Solargiga Energy

Solargiga Energy Holdings Limited

陽光能源控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 757)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2007

RESULTS HIGHLIGHTS

– Revenue surged by 145.7% to RMB1,015.5 million
– Gross profit margin was 33.6% (excluding the one-off fair value adjustment of RMB18 million on inventories arisen from the acquisition of the Acquired Group)
– Profit attributable to equity shareholders rose by 166.5% to RMB292.2 million, exceeded the estimate set out in the listing Prospectus of the Company dated 17 March 2008 (the "Prospectus")
– Proposed final dividend per share of RMB5.2 cents (equivalent to approximately HK$5.8 cents)

ANNUAL RESULTS

The board of directors (the "Board") of Solargiga Energy Holdings Limited ("Solargiga" or "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2007, together with the comparative figures for 2006, as follows:

SELECTED CONSOLIDATED FINANCIAL INFORMATION PREPARED IN ACCORDANCE WITH THE HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS")

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2007

(Expressed in Renminbi)

	Note	**2007** RMB'000	2006 RMB'000
Turnover	3	**1,015,538**	413,303
Cost of sales		**(692,412)**	(244,240)
Gross profit		**323,126**	169,063
Other revenue	4	**81,583**	5,458
Other net loss		**(8,442)**	(1,185)
Selling and distribution expenses		**(4,432)**	(2,125)
Administrative expenses		**(47,162)**	(15,186)
Profit from operations		**344,673**	156,025
Finance costs		**(7,578)**	(3,875)
Profit before taxation	5	**337,095**	152,150
Income tax	6	**(20,606)**	(4,034)
Profit for the year		**316,489**	148,116
Attributable to:			
Equity shareholders of the Company		**292,241**	109,670
Minority interests		**24,248**	38,446
Profit for the year		**316,489**	148,116
Dividends:			
Final dividend proposed after the balance sheet date	7	**87,920**	113,658
Earnings per share (RMB cents)			
– Basic	8	**58.23**	21.85

CONSOLIDATED BALANCE SHEET

At 31 December 2007

(Expressed in Renminbi)

	Note	**2007** **RMB'000**	2006 RMB'000
Non-current assets			
Property, plant and equipment		175,379	115,258
Lease prepayments		48,486	7,772
Prepayments for acquisition of property, plant and equipment		53,092	10,715
Deferred tax assets		922	755
		277,879	134,500
Current assets			
Inventories		137,832	127,571
Trade and other receivables	9	187,066	85,152
Pledged deposits		120	5,508
Cash and cash equivalents		348,978	46,704
		673,996	264,935
Current liabilities			
Short-term bank loans		127,000	40,000
Trade and other payables	10	144,068	88,183
Current tax payable		18,453	1,102
		289,521	129,285
Net current assets		384,475	135,650
Total assets less current liabilities		662,354	270,150
Non-current liabilities			
Municipal government loan		2,890	2,785
Deferred income		26,747	12,559
		29,637	15,344
Net assets		632,717	254,806
Capital and reserves			
Paid-in/issued capital		279	74,858
Reserves		632,438	113,948
Total equity attributable to equity shareholders of the company		632,717	188,806
Minority interests		–	66,000
Total equity		632,717	254,806

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Group reorganisation

The Company was incorporated in the Cayman Islands on 7 March 2007 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

The Company and its subsidiaries are referred to as the "Group" in the consolidated financial statements. Pursuant to the reorganisation of the Group to rationalise the Group's structure in preparation for the public listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Reorganisation"), the Company became the holding company of the subsidiaries on 7 May 2007. The shares of the Company were listed on the Stock Exchange on 31 March 2008.

2. Basis of presentation

Except for Solar Technology Investment (Cayman) Corp. ("STIC") and its subsidiaries (hereinafter collectively referred to as the "Acquired Group"), which were acquired during the year ended 31 December 2007, other companies that took part in the Reorganisation and included in the financial statements were controlled by the same ultimate equity shareholder (referred to as "the controlling equity shareholder") before and after the Reorganisation. The control is not transitory and, consequently, there was a continuation of the risks and benefits to the controlling equity shareholder and, therefore, the Reorganisation is considered to be a business combination of entities under common control and Accounting Guideline 5 "Merger Accounting for Common Control Combinations" has been applied. The financial statements have been prepared using the merger basis of accounting as if the Group had always been in existence, except for the acquisition of the Acquired Group. The net assets of the combining companies are combined using the existing book values from the controlling equity shareholder's perspective.

The consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement of the Group include the results of operations of the Company and its subsidiaries (except for the Acquired Group) for the years ended 31 December 2006 and 2007 or since their respective dates of incorporation, whichever is a shorter period, as if the current group structure had been in existence throughout the two years presented. The consolidated balance sheet of the Group as at 31 December 2006 and 2007 has been prepared to present the combined assets and liabilities of the Group as at those dates.

