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 INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2011

FINANCIAL HIGHLIGHTS

– Turnover for the period under review increased by 60.0% to RMB1,274.146 million (corresponding period in 2010: RMB796.411 million).

– Gross profit for the period under review was RMB287.261 million (corresponding period in 2010: RMB95.247 million).

– Net profit attributable to the equity shareholders of the Company for the period under review was RMB112.792 million (corresponding period in 2010: RMB41.164 million)

– Basic earnings per share was RMB5.17 cents (corresponding period in 2010: RMB2.28 cents)

– The board of Directors of the Company does not recommend the payment of an interim dividend for the six months ended 30 June 2011(corresponding period in 2010: Nil).

INTERIM RESULTS

The directors (the "Directors") of Solargiga Energy Holdings Limited (the "Company") present herewith the unaudited consolidated interim financial results (the "Interim Results") of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2011, together with the comparative figures for the corresponding period in 2010. The Interim Results are unaudited, but have been reviewed by the Company's auditors, KPMG (the "Auditors") in accordance with Hong Kong Standards on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The Auditors' report on their review of the Interim Results of the Group will be included in the interim report to be sent to shareholders of the Company. The Interim Results have also been reviewed by the Company's audit committee.

UNAUDITED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2011

		Six months ended 30 June	
		2011	2010
	Note	***RMB'000***	*RMB'000*
Turnover		**1,274,146**	796,411
Cost of sales		**(986,885)**	(701,164)
Gross profit		**287,261**	95,247
Other revenue	*4*	**12,918**	12,310
Other net income	*5*	**4,935**	115
Selling and distribution expenses		**(7,968)**	(4,252)
Administrative expenses		**(137,781)**	(42,504)
Profit from operations		**159,365**	60,916
Share of loss of an associate		**(19)**	–
Finance costs	*6(a)*	**(19,114)**	(8,365)
Profit before taxation	*6*	**140,232**	52,551
Income tax	*7*	**(26,899)**	(12,006)
Profit for the period		**113,333**	40,545
Attributable to:			
Equity shareholders of the Company		**112,792**	41,164
Non-controlling interests		**541**	(619)
Profit for the period		**113,333**	40,545
Earnings per share *(RMB cents)*			
– Basic and diluted	*9*	**5.17**	2.28

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2011

	Six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
Profit for the period	**113,333**	40,545
Other comprehensive income for the period:		
Exchange differences on translation of financial statements of subsidiaries outside of the People's Republic of China ("PRC")	**(6,409)**	(1,395)
Total comprehensive income for the period	**106,924**	39,150
Attributable to:		
Equity shareholders of the Company	**106,383**	39,769
Non-controlling interests	**541**	(619)
Total comprehensive income for the period	**106,924**	39,150

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 30 June 2011

	Note	30 June 2011 RMB'000	31 December 2010 RMB'000
Non-current assets			
Property, plant and equipment		**1,710,098**	1,197,049
Intangible assets		**241,379**	–
Goodwill		**208,237**	–
Prepayments for acquisition of property, plant and equipment		**41,748**	49,063
Lease prepayments		**89,257**	68,400
Prepayments for raw materials		**427,841**	146,915
Interest in an associate		**73,981**	37,000
Deferred tax assets		**12,220**	4,250
		2,804,761	1,502,677
Current assets			
Inventories		**724,925**	378,287
Trade and other receivables	*10*	**740,385**	628,412
Current tax recoverable		**28,763**	–
Pledged deposits		**135,808**	74,113
Cash at bank and in hand		**679,355**	459,734
		2,309,236	1,540,546
Current liabilities			
Trade and other payables	*11*	**661,855**	463,322
Bank loans		**942,374**	648,011
Current tax payable		**379**	2,243
		1,604,608	1,113,576
Net current assets		**704,628**	426,970
Total assets less current liabilities		**3,509,389**	1,929,647
Non-current liabilities			
Municipal government loan		**3,203**	3,095
Bank loans		**870,926**	85,000
Deferred income		**211,281**	172,905
Deferred tax liabilities		**77,419**	21,547
Other non-current liabilities		**4,868**	1,385
		1,167,697	283,932
NET ASSETS		**2,341,692**	1,645,715
CAPITAL AND RESERVES			
Share capital		**198,585**	162,458
Reserves		**2,081,579**	1,444,320
Total equity attributable to equity shareholders of the Company		**2,280,164**	1,606,778
Non-controlling interests		**61,528**	38,937
TOTAL EQUITY		**2,341,692**	1,645,715

NOTES TO INTERIM FINANCIAL INFORMATION

1. BASIS OF PREPARATION

This interim financial information has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), including compliance with Hong Kong Accounting Standard ("HKAS") 34, Interim financial reporting, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The interim financial information has been prepared in accordance with the same accounting policies adopted in the 2010 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2011 annual financial statements. Details of these changes in accounting policies are set out in note 2.

2. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of amendments to Hong Kong Financial Reporting Standards ("HKFRSs") and one new Interpretation that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

– HKAS 24 (revised 2009), Related party disclosures

– Improvements to HKFRSs (2010)

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

These developments reflected primarily to clarification of certain disclosure requirements applicable to the Group's financial statements. These developments have had no material impact on the contents of this interim financial information.

3. SEGMENT REPORTING

For the six months ended 30 June 2010, the Group had only one operating segment, which was the manufacturing of, trading of and provision of processing services for polysilicon and monocrystalline and multicrystalline silicon solar ingots/wafers/modules. The composition of the operating segments was changed in the current period as a result of the significant growth of the manufacturing of and trading of photovoltaic modules and installation of photovoltaic systems business, as well as the newly acquired business in 2011. The change in the composition of the operating segments has resulted in a change in the internal reporting information reviewed by the Group's most senior executive management.

In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resources allocation and performance assessment, the Group has identified three reportable segments: (i) the manufacturing of, trading of and provision of processing services for polysilicon and monocrystalline and multicrystalline silicon solar ingots/wafers ("Segment A"); (ii) the manufacturing of and trading of photovoltaic modules and installation of photovoltaic systems ("Segment B"); and (iii) the manufacturing and trading of monocrystalline silicon solar cells ("Segment C"). Segment C became a reportable segment in 2011 after the acquisition of the Sino Light Investments Limited ("Sino Light") and its subsidiaries (collectively referred to as the "Sino Light Group"). No operating segments have been aggregated to form these reportable segments. Comparative figures have been provided on a basis consistent with the current period segment analysis.

(a) **Segment results and assets**

For the purpose of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results and assets attributable to the reportable segments which are presented in the same way in the Group's reportable segments are disclosed as follows:

The segment results for the six months ended 30 June 2011 are as follows:

	Six months ended 30 June 2011			
	Segment A	**Segment B**	**Segment C**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Revenue from external customers	**890,416**	**157,360**	**226,370**	**1,274,146**
Inter-segment revenue	**444,559**	**–**	**425,945**	**870,504**
Reportable segment revenue	**1,334,975**	**157,360**	**652,315**	**2,144,650**
Reportable segment profit	**79,076**	**1,287**	**40,515**	**120,878**
Elimination of inter-segment loss/(profit)	**3,218**	**–**	**(10,763)**	**(7,545)**
Profit for the period	**82,294**	**1,287**	**29,752**	**113,333**

The segment assets as at 30 June 2011 are as follows:

	30 June 2011			
	Segment A	**Segment B**	**Segment C**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Reportable segment assets (including investment in an associate)	**4,143,611**	**298,513**	**671,873**	**5,113,997**

The segment results for the six months ended 30 June 2010 are as follows:

	Six months ended 30 June 2010			
	Segment A	Segment B	Segment C	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue from external customers	720,405	76,006	–	796,411
Inter-segment revenue	–	–	–	–
Reportable segment revenue	720,405	76,006	–	796,411
Reportable segment profit/(loss)	42,597	(2,052)	–	40,545
Elimination of inter-segment profit	–	–	–	–
Profit/(loss) for the period	42,597	(2,052)	–	40,545

The segment assets as at 31 December 2010 are as follows:

	31 December 2010			
	Segment A	Segment B	Segment C	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Reportable segment assets				
(including interest in an associate)	2,959,990	83,233	–	3,043,223

(b) Geographic information

The following table sets out information about the geographical location of the Group's revenue from external customers. The geographical location of a customer is based on the location at which the goods were delivered or the services were provided.

	Six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
The PRC (place of domicile)	**439,336**	505,072
Export sales		
– United Kingdom	**246,466**	–
– The United States of America	**219,542**	212,613
– Japan	**193,562**	72,793
– Germany	**141,322**	1,646
– Taiwan	**20,651**	875
– Canada	**7,138**	2,959
– Spain	**6,129**	–
– Other countries	**–**	453
Sub–total	**834,810**	291,339
Total	**1,274,146**	796,411

4. OTHER REVENUE

	Six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
Government grants	**7,399**	4,547
Interest income from bank deposits	**1,999**	1,104
Insurance claims received	**1,413**	795
Income from sale of scrap materials	**1,094**	4,993
Rental income from operating leases	**864**	864
Others	**149**	7
	12,918	12,310

5. OTHER NET INCOME

	Six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
Net foreign exchange gain	**4,935**	113
Others	**–**	2
	4,935	115

6. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	Six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
(a) Finance costs		
Interest on bank loans wholly repayable within five years	**34,167**	9,145
Interest on municipal government loan	**108**	116
Total interest expense on financial liabilities not at fair value through profit or loss	**34,275**	9,261
Less: interest expense capitalised into property, plant and equipment	**(15,161)**	(896)
	19,114	8,365
(b) Other items		
Amortisation of intangible assets	**13,490**	–
Amortisation of lease prepayments	**1,028**	692
Depreciation	**60,015**	25,001
Operating lease charges	**646**	722
Research and development costs	**68,210**	8,551
Write-down of inventories	**26,665**	–

7. INCOME TAX

Income tax in the consolidated income statement represents:

	Six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
Current tax – the PRC		
Provision for the period	**31,914**	3,192
Deferred tax		
Origination and reversal of temporary differences	**(5,015)**	8,814
Income tax expense	**26,899**	12,006

No provision for Hong Kong Profits Tax has been made as the subsidiaries of the Group either did not have any assessable profits subject to Hong Kong Profits Tax or have accumulated tax losses brought forward from previous years to offset the estimated assessable profits for the period.

Except for Jinzhou Yangguang Energy Co., Ltd. which is entitled to preferential Corporate Income Tax ("CIT") rate of 15% as it was granted by the Taihe District State Tax Bureau the status of a "High and New Technology Enterprise", and Jinzhou Huachang Photovoltaic Technology Company Limited which is entitled to a preferential CIT rate of 12.5%, the provision for CIT is calculated based on a statutory rate of 25% of the assessable profits of the subsidiaries in the PRC as determined in accordance with the relevant income tax rules and regulations of the PRC.

Under the CIT Law of the PRC and its relevant regulations, dividends receivable by non-PRC corporate residents from PRC enterprises are subject to withholding tax at a rate of 10% or 5% for earnings accumulated beginning on 1 January 2008. Accordingly, a provision for withholding tax in respect of certain undistributed profits from the PRC subsidiaries has been made and included in the deferred tax liabilities as at 30 June 2011 and 31 December 2010.

8. DIVIDENDS

(a) Dividends attributable to the period

The Directors do not recommend the payment of a dividend in respect of the six months ended 30 June 2011 (six months ended 30 June 2010: Nil).

(b) Dividends attributable to the previous financial year

	Six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
Final dividend of RMB3.5 cents (HK$4.1 cents per share (2010: Nil)) in respect of the previous financial year approved during the period	**78,476**	–

For the final dividend in respect of the previous financial year, the difference of RMB15,225,000 between the final dividend of RMB63,251,000 proposed in the 2010 annual report and amount approved during the period of RMB78,476,000 represents dividends attributable to new shares issued upon the conversion of convertible bonds before the closing date of the register of members.

9. 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 RMB112,792,000 (six months ended 30 June 2010: RMB41,164,000) and the weighted average of 2,182,087,552 ordinary shares (six months ended 30 June 2010: 1,807,170,425 ordinary shares) of the Company in issue during the period as calculated in note 9(b).

(b) Weighted average number of ordinary shares

	Number of ordinary shares	
	2011	2010
Issued ordinary shares at 1 January	**1,807,170,425**	1,807,170,425
Effect of convertible bonds	**374,917,127**	–
Weighted average number of ordinary shares	**2,182,087,552**	1,807,170,425

(c) Diluted earnings per share

There were no dilutive potential ordinary shares in issue during the six months ended 30 June 2011 and 2010.

10. TRADE AND OTHER RECEIVABLES

	30 June 2011 ***RMB'000***	31 December 2010 *RMB'000*
Trade debtors and bills receivable	**360,362**	167,255
Prepayments for raw materials – current portion	**112,786**	151,288
Deposits and other receivables	**267,237**	309,869
	740,385	628,412

All of the trade and other receivables are expected to be recovered or recognised as expense within one year.

The ageing analysis of trade debtors and bills receivable (net of allowance for doubtful debts) based on invoice date is as follows:

	30 June 2011 ***RMB'000***	31 December 2010 *RMB'000*
Within 1 month	**187,937**	144,740
1 to 3 months	**162,573**	15,660
6 to 12 months	**9,852**	6,855
	360,362	167,255

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

The ageing analysis of trade debtors and bills receivable that are neither individually nor collectively considered to be impaired are as follows:

	30 June 2011 *RMB'000*	31 December 2010 *RMB'000*
Neither past due nor impaired	**328,153**	145,225
Less than 1 month past due	**22,357**	15,660
1 to 3 months past due	**–**	6,370
3 to 6 months past due	**9,852**	–
	32,209	22,030
	360,362	167,255

11. TRADE AND OTHER PAYABLES

	30 June 2011 *RMB'000*	31 December 2010 *RMB'000*
Trade payables	**165,485**	175,919
Bills payable	**210,000**	124,200
Dividends payable	**78,476**	–
Other payables and accrued expenses	**207,894**	163,203
	661,855	463,322

Except for the retention money relating to construction projects totalling RMB17,792,000 (31 December 2010: RMB2,425,000), all of the trade and other payables are expected to be settled within one year.

