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 2012

FINANCIAL HIGHLIGHTS

– Turnover for the period under review decreased by 61.2% to RMB484.959 million (corresponding period in 2011: RMB1,249.425 million).

– Gross loss for the period under review was RMB154.725 million (corresponding period in 2011: Gross profit of RMB287.261 million).

– Net loss attributable to the equity shareholders of the Company for the period under review was RMB660.912 million (corresponding period in 2011: Net profit of RMB112.792 million)

– Basic loss per share was RMB29.48 cents (corresponding period in 2011: Basic earnings RMB5.17 cents per share)

– The board of Directors of the Company does not recommend the payment of an interim dividend for the six months ended 30 June 2012 (corresponding period in 2011: 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 2012, together with the comparative figures for the corresponding period in 2011. The Interim Results are unaudited, but have been reviewed by the Company's auditor, KPMG (the "Auditor") in accordance with Hong Kong Standard 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 Auditor's 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.

CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2012

		Unaudited Six months ended 30 June	
		2012	2011
	Note	***RMB'000***	*RMB'000*
			(restated)
Turnover		**484,959**	1,249,425
Cost of sales		**(639,684)**	(962,164)
Gross (loss)/profit		**(154,725)**	287,261
Other revenue	*4*	**13,415**	12,918
Other net income	*5*	**1,591**	4,935
Selling and distribution expenses		**(7,240)**	(7,968)
Administrative expenses		**(118,643)**	(137,781)
(Loss)/profit from operations		**(265,602)**	159,365
Impairment of prepayments	*13*	**(134,861)**	–
Impairment of goodwill	*14*	**(208,237)**	–
Share of losses of associates		**(201)**	(19)
Finance costs	*6(a)*	**(54,483)**	(19,114)
(Loss)/profit before taxation	*6*	**(663,384)**	140,232
Income tax	*7*	**(22,163)**	(26,899)
(Loss)/profit for the period		**(685,547)**	113,333
Attributable to:			
Equity shareholders of the Company		**(660,912)**	112,792
Non-controlling interests		**(24,635)**	541
(Loss)/profit for the period		**(685,547)**	113,333
(Loss)/earnings per share *(RMB cents)*			
– Basic and diluted	*9*	**(29.48)**	5.17

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2012

	Unaudited Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
(Loss)/profit for the period	**(685,547)**	113,333
Other comprehensive income for the period:		
Exchange differences on translation of financial statements of companies outside of the People's Republic of China ("PRC")	**3,268**	(6,409)
Total comprehensive income for the period	**(682,279)**	106,924
Attributable to:		
Equity shareholders of the Company	**(657,644)**	106,383
Non-controlling interests	**(24,635)**	541
Total comprehensive income for the period	**(682,279)**	106,924

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2012

	Note	**Unaudited 30 June 2012** *RMB'000*	Audited 31 December 2011 *RMB'000* (restated)
Non-current assets			
Property, plant and equipment		**2,126,793**	2,137,010
Goodwill	*14*	**–**	208,237
Intangible assets		**214,788**	228,084
Prepayments for acquisition of property, plant and equipment		**6,932**	52,262
Lease prepayments		**102,619**	103,858
Prepayments for raw materials	*13*	**294,546**	396,972
Interest in associates		**122,745**	256,748
Deferred tax assets		**–**	17,907
		2,868,423	3,401,078
Current assets			
Inventories		**422,101**	368,928
Trade and other receivables	*10*	**910,309**	534,845
Current tax recoverable		**14,069**	8,409
Pledged deposits		**88,188**	151,682
Cash at bank and in hand		**379,494**	583,743
		1,814,161	1,647,607
Current liabilities			
Trade and other payables	*11*	**780,432**	640,654
Interest-bearing bank loans	*12*	**1,250,476**	705,077
Current tax payable		**–**	6,623
		2,030,908	1,352,354
Net current (liabilities)/assets		**(216,747)**	295,253
Total assets less current liabilities		**2,651,676**	3,696,331
Non-current liabilities			
Municipal government loan		**3,045**	2,947
Interest-bearing bank loans	*12*	**474,500**	845,035
Bonds		**298,600**	298,000
Deferred income		**222,203**	221,903
Deferred tax liabilities		**57,524**	48,215
Other non-current liabilities		**7,555**	7,335
		1,063,427	1,423,435
NET ASSETS		**1,588,249**	2,272,896
CAPITAL AND RESERVES			
Share capital		**198,585**	198,585
Reserves		**1,363,448**	2,023,460
Total equity attributable to equity shareholders of the Company		**1,562,033**	2,222,045
Non-controlling interests		**26,216**	50,851
TOTAL EQUITY		**1,588,249**	2,272,896

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 (the "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 2011 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2012 annual financial statements. Details of these changes in accounting policies are set out in note 2.