The Group acquired the Acquired Group on 26 June 2007. The purchase method of accounting has been used to account for this acquisition.

3. Turnover

The principal activities of the Group are the trading of, manufacturing of and provision of processing services for polysilicon and solar silicon monocrystalline ingots/wafers.

Turnover represents the sales value of goods supplied to customers less value added tax and trade discounts and income from the provision of processing services. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2007 **RMB'000**	2006 RMB'000
Sales of polysilicon and solar silicon monocrystalline ingots/wafers	**905,975**	390,935
Processing service fees	**109,563**	22,368
	1,015,538	413,303

4. Other revenue

	2007 **RMB'000**	2006 RMB'000
Gain on acquisition of subsidiaries	**74,771**	–
Government grants	**3,437**	4,444
Insurance claims received	**1,109**	421
Interest income from bank deposits	**2,017**	593
Rental income from operating leases	**69**	–
Others	**180**	–
	81,583	5,458

5. Profit before taxation

Profit before taxation is arrived at after charging:

		2007 RMB'000	2006 RMB'000
(a)	Finance costs		
	Interest on bank loans and other borrowings wholly repayable within five years	**9,009**	3,675
	Interest on municipal government loan	**207**	200
	Total interest expense on financial liabilities not at fair value through profit or loss	**9,216**	3,875
	Less: interest expense capitalised into construction in progress*	**(1,638)**	–
		7,578	3,875

* The borrowing costs have been capitalised at a rate of 5.85% to 6.08% per annum.

		2007 RMB'000	2006 RMB'000
(b)	Staff costs		
	Contributions to retirement schemes	**1,758**	412
	Equity-settled share-based payment expenses	**10,054**	–
	Salaries, wages and other benefits	**28,430**	14,318
		40,242	14,730
(c)	Other items		
	Amortisation of lease prepayments	**287**	161
	Depreciation	**11,512**	7,289
	Research and development costs	**1,310**	–
	Write-off of trade receivables	**107**	–
	Operating lease charges – property	**1,122**	56
	Auditors' remuneration	**1,567**	111

6. Income tax in the consolidated income statement

Income tax in the consolidated income statement represents:

	2007 RMB'000	2006 RMB'000
Current tax – the PRC		
Provision for the year	**24,128**	4,653
Over-provision in respect of prior years	**(8)**	(62)
	24,120	4,591
Deferred tax		
Origination and reversal of temporary differences	**(3,514)**	(557)
	20,606	4,034

No provision for Hong Kong Profits Tax has been made as the Group did not have any assessable profits subject to Hong Kong Profits Tax during the year.

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.

Pursuant to the income tax rules and regulations of the PRC, the subsidiaries in the PRC are eligible for a 100% relief from PRC Enterprise Income Tax for two years from the first year they record assessable profits and, thereafter, they are subject to PRC Enterprise Income Tax at 50% of the applicable income tax rate for the following three years. The PRC subsidiaries of the Group are registered as production oriented enterprises in Shanghai and Jinzhou, Liaoning Province, both of which are coastal open areas of the PRC, and, therefore, enjoy a preferential PRC Enterprise Income Tax rate of 27% according to the income tax rules and regulations in the PRC.

7. Dividends

(a) Dividends attributable to the year

	2007 **RMB'000**	2006 RMB'000
Final dividend proposed after the balance sheet date of RMB5.2 cents (HK5.8 cents) per share by the Company	**87,920**	–
Final dividend proposed after the balance sheet date by certain subsidiaries of the Company	**–**	113,658
	87,920	113,658

Pursuant to the resolutions passed at the board of directors' meeting on 27 February 2007, dividends of RMB113,658,000 were declared by certain subsidiaries of the Company to their then shareholders.

The 2006 final dividend per share and the number of shares ranking for dividend are not presented above as such information is not meaningful having regard to the purpose of the consolidated financial statements.

The final dividend proposed after the balance sheet date has not been recognised as a liability on the balance sheet.

(b) Dividend attributable to the previous financial year, approved and paid during the year

	2007 **RMB'000**	2006 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year	**113,658**	47,569

8. Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to the ordinary equity shareholders of the Company of RMB292,241,000 (2006: RMB109,670,000) and the 501,874,333 ordinary shares of the Company in issue and issuable, comprising 2,874,333 ordinary shares in issue at 31 December 2007 and 499,000,000 ordinary shares to be issued to the shareholder of this 2,874,333 ordinary shares as if the shares were outstanding throughout 2006 and 2007.

(b) Diluted earnings per share

There were no dilutive potential ordinary shares in issue during the year ended 31 December 2006 and 2007.