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

	30 June 2011 *RMB'000*	31 December 2010 *RMB'000*
Within 1 month	**297,509**	196,188
1 to 3 months	**44,613**	23,708
3 to 6 months	**13,303**	69,220
6 to 12 months	**3,036**	1,787
1 to 2 years	**17,024**	9,216
	375,485	300,119

MANAGEMENT DISCUSSION AND ANALYSIS

Market Overview

After rapid growth in 2010, the global market demand for solar energy has slowed down since the second quarter of this year. Albeit energy conservation and emissions reduction as well as the development of clean energy are still regarded as crucial concerns among various countries around the world, numerous governments, particularly those of European countries, have gradually minimised their subsidies to the solar energy industry, resulting in an overall reduction of prices. The gross margins of the industry, however, remain stable due to the decrease in costs, including the costs of raw materials and equipment. Such price adjustment have also helped the solar energy industry to gradually achieve grid parity, which will be beneficial to the widespread use of solar energy and the consolidation of the industry, thereby leading to sustainable development.

The solar energy industry in the United States has still experienced rapid development despite economic uncertainties. According to the statistics from the Solar Energy Industries Association, solar energy remains one of the fastest growing industries in the United States. Capitalising on the market demand and the reduction of costs for solar energy equipment and related factors, during the first quarter in 2011, the United States has added an installed capacity of 252MW to its power grids, representing a growth of 66% over the corresponding period in 2010 and, in aggregate, enabling an installed capacity for solar power generation within its power grid of over 2.85GW, which is sufficient for the provision of electricity for nearly 600,000 families. Although Section 1603 of the American Recovery and Reinvestment Act, should has been expired at the end of 2010, it has been extended to the end of 2011, demonstrating full support from the government of the United States to the development of the domestic solar energy industry, which in turn has motivated the development of the global solar energy industry.

As for the European markets, which are led by Germany and Italy, the feed-in tariff to the solar energy industry has been gradually reduced. Among those markets, Germany, being the world's largest solar energy market, is expected to further reduce the feed-in tariff as its market grows. According to a report prepared by the European Photovoltaic Industry Association, Europe is still playing a dominant role in the global photovoltaic markets with its 30GW installed capacity, which represents 75% of the total installed capacity of solar energy around the world. The solar photovoltaic industry in Europe is actively preparing to conduct industry-related research and development with a fund of EUR1.235 billion in the next three years. Members of the European Union have also undertaken that they will devote full support to the development of the solar energy industry, anticipating that the photovoltaic technologies, with the backup of the relevant capital, will contribute 12% of the power supply to the European Union by 2020.

Renewable energy in China continues its rapid development. After the nuclear plant crisis in Japan, countries around the world, including China, have re-examined their development plans for renewable energy. Since last year the Chinese government has launched a series of policies relating to solar energy, including a large-scale open tender for 13 solar power plants in the northwestern and Inner Mongolian regions in China, an allocation of RMB50 billion for the funding and support of energy conservation and emission reduction industries, which has resulted in China being ranked as one of the ten top photovoltaic markets in the world. At the National People's Congress held earlier this year, the Chinese government reiterated the strategic importance of renewable energies under the "Twelfth Five-Year Plan" and announced its plan to complete an additional installed capacity of 5GW before the end of the "Twelfth Five-Year Plan". It is expected that China will have a new installed capacity of 750MW to 1GW within this year, enabling the installed capacity of China to reach its first ever GW by 2011.

Operation Review

Actively expand overall capacity to strengthen market position

During the period under review, the economy of China has remained stable. However, the solar energy market has become more volatile in comparison to the previous year and there has been adjustment to demand, resulting in an overall drop in the prices of solar energy products. Prices within the industry have recorded a relatively significant decrease since April 2011, and have only until June commenced to regain stability. Despite the market fluctuation, the Group has continued to secure orders from customers by virtue of its quality products and technologies. Therefore, the Group has adhered to its expansion plan, capitalised on its advantages and further uplifted its production capacity in order to meet the huge amount of product shipment. As part of the plan, the Qinghai Plant (青海廠房) was completed at the end of August and expected to gradually commence operations shortly thereafter, which will help the Group further consolidate its leading position in the market of the monocrystalline business.