Notwithstanding the net current liabilities of RMB216,747,000 of the Group as at 30 June 2012 as a result of the non-compliance with certain financial covenants (see note 12), the interim financial report is prepared on a going concern basis since the lenders have granted a waiver in respect of the non-compliance with certain financial covenants subsequent to 30 June 2012 and the Directors consider that the Group will be able to meet its liabilities as they fall due for the foreseeable future.

2. CHANGES IN ACCOUNTING POLICIES

(a) Recently issued accounting standards

The HKICPA has issued a few amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, Amendments to HKFRS 7, *Financial instruments: Disclosures – Transfers of financial assets*, is relevant to the Group's financial statements.

The amendments to HKFRS 7 require certain disclosures to be included in the annual financial statements in respect of all transferred financial assets that are not derecognised and for any continuing involvement in a transferred asset existing at the reporting date, irrespective of when the related transfer transaction occurred. However, an entity need not provide the disclosures for the comparative period in the first year of adoption. The Group did not have any significant transfers of financial assets in previous periods or the current period which require disclosure in the current accounting period under the amendments.

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

(b) Changes in application of accounting policies

In 2011, transactions with a customer who was also a supplier of the Group were recognised on a gross basis, whereby the revenue and the cost of inventories sold were presented separately in the consolidated statement of comprehensive income and the raw materials purchased from this customer and held at the year end were recorded as the Group's inventories in the consolidated statement of financial position.

During the current period, management has reconsidered the overall substance and the accounting treatment of the processing transactions with this customer. As a result, the Group has changed the basis of presentation of the revenue derived from these transactions from a gross basis to a net processing fee basis and has excluded the materials supplied by the customer and held by the Group to meet the customer's outstanding processing orders as at 30 June 2012 from inventories in order to more appropriately reflect the overall substance of these transactions in a basis consistent with the Group's accounting policies.

As a result of this change in application of accounting policy, the Group's turnover and cost of sales for the six months ended 30 June 2012 have been both reduced by RMB99,775,000 (six months ended 30 June 2011: RMB24,721,000) and amounts paid for materials held by the Group for processing as at 30 June 2012 of RMB93,227,000 (31 December 2011: RMB45,655,000) have been reclassified as a receivable from the customer.

Comparative figures have been restated accordingly. There has been no net impact on the consolidated results and the consolidated net assets of the Group from the change in application of accounting policy for the periods presented.

3. SEGMENT REPORTING

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"). 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 financial statements. Information regarding the Group's reportable segments are disclosed as follows:

	Unaudited Six months ended 30 June 2012			
	Segment A *RMB'000*	**Segment B** *RMB'000*	**Segment C** *RMB'000*	**Total** *RMB'000*
Revenue from external customers	**304,732**	**22,006**	**158,221**	**484,959**
Inter-segment revenue	**894,596**	**4,697**	**165,646**	**1,064,939**
Reportable segment revenue	**1,199,328**	**26,703**	**323,867**	**1,549,898**
Reportable segment losses	**(427,101)**	**(17,055)**	**(241,391)**	**(685,547)**

	Unaudited 30 June 2012			
	Segment A *RMB'000*	**Segment B** *RMB'000*	**Segment C** *RMB'000*	**Total** *RMB'000*
Reportable segment assets (including interest in associates)	**3,681,489**	**204,194**	**796,901**	**4,682,584**

	Unaudited			
	Six months ended 30 June 2011 (restated)			
	Segment A	Segment B	Segment C	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue from external customers	881,450	157,360	210,615	1,249,425
Inter-segment revenue	444,559	–	425,945	870,504
Reportable segment revenue	1,326,009	157,360	636,560	2,119,929
Reportable segment profit	82,294	1,287	29,752	113,333

	Audited			
	31 December 2011			
	Segment A	Segment B	Segment C	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Reportable segment assets (including interest in associates)	3,702,980	211,237	1,134,468	5,048,685

(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.