9. Trade and other receivables

	The Group	
	2007	2006
	RMB'000	RMB'000
Trade receivables	**77,118**	68,339
Other receivables, prepayments and deposits	**109,233**	16,813
Amount due from a related party	**715**	–
Amounts due from subsidiaries	**–**	–
	187,066	85,152

The ageing analysis of trade receivables as of the balance sheet date is as follows:

	The Group	
	2007	2006
	RMB'000	RMB'000
Within 1 month	**41,861**	55,811
1 – 3 months	**18,977**	11,159
3 – 6 months	**13,753**	333
6 – 12 months	**826**	987
1 – 2 years	**1,701**	49
	77,118	68,339

The Group normally allows a credit period of 30 – 90 days to its customers.

10. Trade and other payables

	The Group	
	2007	2006
	RMB'000	RMB'000
Trade payables	**38,367**	58,381
Other payables and accrued expenses	**105,701**	9,752
Amount due to a subsidiary	**–**	–
Amounts due to related parties	**–**	20,000
Amount due to a director	**–**	50
	144,068	88,183

The ageing analysis of trade payables as of the balance sheet date is as follows:

	The Group	
	2007	2006
	RMB'000	RMB'000
Within 1 month	**24,627**	44,216
1 – 3 months	**9,584**	9,411
3 – 6 months	**1,858**	1,306
6 – 12 months	**1,164**	3,230
1 – 2 years	**1,134**	218
	38,367	58,381

11. Post balance sheet events

On 31 March 2008, the Company's shares were listed on the Main Board of the Stock Exchange of Hong Kong Limited following the completion of the public offer and placing of 253,600,000 shares as described in the Prospectus of the Company dated 17 March 2008.

MANAGEMENT DISCUSSION AND ANALYSIS

The Company was incorporated as an exempted company in the Cayman Islands with limited liability under Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 7 March 2007. Pursuant to the corporate reorganisation (the "Reorganisation") in preparation for the public listing of the Company's shares (the "Shares") on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the Group. On 26 June 2007, the Company acquired the entire issued share capital of Solar Technology Investment (Cayman) Corp. (together with its subsidiaries, the "Acquired Group") at an aggregate consideration of HK$167,895,494.4. Details of the Reorganisation and acquisition of the Acquired Group are set out in the Appendix VII of the Prospectus. The Shares were listed on the Stock Exchange on 31 March 2008.

As the acquisition of the Acquired Group was completed on 26 June 2007, the consolidated income statement data of the Group only includes the contribution of the Acquired Group for the period after the acquisition on 26 June 2007. On the other hand, the consolidated balance sheets items of the Group as at 31 December 2007 were consolidated with those of the Acquired Group.

Having benefited from the rapid growth of the global solar energy industry, the Group captured market opportunities by broadening its scope of business, expanding productivity, enhancing operations efficiency and strengthening internal management. As a result, the Group achieved remarkable performance in 2007 with substantial growth in turnover and net profit, which is in line with the profit estimate set out in the Prospectus for initial public offering in March 2008.

Business overview

The Group has secured its leading position among the manufacturers of solar monocrystalline silicon ingots and wafers in China. According to China Electronics Material Industry Association, the Group is China's second largest manufacturer of monocrystalline silicon ingots by production output and sales for three consecutive years from 2004 to 2006. Besides, the Group has also been widely recognized as a specialist in reclaiming and upgrading of polysilicon.

In addition, the Group has developed a value chain connecting global top suppliers, manufacturers of silicon as well as an extensive sales network, with strong and long-term relationship established with a number of leading solar energy players, such as Sharp, Sumitomo and Suntech. Some of these leading players are both suppliers and customers of the Group. As such, not only did the Group secure a strong international renowned customer base, but it also benefited from stable supply of raw materials. In this regard, the Group has maximized the benefits arising from such close relationship, taking the role as both customers and suppliers.

The Group integrates the advantages of high-skilled personnel and abundant low-cost labour from Mainland China with production technology and sales network of solar energy from Taiwan and Japan, allowing the Group to differentiate itself from its competitors.

Market overview and business strategies

The solar energy industry is entering a new era with immense potential. With increasing natural disasters caused by global warming, there are growing environmental concerns of cutting down carbon dioxide emission among countries and mankind. In addition to the escalating prices, conventional energy resources generated from fossil fuels such as coal, crude oil and natural gas are facing a number of challenges. All these facilitated the emergence of renewable energy as alternatives. Solar energy has become a preferred choice due to its infinity nature with wide applications and installation friendliness, meeting the increasing needs of clean and safe energy with high efficiency among mankind.

At present, many countries have proactively promoted the use and development of renewable energy by promulgating "Renewable Energy Law" and introducing incentive policies favourable to the development of solar energy industry. Such favourable conditions continue to support the rapid growth of the global solar energy industry.