As at 30 June 2011, the Group was equipped with 397 monocrystalline ingot pullers, 83 wiresaws, four multicrystalline casting furnaces, eight production lines for solar cells and four production lines for the parts of photovoltaic modules, with a production capacity for silicon solar ingots, silicon solar wafers, solar cells and photovoltaic modules amounting to 800MW, 600MW, 300MW and 100MW, respectively.

Notwithstanding the adjustment to the market demand for solar products, during the period under review, the Group has endeavoured to maintain its relationship with long-term customers, who have shown their support to the planned new production capacities by placing purchase orders. These factors will further consolidate the market share of the Group within the industry thereby maintain its leading position. During the period under review, the total shipment volume of the Group's products amounted to approximately 217.67MW, representing an increase of 40.3% as compared to 155.15MW in the corresponding period last year. Since completion of the acquisition of the cells business at the beginning of the year, a portion of the silicon solar wafers manufactured was used in the production of solar cells before being sold. The external shipment volume of the silicon solar wafers and the internal volume of the silicon sales wafers supplied to and required by the cell factories of the Group during the period under review were in aggregate approximately 169.80MW, representing a growth of total shipment volume of 63.2% compared to 104.07MW in the corresponding period last year. The external shipment volume of solar cells and the internal volume of the solar cells supplied to and required by the module factories was in aggregate 90.43MW. No solar cells were produced for the corresponding period last year. Lastly, the shipment volume of solar modules was 15.67MW, representing a growth of total shipment volume of 129.8% compared to 6.82MW in the corresponding period last year.

Enlarging financing channels and promoting innovation and R&D

Facing huge demand from customers, the Group has been increasing its capacity. To ensure there is sufficient working capital for the on-going development of the business into the future, during the period under review, the Group has been actively exploring financing channels. Leveraging on its good reputation, leading position, comprehensive plan as well as solid financial position, the Group has been highly recognised by the banks. On 27 May 2011, a syndicated loan with a facility amount of up to US$75,000,000 (approximately HK$581,250,000) for a period of three years was entered into between the Group and its bankers the Industrial Bank of Taiwan, BNP Paribas and other lenders. Subsequently, on 24 August 2011, the Group, with SinoPac Securities (Asia) Limited as its manager successfully issued RMB300,000,000 Bonds with a period to maturity of three years.

In addition, in respect of the manufacturing of monocrystalline silicon solar ingots and wafers, the Group has achieved a leading position in China in terms of its technology, product quality and quantity. The products of the Group are the only monocrystalline silicon solar ingot made cell products in China for which national inspection has been waived. The photovoltaic conversion efficiency of its monocrystalline silicon products is also higher than the industry average. The N-series high-efficiency products of the Group have a photovoltaic conversion efficiency of 22-23%. Currently, the N-series products are mainly silicon solar ingots of 5.5 inches to 8 inches, with a small quantity of N-series silicon solar wafers available for sale, mainly targeted at Japanese customers. During the period under review, the shipment volume of N-series products was approximately 12.2WM, representing around 5.6% of total shipment volume. As for the photovoltaic modules, despite being a new entrant with current production capacity of only 100MW, the Group has had its products successfully admitted into the "Golden Sun Programme" (金太陽工程) of China. An expansion of annual production capacity to 150MW has also been planned, targeting to export the products to the European and North American regions gradually.

Acquiring cells business to realise vertical integration

In the past, the businesses of the Group focused on the manufacture and sales of upstream silicon solar ingots and wafers. Subsequently, the Group started to develop the business of modules and system installations, by which allows the Group to formally enter the downstream sector of the industry. From silicon solar ingots to system installation, the solar cells business is the segment the Group has been missing from the entire solar energy value chain. Therefore, the acquisition of the solar cells business is a vital step for the Group to realise vertical integration in accordance to its business plan.

During the period under review, with the support of the shareholders, the Group successfully acquired Sino Light Investment Limited ("Sino Light") on 26 January 2011. Sino Light and its subsidiaries are primarily engaged in the manufacture of solar cells, with a current production capacity of 300MW. Through the acquisition of Sino Light, the upstream and downstream businesses of the Group are linked together, creating synergy. From the date of acquisition being 26 January 2011 to 30 June 2011, the production value of the external shipment volume of Sino Light's solar cells and the internal volume of Sino Light's cells supplied to and required by module factories was approximately RMB652.315 million, the quantity of solar cells for external shipment and the internal quantity supplied to and required by module factories, in which profit has been realised, was approximately 90.43MW. It contributed a segment profit of approximately RMB29.752 million, representing a significant percentage of 26.3%, compared to the profit of the Group of RMB113.333 million.