	Unaudited	
	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
		(restated)
The PRC (place of domicile)	**218,520**	439,336
Export sales		
– Japan	**143,095**	168,841
– Spain	**75,218**	6,129
– Taiwan	**28,225**	20,651
– Germany	**9,186**	141,322
– United Kingdom	**5,548**	246,466
– The United States of America	**5,167**	219,542
– Canada	**–**	7,138
Sub-total	**266,439**	810,089
Total	**484,959**	1,249,425

4. OTHER REVENUE

	Unaudited Six months ended 30 June 2012 *RMB'000*	 2011 *RMB'000*
Government grants	**8,728**	7,399
Interest income from bank deposits	**2,581**	1,999
Rental income from operating leases	**874**	864
Income from sale of scrap materials	**29**	1,094
Insurance claims received	**–**	1,413
Others	**1,203**	149
	13,415	12,918

5. OTHER NET INCOME

	Unaudited Six months ended 30 June 2012 *RMB'000*	 2011 *RMB'000*
Net foreign exchange gain	**1,591**	4,935

6. (LOSS)/PROFIT BEFORE TAXATION

(Loss)/profit before taxation is arrived at after charging:

	Unaudited Six months ended 30 June 2012 *RMB'000*	 2011 *RMB'000*
(a) Finance costs		
Interest on bank loans wholly repayable within five years	**54,611**	34,167
Interest on municipal government loan	**99**	108
Total interest expense on financial liabilities not at fair value through profit or loss	**54,710**	34,275
Less: interest expense capitalised into property, plant and equipment	**(227)**	(15,161)
	54,483	19,114
(b) Other items		
Write-down of inventories	**132,805**	26,665
Depreciation	**87,266**	60,015
Research and development costs	**42,247**	68,210
Amortisation of intangible assets	**13,296**	13,490
Amortisation of lease prepayments	**1,261**	1,028
Operating lease charges	**595**	646

7. INCOME TAX

Income tax in the consolidated income statement represents:

	Unaudited Six months ended 30 June **2012** *RMB'000*	2011 *RMB'000*
Current tax – the PRC		
Provision for the period	**–**	31,914
Over-provision in respect of prior years	**(5,845)**	–
	(5,845)	31,914
Withholding tax	**792**	–
Deferred tax		
Origination and reversal of temporary differences	**27,216**	(5,015)
Income tax expense	**22,163**	26,899

The statutory tax rate applicable to the Group's Hong Kong subsidiaries was 16.5% (2011:16.5%). No provision for Hong Kong Profits Tax has been made for the six months ended 30 June 2012 and 2011 because the accumulated tax losses brought forward exceed the estimated assessable profits for the period or the entities sustained losses for taxation purposes.

The statutory tax rate applicable to the subsidiaries established in the PRC was 25% (2011: 25%). No provision for current taxation for the six months ended 30 June 2012 has been made because the entities sustained losses for taxation purposes (2011: taxes on profits assessable in the PRC were calculated at the rates determined in accordance with the relevant income tax rules and regulations in the PRC).

The over-provision in respect of prior years arose from the reversal of a tax provision upon agreement with the relevant tax authority on the deductibility of certain expenses.

8. DIVIDENDS

(a) Dividends attributable to the period

The Directors do not recommend the payment of dividend in respect of the six months ended 30 June 2012 (six months ended 30 June 2011: Nil).

(b) Dividends attributable to the previous financial year

	Unaudited Six months ended 30 June **2012** *RMB'000*	2011 *RMB'000*
Final dividend of RMBNil cents per share (2011: RMB3.5 cents (HK$4.1 cents) per share) in respect of the previous financial year approved during the period	**–**	78,476

9. (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss attributable to the equity shareholders of the Company of RMB660,912,000 (six months ended 30 June 2011: profit of RMB112,792,000) and the weighted average of 2,242,170,425 ordinary shares (six months ended 30 June 2011: 2,182,087,552 ordinary shares) of the Company in issue during the period as calculated in note 9(b).

(b) Weighted average number of ordinary shares

	Unaudited Number of ordinary shares	
	2012	2011
Issued ordinary shares at 1 January	**2,242,170,425**	1,807,170,425
Effect of convertible bonds	**–**	374,917,127
Weighted average number of ordinary shares	**2,242,170,425**	2,182,087,552

(c) Diluted (loss)/earnings per share

There were no dilutive potential ordinary shares in issue during the six months ended 30 June 2012 and 2011.