According to the forecast made by Solarbuzz LLC 2007, the global solar PV industry by MW of installations and revenues from 2006 through 2011 is expected to reach 7,630 MW and US$31.5 billion respectively, rising at a CAGR of 34% and 24% respectively.

Germany, Japan and Spain are currently the major markets in the solar photovoltaic ("PV") industry. Going forward, with the implementation of California's Million Solar Roofs initiative and the increasing efforts in developing the solar PV industry in other parts of the country, the US is expected to increase the installation capacity to 7,000MW by 2020. As one of the largest energy consumers in the world, China continues to possess immense market opportunities while Korea and Australia are forecasted to be the emerging countries in the solar industry.

Furthermore, the Chinese government has strongly supported the development of renewable energy by promulgating the Renewable Energy Law of PRC in January 2006. This has accelerated the promotion of cleaner energy technologies effectively. The Chinese government has also encouraged the use of solar energy as a clean energy by implementing subsidy programmes and incentive schemes. According to a white paper entitled China's Energy Conditions and Policies issued by the State Council of China on 26 December 2007, China will actively develop renewable energy and increase the utilization of renewable energy with the target to reach 10% and 15% of overall energy consumption in 2010 and 2020 respectively.

As for the Japan market, the Group cooperated with another strategic shareholder Sumitomo, a leading player in the solar energy industry, to expand its business network. With Sumitomo being its distribution agent in Japan, the Group holds a positive outlook towards its future business growth in this market.

Major suppliers of polysilicon, a major raw material of the Group, are located in Europe, the US and Japan. Owing to the rapid growth of the solar energy industry, there is a serious shortage of polysilicon supply due to insufficient output, leading to escalating prices of this type of raw materials. Going forward, as the current polysilicon producing countries increases polysilicon output, along with new producers in China, Japan and Korea entering the market, the shortage is expected to be alleviated. The Group has already secured the supply of polysilicon in 2008. To ensure stable raw material supply in 2009 and further in the mid- to long-run, the Group plans to make investment in the upstream polysilicon sector. The strategic investor Space Energy Corp. in Japan offers the Group stable raw material supply for processing. Another strategic investor of the Group, Wafer Works, being the world's 7th largest silicon semi-conductor manufacturer, has entered into long-term cooperation agreement with two international acclaimed polysilicon suppliers to support the Group's rapid growth.

Leveraging on the Group's extensive sales network and solid foundation for production as well as sound reputation within the industry, the Group would benefit from the rapid growth of the global PV industry, aiming at becoming the world's leading player in the solar energy industry.

Capacity expansion to meet rising demand

To meet rising market demand, the Group expanded its production capacity during the year under review. The annual production capacity of the Group's Jinzhou plants increased from 800 tons of ingots and 9 million pieces of wafer in 2006 to 1,000 tons of ingots and 17 million pieces of wafers with light energy conversion capability of approximately 100MW, representing an increase of 25.0%, and 89.0% respectively over the previous year.

The Group's Jinzhou plants are equipped with integrated production facilities with upgrading facilities for raw materials, monocrystalline silicon ingot pullers and wiresaws. The Jinzhou plants mainly engage in the manufacturing of monocrystalline silicon ingots and wafers. Occasionally, at the request of customers, the Jinzhou plants also provide processing services in respect of polysilicon materials.

Advanced proprietary technical know-how on solar energy integrating expertise from China, Taiwan and Japan

Owing to its strong R&D capability, the Group has successfully secured orders from a number of major international customers in China, Japan and Europe. With the support of technical know-how from Shanghai Jingji Electron Material Co., Ltd. ("Shanghai Jingji"), which is a well-known expert in upgrading, recycling and processing of polysilicon the Group's materials, our silicon reclaiming ability has been strengthened. As such, cost of production has been reduced without sacrificing the high quality of products. Furthermore, strengthened reclaiming ability has secured sufficient supply of reclaimed polysilicon in order to support the Group's anticipated strong growth in the production of solar ingots and wafers.

Sales of Products

The Group generates its revenue from three broad categories:

(a) The trading and manufacturing of monocrystalline silicon ingots and wafers;

(b) The processing of solar ingots and wafers;

(c) The upgrading and trading of polysilicon.

During the year under review, revenue of the Group was primarily generated from trading and manufacturing of monocrystalline silicon ingots and wafers, accounting for 21.7% and 63.4% respectively of total revenue of the Group. Revenue from processing of solar ingots and wafers accounted for 8.3% and 1.0% respectively of total revenue of the Group. Revenue from upgrading and trading of polysilicon accounted for 1.5% and 4.1% respectively.

Research and development

Enhancement of R&D technology has been another key focus of the Group. During the year under review, the Group's research and development activities were principally directed towards the development and implementation of more advanced process technologies to reduce cost and achieve higher production efficiency. In particular, the Group reduced the amount of polysilicon required in its production of ingots and wafers while maintaining and improving the electricity conversion capability of its outputs.