Establishing vertical integration business model and exploring downstream customers

Following a number of development projects undertaken in the recent years, the operations of the businesses of the Group including downstream solar cells, photovoltaic module and system installation have gradually been developed, thus successfully achieving vertically integration of the Group and further strengthening the leading position of the Group in the industry. As the downstream operations are gradually developed, the Group has obtained a number of key orders in China, including the 20MW on-grid photovoltaic power plant project in Golmud, Qinghai Province which was secured at the beginning of July 2011. The construction of the on-grid photovoltaic power plant will be completed by the end of September this year, and the actual on-grid feed in tariff of the project will be RMB1.15 per kW. The construction of the 13.5MW "Golden Sun Programme" Project (金太陽工程) in Liaoning Province, which was previously awarded to the Group, is expected to be completed within this year. A photovoltaic system programme of 33.5MW in aggregate is projected to be completed by the end of this year. Moreover, Jinzhou Jinmao Photovoltaic Technology Company Limited ("Jinzhou Jinmao"), a subsidiary of the Company has signed a purchase contract with 青海黃河上游水電開發有限責任公司 ("Huanghe Hydropower"), under which, Jinzhou Jinmao has become one of the suppliers of photovoltaic modules for the 250MW on-grid photovoltaic power plant of Huanghe Hydropower in Golmud, Qinghai Province and is expected to provide photovoltaic modules, in aggregate, of approximately 19MW to Huanghe Hydropower from the third quarter in 2011 onwards.

The said on-grid photovoltaic system projects and the module sales contract, as well as the acquisition of Sino Light, a solar cell producer, completed at the beginning of the year, signifies the official completion of vertical integration of the Group. Therefore, the Group has achieved a leading position in the industry of manufacturing monocrystalline silicon solar ingots and wafers. The Group has correctly positioned itself in the areas of downstream modules and system power generation, all of which will in turn be beneficial to the healthy, long-term development of the Group.

Turnover

For the six months ended 30 June 2011, the turnover of the Group was RMB1,274.146 million, representing an increase of 60.0% compared with the corresponding period in 2010. During the period, with the enlarged production scale and recognised product quality of the Group from long-term customers, the demand for products of the Group continued to increase and turnover continued to rise.

Cost of sales

For the six months ended 30 June 2011, cost of sales increased by 40.7% to RMB986.885 million from RMB701.164 million for the corresponding period in 2010. Cost of sales represented 77.5% of total turnover, while the unit cost of production continued to improve.

Gross profit and gross profit margin

For the six months ended 30 June 2011, the Group recorded a gross profit of RMB287.261 million and a gross profit margin of 22.5%, representing an increase as compared to the gross profit of RMB95.247 million and a gross profit margin of 12.0% for the corresponding period in 2010.

Selling and distribution expenses

Selling and distribution expenses mainly comprised packaging expenses, freight charges and insurance expenses. Selling and distribution expenses increased by 87.4% to RMB7.968 million for the six months ended 30 June 2011 from RMB4.252 million for the corresponding period in 2010, representing 0.6% of the total turnover of the Group (2010: 0.5%).

Administrative expenses

Administrative expenses mainly comprised staff costs and research and development expenses. The administrative expenses for the first half of 2011 amounted to RMB137.781 million, increasing by 224.2% as compared to RMB42.504 million of the corresponding period of 2010, representing 10.8% of the turnover of the Group. The increase in administrative expenses is mainly due to a significant increase in research and development expenses from RMB8.551 million in the first half of 2010 to RMB68.210 million in the first half of 2011, as the Company has rapidly expanded its production scale. In addition, the amortisation of intangible assets of RMB13.490 million during the first half of 2011 was due to the acquisition of the solar cell business in 2011.

Finance costs

The finance costs of the Group increased from RMB8.365 million for the six months ended 30 June 2010 to RMB19.114 million for the six months ended 30 June 2011. Finance costs represented mainly the interest on bank loans and the municipal loans. The increase in finance costs was due to the additional bank borrowings for business expansion and development.

Income tax

Income tax expenses were RMB26.899 million for the six months ended 30 June 2011, while the income tax expenses amounting to RMB12.006 million were recorded for the corresponding period in 2010. Income tax expenses increased as the profit grew.

Profit attributable to the equity shareholders

For the six months ended 30 June 2011, the Group recorded profit attributable to the equity shareholders of RMB112.792 million, increasing by 174% from the corresponding period in 2010, representing 8.9% of the total turnover of the Group. Profit attributable to the equity shareholders of RMB41.164 million was recorded during the corresponding period in 2010.

Inventory turnover days

The inventories of the Group comprised mainly raw materials, namely polysilicon, crucibles and other auxiliary raw materials, and finished goods. By means of the expansion in capacity as well as the good relationship with its suppliers, the Group was able to increase its inventory of raw materials when market supply was short. During the period under review, the inventory turnover days of the Group were 102 days (the corresponding period in 2010: 129 days), and decreased by 27 days from the corresponding period in the previous year. The optimal inventory levels of the Group should be sufficient for approximately three months' consumption in the case of polysilicon and one month consumption for other auxiliary raw materials.