10. TRADE AND OTHER RECEIVABLES

	Unaudited 30 June 2012 ***RMB'000***	Audited 31 December 2011 *RMB'000* (restated)
Trade debtors and bills receivable	**305,195**	181,591
Prepayments for raw materials – current portion	**62,537**	53,101
Other receivable from a processing customer	**93,227**	45,655
Value-added tax receivable	**205,746**	188,337
Amount due from an associate	**133,802**	–
Deposits and other receivables	**109,802**	66,161
	910,309	534,845

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

At 31 December 2011, an amount due from an associate of RMB133,802,000 was included in interest in associates as the balance was not expected to be recovered within one year. During the six months ended 30 June 2012, an agreement has been reached with the associate to settle the balance within one year. Accordingly, the balance has been reclassified from non-current assets to current assets at 30 June 2012.

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

	Unaudited 30 June 2012	Audited 31 December 2011
	RMB'000	*RMB'000*
Within 1 month	**125,742**	105,296
1 to 3 months	**75,144**	30,074
3 to 6 months	**67,155**	41,463
6 to 12 months	**36,985**	4,758
Over 1 year	**169**	–
	305,195	181,591

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 is as follows:

	Unaudited 30 June 2012	Audited 31 December 2011
	RMB'000	*RMB'000*
Neither past due nor impaired	**214,390**	134,143
Less than 1 month past due	**30,753**	26,009
1 to 3 months past due	**24,024**	2,755
4 to 6 months past due	**8,165**	17,288
7 to 12 months past due	**27,694**	1,396
Over 1 year	**169**	–
	90,805	47,448
	305,195	181,591

11. TRADE AND OTHER PAYABLES

	Unaudited 30 June 2012	Audited 31 December 2011
	RMB'000	*RMB'000*
Trade payables	**314,399**	103,636
Bills payable	**174,518**	252,701
Other payables and accrued expenses	**291,515**	284,317
	780,432	640,654

All of the trade and other payables are expected to be settled within one year.

The ageing analysis of trade and bills payables at the end of the reporting period based on invoice date is as follows:

	Unaudited 30 June 2012 *RMB'000*	Audited 31 December 2011 *RMB'000*
Within 1 month	**143,622**	307,386
1 to 3 months	**136,088**	20,554
4 to 6 months	**181,047**	9,999
7 to 12 months	**10,938**	1,415
After 1 year but within 2 years	**17,222**	16,983
	488,917	356,337

12. INTEREST-BEARING BANK LOANS

Certain Group's banking facilities are subject to certain financial covenants, as are commonly found in lending arrangements with financial institutions.

As of 30 June 2012, the Group failed to achieve certain financial covenants as stipulated in one of the loan agreements entered into by the Company. On discovery such non-compliance, the Directors informed the lenders and commenced renegotiation of the terms of this loan with the relevant banks. On 23 August 2012, a waiver from non-compliance with the financial covenants of the loan was granted by the lenders.

In accordance with the requirements of the prevailing accounting standards in Hong Kong, the carrying amount of RMB271,067,000 in respect of the above-mentioned loan was reclassified as a current liability in the consolidated statement of financial position as of 30 June 2012.

13. PREPAYMENTS FOR RAW MATERIALS

As at 30 June 2012, management assessed prepayments for potential impairment and identified that two of the suppliers are in financial difficulties and may default on the delivery of raw materials to the Group. Management has discussed the possibility of recovery of the prepayments concerned and are of the opinion that the chance of recovery of such prepayment is remote. As such, prepayments totalling RMB134,861,000 have been fully provided for during the period.

14. GOODWILL

Goodwill is related to the Group's Segment C (see note 3) which is considered to be a cash-generating unit ("CGU").

The Group's solar cell business has been severely affected by the weak demand of the solar market and the significant drop in prices of solar products during the period. As such, the Group has recognised impairment of goodwill of RMB208,237,000 which has been determined with reference to the recoverable amount of the CGU.

The recoverable amount of the CGU has determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated rates stated below.

	30 June 2012 %
Growth rate	3
Discount rate	15.5

The growth rates do not exceed the long-term average growth rate for the business in which the CGU operates. The discount rate used is pre-tax and reflects specific risks relating to the segment.