During the year under review, the research and development team successfully introduced 20 inch hot zone for the production of ingots, which can in turn be used to produce 156 x 156 mm wafers. 156 x 156 mm wafers were previously produced by using 18-inch hot zone in a limited scale. Compared with 18 inch hot zone, 20 inch hot zone has a higher production capacity of 156 x 156 mm wafers. 156 x 156 mm wafers have been put into commercial production in 2007. In 2006, only 41,702 pieces of 156 x 156 mm wafers were sold. For year ended 31 December 2007, the Group sold over 330,000 pieces of 156 x 156 mm wafers, which are produced mainly with 20 inch hot zone.

FUTURE PLANS AND STRATEGIES

Going forward, the Group will continue to pursue high growth with a view to maintaining its position as China's second largest manufacturer of monocrystalline silicon ingots in terms of production output and sales and to become the world's leading player in the solar energy industry. To achieve this, the Group will further improve the quality of its solar ingots and wafers and strengthen its established, long-standing relationship with major solar energy players. The Group will adopt the following strategies for further business expansion:

Expand production capacity and increase market share in the monocrystalline silicon ingot and wafer markets in the world

Upon completion of the expansion plan Jinzhou Rixin, one of the Group's manufacturing bases, the Group has increased it production to reach 196 monocrystalline silicon ingot pullers and 24 wiresaws by the first half of 2008. This will increase the Group's annual output of silicon ingots to approximately 2,000 tonnes and increase the Group's annual output of wafers to approximately 48 million pieces. This production profile is expected to represent an annual light energy conversion capacity of over 200 MW. The Group's plan is to further double the number of ingot puller to 400 sets and the number of wiresaw sets to 80, increasing the capacity to 4,000 tons and 150 million pieces by the end of 2009.

In addition, the Group will form a solar wafer slicing company in Jinzhou, Jinzhou Jingji, which upon its commercial operation, will have an initial annual design production capacity of 8 million pieces of wafers and will be equipped with up to 13 wiresaws with the Group's initial investment by the end of 2008. The Group's production capacity may be further increased to 3,000 tonnes of ingots and 88 million pieces of wafers by the end of 2009 through the addition of further ingot pullers and wiresaws in Jinzhou Rixin.

Maintain technical know-how advantage to reduce manufacturing cost and improve quality

To maintain its competitiveness, the Group will continue to enhance its technical know-how advantage in ingot crystallization and wafer slicing and to keep the Group abreast of the latest technological advancement in the industry. In view of the shortage of high purity polysilicon, the Group has resorted to the use of scrap silicon as a source of raw material. As quality of scrap silicon varies, the key to quality production is the relevant technical know-how and the Group's silicon reclaiming and upgrading ability.

The Group will continue its efforts towards the development of commercial and cost-effective manufacturing process so as to reduce its manufacturing cost.

Maintain cost effective operations through the use of the upgraded and recycled polysilicon provided by the Group's own facility, diversify source of raw materials and secure additional long-term polysilicon raw material suppliers

With the acquisition of Shanghai Jingji to further enhance the Group's polysilicon upgrading and recycling technologies and facilities and raw material supply network, the Group expects to secure more supply of higher quality processed polysilicon raw materials, which can be used to increase the production of monocrystalline silicon ingots and wafers at existing manufacturing capacity.

During the course of 2007, the research and development team successfully introduced 20 inch hot zone for the production of ingots, which can in turn be used to produce 156 x 156 mm wafers. 156 x 156 mm wafers were previously produced by using 18-inch hot zone in a limited scale. It is expected that the research and development team will continue to focus on the research and development in respect of larger and thinner wafers.

FINANCIAL REVIEW

Comparison with Prospectus

In the Prospectus dated 17 March 2008, the Company estimated its consolidated net profit attributable to equity shareholders of the Company for the year 2007 to be not less than RMB290.0 million. The actual consolidated profit attributable to equity shareholders for the year, amounting to RMB292.2 million, was in line with that made in the Prospectus.

Turnover

The Group's turnover increased year-on-year by 145.7%, from RMB413.3 million in 2006 to RMB1,015.5 million in 2007. This increase was mainly driven by the full operations of the facilities of Jinzhou Yangguang Energy Co., Ltd. ("Jinzhou Yangguang") factory since-mid-2006 and the increase in the market price of monocrystalline silicon ingots. This led to the drastic growth of the following operations:

1. Strong sales of monocrystalline silicon ingots and wafers, which surged by 121.2% from RMB390.9 million to RMB864.7 million. This is attributable to both increases in sales volume and average selling prices. The volume of ingot sold increased from 123,924 kg in 2006 to 150,837 kg in 2007, while volume of wafers sold increased from 5.4 million pieces to 14.5 million pieces.