Trade receivable turnover days

For the first half of 2011, the trade receivable turnover days of the Group decreased to 38 days (the corresponding period in 2010: 50 days). The number of turnover days is at a low level, and is within the credit period granted to other customers by the Group. Generally, the Group allows a credit period of 30 to 90 days for its customers.

Trade payable turnover days

Due to the global supply for polysilicon raw materials being limited, and the consumption of polysilicon raw materials of the Group increasing, the percentage of prepayment for purchasing raw materials from the Group to the suppliers has increased. Accordingly, trade payable turnover days during the period under review decreased to 32 days (the corresponding period in 2010: 48 days).

Liquidity and financial resources

The principal sources of working capital of the Group during the period under review were cash flows from bank borrowings. As at 30 June 2011, the current ratio (current assets divided by current liabilities) of the Group was 1.44 (31 December 2010: 1.38). The Group had net borrowings of RMB1,001.340 million as at 30 June 2011 (31 December 2010: RMB202.259 million), including cash in bank and on hand of RMB679.355 million (31 December 2010: RMB459.734 million), pledged deposits of RMB135.808 million (31 December 2010: RMB74.113 million), bank loans due within one year of RMB942.374 million (31 December 2010: RMB648.011 million), non-current bank loans of RMB870.926 million (31 December

2010: RMB85.000 million) and non-current municipal loan of RMB3.203 million (31 December 2010: RMB3.095 million). Net debt to equity ratio (net debt divided by total equity) was 42.8% (31 December 2010: 12.3%). Such ratios show that the financial position of the Group has remained healthy.

Contingent liabilities

As at 30 June 2011, the Group had no material contingent liabilities.

Foreign currency risk

The Group is exposed to foreign currency risk primarily through sales and purchases and cash and bank deposits that are denominated in a currency other than the functional currency, Renminbi, of the operations to which they relate. The currencies giving rise to this risk are primarily the US Dollar, Euro and Hong Kong Dollar. The Directors do not expect any significant impact from the change in exchange rates since the Group uses foreign currencies received from customers to settle the amounts due to suppliers. In addition, the Directors ensure that the net exposure is kept at an acceptable level by purchasing or selling the US Dollar and Euro at spot rates where necessary to address short-term imbalances.

Human resources

As at 30 June 2011, the Group had 3,548 (30 June 2010: 1,530) employees. The significant increase of employees was mainly due to preparation for the production scale capacity expansion in Jinzhou, Liaoning and Xining, Qinghai.

Future prospects and strategies

The nuclear crisis in Japan has triggered re-examination by various countries on the security and reliability of nuclear power generation, and has further reinforced the development of other renewable energy including solar energy. The reduction of subsidies to the solar energy industry by developed countries such as those in Europe has aggravated industry sentiment. However, the future development focus of the solar energy industry will gradually shift to the Asia Pacific region. According to the latest "Report on the Photovoltaic Market in the Asia Pacific Region 2011" (《2011亞太地區光伏市場報告》) prepared by Solarbuzz, an internationally well-known organisation for photovoltaic research and development, the Asia Pacific region will become a crucial solar energy market around the world with demand amounting to 25% of the global demand in 2015, representing a significant increase as compared to 11% in 2010. It is stated in the report that the total market demand for solar energy from Asia Pacific regions such as China, Japan, India, Australia and Korea are expected to reach 3.3GW in 2011. While China, India and Australia have started to construct an on-grid solar energy generation market the demand from China and Japan will leapfrog by leveraging on new and industry-motivated policies. The Chinese government has granted subsidies to solar power generation projects and will devote much effort to develop the solar energy industry. By 2015, the photovoltaic installed capacity will at least amount to 10GW, which will definitely be beneficial to the solar energy industry as a whole.

Meanwhile, the Ministry of Economy, Trade and Industry of Japan has also formulated a "Solar Plan" (陽光計劃) which aims at increasing the volume of solar power to 15 times in 2030 from the current level. Under the Solar Plan, as solar cell technology becomes increasingly advance and the market expands, it is expected that the cost of solar power generation will decrease to one-sixth from its current level by 2030, and will approximate the cost of heat power generation. Besides, by installing solar cells on all qualified roofs, the plan will realise its goal of increasing 15 times of the equipment volume by 2030 from 2,627,000kW as at the end of 2009.