MANAGEMENT DISCUSSION AND ANALYSIS

Market Overview

Notwithstanding the rapid development of technology and application of global solar energy, the global solar energy industry has faced challenges of overcapacity, oversupply and increasing inventory levels in the upstream and downstream business in the past two years. The solar energy industry is still in the process of digesting the over-investment in capacity in 2010 and 2011. However, some research reports indicate that after the aforesaid fluctuation which is the major indicator affecting the demand and supply of solar energy industry, the market will stabilise and the prospects for the solar energy industry will gradually become optimistic.

According to a recent quarterly report issued by Solarbuzz, a research institute for solar energy, the notable imbalance of supply and demand of the solar energy industry has lasted for more than 18 months, resulting in a significant decrease in price and profit of solar products. Amid the oversupply of global solar energy modules, revenue generated from solar energy modules still fell in spite of persistent growth in sales of solar modules. Since the ratio of sales income to shipment volume, representing the income earned from the shipment per watt, dropped continuously, manufacturers of crystalline silicon modules faced challenges in achieving income growth.

The report also indicated that given the strong market demand in the second half of 2012 and the deliberate utilisation rate of production capacity, the leaders of the solar energy market will achieve a higher visibility before formulating the 2013 strategic plan. According to the report, it is estimated that the global demand for solar energy in 2012 will exceed 30GW and the annual growth rate will reach 8%, which is attributed to the strong demand in the fourth quarter of 2012 in the Asian Pacific region, especially in China.

The Chinese Government said that photovoltaic power generation and application of solar thermal technology have been the fastest growing renewable energy technologies in the world in the last decade. It clearly stated that such technologies have been designated as major technological development projects in the Twelfth Five-Year Plan, and "Special Plan for Solar Power Generation Technology in Twelfth Five-Year Plan" has been formulated. The Chinese Government was of the opinion that it is urgent to optimise the public service system of the solar energy industry in the future, lift its self-research and development capability and grasp the core technology, which will support China's transition from a major manufacturer in the solar energy industry to a rising power of the industry and create a favourable cycle for the development of the solar energy industry.

In respect of the U.S market, according to the reports issued by Solar Energy Industries Association ("SEIA") and GTM Research, a research institute, the federal and state governments of the U.S. subsidise the development of clean energy, which helps drive the growth of demand in solar energy, and the decrease in price of solar energy panels and electricity systems also help trigger demand. Moreover, the U.S. also strengthened the protection of the local solar energy industry by imposing anti-dumping and anti-subsidy penalties. The policy is mainly targeted at manufacturers of solar energy in China, including imposition of punitive tariffs which range from 31% to 250%, and require that the Chinese modules for export to the U.S. incorporate non-China cells.

In relation to the European market, the German Government set a target of an accumulated installed capacity of solar energy in Germany at 52GW by 2020. During the first quarter of 2012, the accumulated installed capacity of solar energy in Germany reached 26.6GW. Therefore, the German Government stated that it would control the average annual installed capacity in the future at a level between 2.5GW and 3.5GW. If the total installed capacity exceeds the target, no subsidy would be granted for the difference between the newly installed capacity and the target level.

Operations Review

During the period under review, the Group successfully established an effective and unique "inverted pyramid" vertical integrated supply chain. It gradually completed the transformation from a solar energy materials manufacturer to a one-stop service provider of solar power projects. Individual products including ingots, wafer, cells and modules within the supply chain can also be sold to third parties.

Silicon Ingot Business

During the period under review, the Group maintained its production capacity of silicon ingots to further explore its technological advantage. As at 30 June 2012, the Group was equipped with 493 monocrystalline ingot pullers and 4 multicrystalline casting furnaces, of which 397 monocrystalline ingot pullers were located in the Jinzhou production base while the remaining 96 monocrystalline ingot pullers were installed in the plant of Solargiga Energy (Qinghai) Company Limited ("Qinghai Yangguang"), which is 51% owned by the Group, in Xining, Qinghai Province. The annual production capacity of silicon ingots is 1GW.