2. Increased revenue from processing service fees, which rose by 3.9 times, from RMB22.4 million in 2006 to RMB109.6 million in 2007. The volume of ingot processed increased from 39,432 kg to 424,920 kg while the volume of wafer processed increased from 907,442 pieces to 1,239,896 pieces.

Cost of sales

Cost of sales increased by RMB448.2 million, or 183.5%, from RMB244.2 million in 2006 to RMB692.4 million in 2007. The increase was in line with the substantial increase in turnover and reflected the increase in raw material price. As a percentage of total turnover, cost of sales increased from approximately 59.1% to 68.2%.

The increase in raw material costs was mainly due to shortage of polysilicon, which led to (i) an increase in price of the silicon raw material, as well as (ii) more intensive upgrading steps taken in order to make use of lower quality silicon in the ingot production process. Another reason for the increase was that there was RMB18.0 million fair value adjustments on the inventories of the Acquired Group upon the acquisition so the cost of sales of the Group increased by RMB18.0 million upon sales of those inventories.

As a result of the acquisition of production facilities from the Acquired Group in June 2007, and as additional monocrystalline silicon ingot and wafer production facilities began production since 2006, there was an increase in depreciation expenses. Staff cost also increased with the expansion of the Original Group's production, but remained stable as a percentage of total cost of sales.

Gross profit and gross profit margin

The gross profit of the Group increased by RMB154.0 million, or 91.1%, from RMB169.1 million for 2006 to RMB323.1 million for 2007 because of the substantial increase in the revenue as a result of the increased sale of monocrystalline silicon ingots and wafers. Gross profit margin declined from approximately 40.9% in 2006 to 31.8% for the year ended 31 December 2007. This was mainly because of the increase in raw material costs in 2007 and the increase in inventories by approximately RMB18.0 million, resulting from the fair value adjustment on the acquisition of the Acquired Group. Excluding this individually significant non-recurring impact, the gross profit margin for the year ended 31 December 2007 would be 33.6%.

Other revenue

Other revenue mainly comprised of gain on acquisition of the Acquired Group amounting to RMB74.8 million in 2007, government grants and interest income from bank deposits. Gain on acquisition of the Acquired Group was the difference between fair value of net assets of the Acquired Group at the acquisition date and the acquisition consideration.

Other net loss

Other net loss mainly comprised of net foreign exchange loss amounting to RMB8.4 million or 1.3% of foreign sales. The loss arose from the appreciation in RMB, the reporting currency, during the time gap between the transaction date and the settlement date, and the fact that the Group's foreign sales amount was larger than its foreign purchases.

Selling and distribution expenses

Selling and distribution expenses comprised mainly of packaging expenses, freight charges and insurance expenses. There was an increase of 108.6%, from RMB2,125,000 for 2006 to RMB4,432,000 for 2007, accounting for less than 0.5% of the Group's total turnover. It was in line with the increase in turnover.

Administrative expenses

Administrative expenses comprised mainly of staff costs and bonuses. As a result of Jinzhou Yangguang commencing full operation in mid-2006 and the recruitment of senior management to manage the expanded business after the acquisition of the Acquired Group, staff costs and related expenses increased accordingly. In line with the increase in turnover, it increased by 210.6% from RMB15.2 million for 2006 to RMB47.2 million for 2007 and accounted for 4.6% of the Group's turnover.

Finance costs

The Group's finance costs increased by RMB3.7 million, or 95.6%, from RMB3.9 million for 2006 to RMB7.6 million for 2007. Finance costs represented mainly interest on bank loans and other borrowings wholly repayable within five years and interests on municipal government loan. The reason for the increase in finance costs was due to increase in borrowings to finance operation expansion and the acquisition of the Acquired Group. However, with the increase in turnover, the percentage ratio of finance costs to total turnover reduced from approximately 0.9% to 0.7%.

Income tax

Income tax increased by RMB16.6 million or 410.8% from RMB4.0 million for 2006 to RMB20.6 million for 2007 as the profit before taxation of the Original Group increased from RMB152.2 million in 2006 to RMB337.1 million in 2007. The effective income tax rate increased from 2.7% for 2006 to 6.1% for 2007, mainly because Shanghai Jingji's income tax rate of 27% is higher than those of the companies comprising the Jinzhou Plants, which have income tax rates ranging from zero to 13.5%. Such effect was partially offset by the non-taxable gain on acquisition of the Acquired Group.

Profit before taxation and profit for the year

The Group's profit from operations increased by RMB188.6 million, or 120.9%, from RMB156.0 million for 2006 to RMB344.7 million for 2007 as a result of the increase in gross profit, the relatively stable and low operating expenses and gain on acquisition of the Acquired Group. Profits from operations represented 37.8% and 33.9% of the total turnover of the Group for 2006 and 2007, respectively.