Being the leading enterprise focusing on solar energy in China, the Group will endeavour to make use of the following strategies so as to accelerate its future development:

Continuing capacity expansion to achieve economies of scale

Cost advantage is the key to success given the rigorous competition among solar energy enterprises. In view of the vast market demand and the intensified competition environment, the Group strives to reinforce its leading position as a manufacturer of monocrystalline silicon solar ingots and wafers, and to expand its capacity through organic growth and mergers and acquisitions, while proactively improving the operational efficiency of its own plants, so as to achieve economies of scale and in turn further enhance its cost advantage. At the end of August this year, the first phase of our new plant in Qinghai was officially established. It is anticipated that the commencement of operations will improve the Group's annual capacity of monocrystalline silicon solar ingots. Coupled with the original plan of capacity expansion and production enhancement of the Jinzhou Plant, it is expected that by the end of 2011, the annual capacity of the silicon solar ingots of the Group will increase from 800MW currently to 1,400MW, including monocrystalline silicon ingots of 1,200MW and multicrystalline silicon ingots of 200MW, while the annual capacity of the silicon wafers will also rise from 600MW currently to 1,100MW, including monocrystalline silicon wafers of 900MW and multicrystalline silicon wafers of 200MW. Besides, we believe that as vertical integration is the general business trend of the solar energy industry, the Group will, therefore, also continue to explore downstream modules and the system power generation businesses. By the end of 2011, the annual capacity of cells and modules of the Group will reach 300MW and 150MW, respectively. As for the development of photovoltaic power plants, together with the previously secured "Golden Sun Programme" Project (金太陽工程) of 13.5MW in Liaoning Province and the photovoltaic grid plant project of 20MW in Golmud, Qinghai Province, the Group will complete the photovoltaic system works of 33.5MW in aggregate by the end of 2011. The Group will continue to adopt the business model of vertical integration in an inverted pyramid structure with a focus on monocrystalline silicon solar ingots and wafers, so as to capture market opportunities.

Strengthening relationship with long-term contract customers to stabilise income sources

To diversify the risks, the Group has adhered to and consistently implemented its purchase and sales strategies of "1/3-1/3-1/3" to minimise the effects of price fluctuation of raw materials of polysilicon on the profits of the Group. The purchase and sales strategy of "1/3-1/3-1/3" implies that the proportion of raw materials and orders from long-term orders, OEM and spot market should be one third each. The Group believes that under such volatile market environment, instead of unreasonably pursuing short-term profits from a spot market, securing customers with long-term orders could better protect the overall profitability of the Group. The OEM business could also transfer the risk of raw material prices to the customers. As at the date of this announcement, the quota for long-term orders of the Group has been filled in 2011, reflecting high demand for the products of the Group from the second half of 2011 to the future. In addition, the Group is proactively exploring overseas customers and an outstanding result is anticipated. Currently, the silicon solar ingots, wafers and cells of the Group have been offered to customers in the United Kingdom, the United States and Japan, while the solar photovoltaic modules are, now being exported to countries in Europe. The long-term sales target remains at a proportion of 50% each amongst the domestic and overseas customers.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Corporate Governance

The Company reviews and enhances its corporate governance practices continuously and is committed to a high standard of corporate governance. During the six months ended 30 June 2011, the Company has complied with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules. For details of the corporate governance of the Company, please refer to the Corporate Governance Report as set out in the annual report of the Company for the year ended 31 December 2010.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions as set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by the Directors. Specific enquiries have been made by the Company to confirm that all Directors have been complied with the Model Code for the six months ended 30 June 2011.

Purchase, Sale and Redemption of the Company's Listed Securities

There was no purchase, sale or redemption by the Company or any of its subsidiaries, of the Company's listed securities during the six months ended 30 June 2011, save for the issue of new shares on 21 June 2011 upon conversion of the Convertible Bonds issued on 26 January 2011.

Audit Committee

The Audit Committee of the Company, comprising four independent non-executive Directors and one non-executive Director, has reviewed the accounting principles and practices adopted by the Group and such matters as internal controls and financial reporting with the management of the Company, including the review of the interim results for the six months ended 30 June 2011.

PUBLICATION OF FINANCIAL INFORMATION

The interim report for the six months ended 30 June 2011 containing all the detailed information will be dispatched to the shareholders of the Company and published on the respective websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.solargiga.com) in due course.

By Order of the Board
Solargiga Energy Holdings Limited
Hsu You Yuan
Executive Director

Hong Kong, 31 August 2011

As at the date of this announcement, Mr. Tan Wenhua, Mr. Hsu You Yuan and Ms. Zhang Liming are executive Directors of the Company, Mr. Chiao Ping Hai and Mr. Chong Kin Ngai are non-executive Directors of the Company and Mr. Wong Wing Kuen, Albert, Ms. Fu Shuangye, Dr. Lin Wen and Mr. Zhang Chun are independent non-executive Directors of the Company.