During the period under review, using its "inverted pyramid" vertical integration supply chain model, the Group was able to fully utilise its upstream products for the production of its downstream products, and the upstream products including ingots, wafers and cells were also sold externally. The external shipment volume of silicon solar ingots of the Group was 38.78MW, representing a 19% drop compared with 47.87MW same period last year. Solargiga has gained a leading position in the monocrystalline silicon solar ingot manufacture industry in terms of technology, product quality and quantity. The products of the Group are the only monocrystalline silicon solar ingots in China for which national products exemption from quality surveillance inspection has been granted. Major products are silicon ingot of 5.5 inches to 8.7 inches in diameter. The photovoltaic conversion efficiency of its monocrystalline silicon products is also higher than the industry average. Apart from the traditional P-type products, the Group also provides N-type high-efficiency products with a photovoltaic conversion efficiency of 22–23%. During the period under review, the external shipment volume of N-type silicon ingots was about 36.55MW, representing an aggregate amount of approximately 94.3% of the external shipment volume of silicon ingots. N-type products are mainly targeted at Japanese customers.

Wafer Business

As at 30 June 2012, the Group possessed 121 wiresaws in the Jinzhou production base, with an annual production capacity of wafers reaching 900MW. The external shipment volumes of silicon solar wafers of the Group were 115.42MW during the period under review, representing an increase of 45.4% in total compared with 79.38MW same period last year. The increase was mainly due to the fact that the proportion of the wafer processing business increased during the period and the internal sales of wafer to the downstream business decreased.

Cell Business

During the year under review, the Group developed the manufacturing of solar cells through Sino Light Investment Limited ("Sino Light"), which is wholly owned by the Group. Sino Light has a current production capacity of 300MW. During the period under review, the external shipment volume of solar cells of Sino Light was approximately 45.77MW. It contributed a segment turnover of approximately RMB158.221 million, accounting for 32.6% of the Group's turnover. Through Sino Light, the Group was able to connect the upstream and downstream businesses for a better synergy effect.

Module Business

The Group has expanded its solar downstream photovoltaic modules business by holding a 51% interest in Jinzhou Jinmao Photovoltaic Technology Company Limited ("Jinzhou Jinmao"). The modules production base is currently located in Jinzhou with a production capacity of 150MW. During the period under review, the external shipment volume of solar modules of Jinzhou Jinmao was approximately 6.67MW (corresponding period in 2011: 15.67MW). The orders mainly came from China to fulfil the domestic demands for photovoltaic power plant.

System Installation Business

The Group has proactively developed the terminal market business by fully capitalising on its advantage of vertical integration to drive the product demand from the bottom to the top. The Group secured the 20MW large-scaled photovoltaic power plant project in Golmud, Qinghai Province by holding a 49% interest of the project through Qinghai Yangguang and its construction and trial-run was successfully completed at the end of 2011. It is expected that approximately 33 million kWh can be generated per year. The project will enjoy the photovoltaic power generation feed-in tariff policy of RMB1.15 per kWh as set out by the National Development and Reform Commission.

Turnover

For the six months ended 30 June 2012, the turnover of the Group was RMB484.959 million, representing a decrease of 61.2% compared with the corresponding period in 2011. During the period under review, due to the slowdown of global solar market, the selling prices of solar products dropped which led to the decrease in turnover.

Cost of sales

For the six months ended 30 June 2012, cost of sales decreased by 33.5% to RMB639.684 million from RMB962.164 million for the corresponding period in 2011. Cost of sales represented 131.9% of total turnover, an increase of 54.9% compared to the same period in 2011. The increase in ratio was mainly due to the increase in inventory provision made during the period (six months ended 30 June 2012: RMB132.805 million; six months ended 30 June 2011: RMB26.665 million).

Gross profit and gross profit margin

For the six months ended 30 June 2012, the Group recorded a gross loss of RMB154.725 million and a gross loss margin of 31.9%, as compared to a gross profit of RMB287.261 million and a gross profit margin of 23.0% for the corresponding period in 2011.

Selling and distribution expenses

Selling and distribution expenses mainly comprised packaging expenses, freight charges and insurance expenses. Selling and distribution expenses decreased by 9.1% to RMB7.240 million for the six months ended 30 June 2012 from RMB7.968 million for the corresponding period in 2011, representing 1.5% of the total turnover of the Group (2011: 0.6%).

Administrative expenses

Administrative expenses mainly comprised staff costs and research and development expenses. The administrative expenses for the first half of 2012 amounted to RMB118.643 million, decreased by 13.9% as compared to RMB137.781 million for the corresponding period of 2011, representing 24.5% of the turnover of the Group. The decrease in administrative expenses is mainly due to a decrease in research and development expenses from RMB68.210 million in the first half of 2011 to RMB42.247 million in the first half of 2012.