Profit before taxation increased from RMB152.2 million 2006 to RMB337.1 million for 2007, representing an increase of 121.6%. A substantial portion of such increase was attributable to the gain on acquisition of the Acquired Group and the increase in profit of Jinzhou Yangguang. Profit before taxation as a percentage of total turnover decreased from 36.8% for 2006 to 33.2% for 2007.

Profit for the year increased by RMB168.4 million, or 113.7%, from RMB148.1 million for 2006 to RMB316.5 million for 2007. Profit for the year represented 35.8% and 31.2% of the total turnover for 2006 and 2007, respectively. This increase in profit for the year was mainly due to the increase in profit before taxation and the tax concession effect of Jinzhou Yangguang as well as the gain on acquisition of the Acquired Group.

Liquidity and financial resources

As at 31 December 2007, the Group showed a current ratio of 2.33 and a net cash position. It represented a healthy financial position for future development.

Improving current ratio

The current ratio being current assets over current liabilities, increased from 2.05 as at 31 December 2006 to 2.33 as at 31 December 2007.

Net cash position

The Group was at a net cash position at 31 December 2007 with cash and cash equivalents of RMB349.0 million and outstanding borrowings of RMB129.9 million. Both cash and cash equivalents as well as borrowings were denominated in RMB.

Borrowings and bank facilities

The outstanding borrowings comprised short-term bank loans of RMB127.0 million and a long-term municipal government loan of RMB2.9 million with effective interest rates of 6.71% and 7.44% respectively. As at 31 December 2007, the Group had total banking facilities of RMB752.0 million and utilised banking facilities amounted to RMB127.0 million. Deposits of RMB120,000 were pledged as security for issuance of letters of credit.

Foreign currency risk

The Group is exposed to foreign currency risk primarily through sales and purchases that are denominated in a currency other than Renminbi, the functional currency of the operations to which they relate. The currencies giving rise to this risk to the Group are primarily US dollars and JPY and those to the Acquired Group are primarily US dollars and Euro. The Directors do not expect any significant impact from the exchange rate movement since the Group uses foreign currencies collected from customers to settle the amount in foreign currencies due to suppliers.

In addition, the Directors ensure that the net exposure is kept to an acceptable level by buying or selling US dollars and JPY or Euro at spot rates where necessary to address short-term imbalances.

Use of net proceeds from the Company's initial public offering

The Company was listed on the Stock Exchange on 31 March 2008. The net proceeds from the Company's issue of new shares (after deducting underwriting commission and related expenses) amounted to approximately HK$670.7 million, which are intended to be applied in accordance with the proposed application set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus. The net proceeds have been temporarily placed in deposits with a licenced bank in Hong Kong.

Contingent liabilities

As at 31 December 2007, there was no material contingent liabilities.

Dividend

The Board has proposed a final dividend per share of RMB5.2 cents (equivalent to approximately HK$5.8 cents).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 17 May 2008 to 21 May 2008, both days inclusive, during which period no transfer of shares will be effected. In order to be eligible to attend and vote at the forthcoming annual general meeting of the Company, all transfers accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 16 May 2008.

CORPORATE GOVERNANCE

Despite the fact that the Group was a private company in the year under review, the Board of Directors (the "Board") strived to uphold good corporate governance and adopt sound corporate governance practices. Since the Company was only listed on the Stock Exchange on 31 March 2008, the Code on Corporate Governance (the "Code") Practices contained in Appendix 14 of the Rules Governing the Listing of securities on the Stock Exchange ("Listing Rules") was not applicable to the Company for the period under review. Details of the Company's corporate governance practices can be found in the Corporate Governance Report set out in the Company's annual report for the year ended 31 December 2007.

Model Code for Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as the standard for securities transactions by Directors. The Company has made enquiries of all the Directors and all the Directors confirmed that they have complied with the required standards since the Company's listing on 31 March 2008.

Audit Committee

The Company established an audit committee pursuant to a resolution of the Directors passed on 27 February 2008 in compliance with Rule 3.21 and appendix 14 of the Listing Rules. The primary duties of the audit committee are to oversee the financial reporting process and internal control procedure of the Group, to review the financial information of the Group and to consider issues relating to the external auditors. The audit committee consists of five non-executive Directors (including the four independent non-executive Directors and Mr. CHONG Kin Ngai, a non-executive Director) and Mr. WONG Wing Kuen Albert, an independent non-executive Director, is the Chairman of the audit committee.

The audit committee has reviewed the accounting principles adopted by the Group and the consolidated financial statements of the Group for the year ended 31 December 2007, including the accounting principles and practices adopted by the Group, in conjunction with the Company's external auditors.

Purchase, sale or redemption of the Company's Listed securities

Share of the Company were listed on 31 March 2008 and the Group and its subsidiaries did not purchase, sell or redeem any listed securities of the Company during the year under review.

