development expenses <sup>(2)</sup>	7	20	41	16	398
Total operating expenses	493	1,098	1,379	1,882	11,230
Income from operations	921	643	1,841	5,231	1,110
Interest expenses				(239)	(2,194)
Interest income		1	11	21	363
Loss on change in fair value of derivatives related to convertible notes				(316)	(6,997)
				(263)	(1,190)

Loss on financial instruments related to convertible notes

Other net	( 3)	10	(32)	(25)	(90)
Income tax expense	(81)	(34)	(363)	(605)	(432)
Minority interests	(215)	(209)			



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	<b>Year Ended December 31,</b>				
	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
<b>(In thousands of US\$, except share and per share data, and operating data and percentages)</b>					
Income/(loss) before extraordinary gain	625	411	1,457	3,804	(9,430)
Extraordinary gain		350			
Net income/(loss)	\$ 625	\$ 761	\$ 1,457	\$ 3,804	\$ (9,430)
Earnings per share, basic and diluted					
Extraordinary gain	\$	\$ 0.02	\$	\$	\$
Net income (loss)	\$ 0.04	\$ 0.05	\$ 0.09	\$ 0.25	\$ (0.50)
Shares used in computation					
Basic and diluted	15,427,995	15,427,995	15,427,995	15,427,995	18,986,498
<b>Other financial data:</b>					
Gross margin	35.0%	42.3%	33.2%	38.8%	18.1%
Operating margin	22.8%	15.6%	19.0%	28.5%	1.6%
Net margin	15.5%	18.5%	15.0%	20.8%	(13.8)%
<b>Selected operating data:</b>					
Products sold (in MW)					
Standard solar modules			1.8	3.4	14.7
Specialty solar modules and products	0.7	0.7	0.4	0.7	0.2
Total	0.7	0.7	2.2	4.1	14.9
Average selling price (in \$ per watt)					
Standard solar modules			3.62	3.92	3.97
Specialty solar modules and products	\$ 5.36	\$ 5.70	\$ 5.23	\$ 5.13	\$ 5.89

(1) Share-based compensation expenses are included in our cost of revenues and operating costs and expenses. See Item 5A. Operating Results Overview of Financial Results Share-based Compensation Expenses.

(2) We also conduct research and development activities in connection with our implementation of solar power development projects. These expenditures are included in our cost of revenues. See Item 4. Information on the

(3) Less than one thousand.

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	2002	2003	As of December 31, 2004	2005	2006
	(In thousands of US\$)				
<b>Balance Sheet Data:</b>					
Cash and cash equivalents	\$ 596	\$ 1,879	\$ 2,059	\$ 6,280	\$ 40,911
Inventories	312	313	2,397	12,163	39,700
Accounts receivable, net	1,047	257	636	2,067	17,344
Advances to suppliers	3	81	370	4,740	13,484
Value added tax recoverable		142	22	815	2,281
Other current assets		76	95	163	2,398
Property, plant and equipment, net	291	244	453	932	7,910
Intangible assets					39
Prepaid-rental					1,103
Deferred tax assets (non-current)		31	15	65	3,639
Total assets	2,476	3,053	6,145	27,430	129,634
Short-term borrowings				1,300	3,311
Accounts payable	488	426	824	4,306	6,874
Advances from suppliers and customers	113	18	273	2,823	3,225