Publication of Results Announcement

This annual results announcement is available for viewing on the websites of The Stock Exchange of Hong Kong Limited at http://www.hkexnews.hk and the Company's website at www.solargiga.com

Definitions

"Director(s)"	the director(s) of the Company
"Enlarged Group"	the Group as enlarged by the Acquired Group after completion of the acquisition of Solartech on 26 June 2007
"Jinzhou Huachang"	錦州華昌硅材料有限公司 (Jinzhou Huachang Silicon Materials Co., Ltd.*), a wholly foreign owned enterprise established in the PRC with limited liability on 11 June 2002 and an indirect wholly-owned subsidiary of the Company, is mainly engaged in the manufacturing and sales of silicon related products
"Jinzhou Huari"	錦州華日硅材料有限公司 (Jinzhou Huari Silicon Materials Co., Ltd.*), a wholly foreign owned enterprise established in the PRC with limited liability on 1 March 2004 and an indirect wholly-owned subsidiary of the Company, is engaged in the manufacturing and sales of silicon related products
"Jinzhou Jingji"	錦州晶技太陽能科技有限公司 (Jinzhou Jingji Solar Energy Technology Co., Ltd.*), a subsidiary of Shanghai Jingji established in the PRC on 19 December 2007
"Jinzhou Plants"	Jinzhou Xinri, Jinzhou Huachang, Jinzhou Huari, Jingzhou Yangguang and Jinzhou Youhua
"Jinzhou Rixin"	錦州日鑫硅材料有限公司 (Jinzhou Rixin Silicon Material Co., Ltd.*), a wholly-owned domestic company established in the PRC with limited liability by Jinzhou Huachang on 9 May 2007 and an indirect wholly-owned subsidiary of the Company, is mainly engaged in the manufacturing and sales of silicon related products
"Jinzhou Xinri"	錦州新日硅材料有限公司 (Jinzhou Xinri Silicon Materials Co., Ltd.*), a wholly foreign owned enterprise established in the PRC with limited liability on 18 September 2000 and an indirect wholly-owned subsidiary of the Company, is mainly engaged in the manufacturing and sales of silicon related products
"Jinzhou Yangguang"	錦州陽光能源有限公司 (Jinzhou Yangguang Energy Co., Ltd.*), a wholly foreign owned enterprise established in the PRC with limited liability on 15 December 2004 and an indirect wholly-owned subsidiary of the Company, is mainly engaged in the manufacturing and sales of silicon related products and wafers

"Jinzhou Youhua"	錦州佑華新能源有限公司 (Jinzhou Youhua New Energy Co., Ltd.*), a wholly foreign owned enterprise established in the PRC with limited liability on 25 March 2005 and an indirect wholly -owned subsidiary of the Company, is mainly engaged in the manufacturing and sales of silicon related products
"Shanghai Jingji"	上海晶技電子材料有限公司(Shanghai Jingji Electron Material Co., Ltd.*), a Sino-foreign cooperative joint venture established in the PRC with limited liability on 16 March 1998 and a wholly-owned subsidiary of the Company, is mainly engaged in upgranding of polysilicon raw materials and manufacturing and sales of silicon related products
"Solartech"	Solar Technology Investment (Cayman) Corp., a company incorporated under the laws of the Cayman Islands with limited liability on 15 December 2006 and a wholly-owned subsidiary of the Company, engaged in investment holding
"subsidiary"	has the meaning ascribed thereto in section 2 of the Companies Ordinance
"Sumitomo"	Sumitomo Corporation, a company incorporated in Japan on 24 December 1919 and whose ultimate beneficial owners are Independent Third Parties, is engaged in diverse business activities including but not limited to various domestic and overseas transactions, import and export of a wide range of goods and commodities, the provision of services and investing in areas including but not limited to metals, transportation and construction systems, machinery and electric, media, electronics and network, chemicals, mineral resources and energy, consumer goods and services, materials and real estate, financial and logistics, and will hold approximately 1.13% of the issued share capital of the Company upon Listing (assuming the Over-allotment Option is not exercised)
"TIL"	Tayaneng Investments Limited, a company incorporated on 15 August 2006 with limited liability and a wholly-owned subsidiary of the Company, is engaged in investment holding

On behalf of the Board
CHIAO Ping Hai
Chairman

Hong Kong, 24 April 2008

As at the date of this announcement, the executive directors of the Company are Mr. TAN Wenhua, Mr. HSU You Yuan, Ms. ZHANG Liming; Non-executive Directors are Mr. CHIAO Ping Hai (chairman), Mr. CHONG Kin Ngai and Independent Non-executive Directors are Mr. WONG Wing Kuen, Albert, Ms. FU Shuangye, Dr. LIN Wen and Mr. ZHANG Chun.