Finance costs

The finance costs of the Group increased from RMB19.114 million for the six months ended 30 June 2011 to RMB54.483 million for the six months ended 30 June 2012. Finance costs represented mainly the interest on bank loans, bonds and the municipal government loan. The increase in finance costs was due to the additional bank borrowings for business operations.

Income tax

Income tax expenses were RMB22.163 million for the six months ended 30 June 2012, while the income tax expenses amounting to RMB26.899 million were recorded for the corresponding period in 2011. Income tax expenses recorded for the six months ended 30 June 2012 were due to the reversal of temporary deferred tax differences.

(Loss)/profit attributable to the equity shareholders

For the six months ended 30 June 2012, the Group recorded a loss attributable to the equity shareholders of RMB660.912 million, while a profit attributable to the equity shareholders of RMB112.792 million was recorded for the corresponding period in 2011.

Inventory turnover days

The inventories of the Group comprised mainly raw materials, namely polysilicon, crucibles and other auxiliary raw materials, and finished goods. During the period under review, the inventory turnover days of the Group were 113 days (the corresponding period in 2011: 104 days), an increase of 9 days from the corresponding period in 2011. 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 2012, the trade receivable turnover days of the Group increased to 92 days (the corresponding period in 2011: 39 days). The increase in trade receivable turnover days was due to the extension of credit terms to customers during the period. Generally, the Group allows a credit period of 30 to 90 days for its customers.

Trade payable turnover days

Due to the lengthened cash collection cycle, the Group decided to extend payments to suppliers during the period under review. Accordingly, trade payable turnover days during the period under review increased to 60 days (the corresponding period in 2011: 32 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 2012, the current ratio (current assets divided by current liabilities) of the Group was 0.89 (31 December 2011: 1.22). The Group had net borrowings of RMB1,558.939 million as at 30 June 2012 (31 December 2011: RMB1,115.634 million), including cash in bank and on hand of RMB379.494 million (31 December 2011: RMB583.743 million), pledged deposits of RMB88.188 million (31 December 2011: RMB151.682 million), bank loans due within one year of RMB1,250.476 million (31 December 2011: RMB705.077 million), non-current bank loans of RMB474.500 million (31 December 2011: RMB845.035 million), non-current corporate bonds of RMB298.600 million (31 December 2011: RMB298.000 million) and non-current municipal loan of RMB3.045 million (31 December 2011: RMB2.947 million). The net debt to equity ratio (net debt divided by total equity) was 98.2% (31 December 2011: 49.1%). In addition, excluding the effect of the reclassification of the non-current bank loans of RMB271.067 million from non-current liabilities to current liabilities given the waiver has been granted by the banks, the Group's current ratio as at 30 June 2012 would be 1.03, bank loans due within 1 year would be RMB983.298 million and the non-current bank loans would be RMB741.678 million.

Contingent liabilities

As at 30 June 2012, 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 2012, the Group had 3,458 (30 June 2011: 3,548) employees.

Future prospects and strategies

Although the solar energy industry had faced a difficult time in the first half of 2012, from a long term perspective, we believe that it will have a good prospect. Currently, the market is facing a serious problem of oversupply and is in the process of consolidation and getting rid of the weaker companies and retaining the stronger ones to improve the market condition. We estimate that the extreme imbalance of demand and supply will be resolved before the end of 2013. The process of consolidation will help the establishment of a long term healthy development environment for the solar energy industry. The survivors of the market consolidation will enjoy fruitful rewards in the future.

In order to survive in the current severe market situation, the Group has to be sound and conservative to ensure it has sufficient capital to face any unforeseeable challenges. The survivors of the market consolidation would be able to enjoy the fruitful rewards in the future by having quality cost competitive products and further enhancement of their sales channels.

Looking forward to the future, we will adopt the following strategies and measures to consolidate intra-business of the Group and develop sources of new clients in order to bring better rewards for shareholders.

1. Save for the investment in the research and development of products and the enhancement of the quality and efficiency, all capital expenditure will be suspended in order to reduce cash outflows.

2. In the process of enhancing the quality, the reduction of the cost is pursued at the same time. However, in the process of reducing costs, the target of the enhancement of the quality has to be reached without compromising the quality.

3. Increasing the production ratio of N-type products and launching and enhancing high effective products which may help the reduction in cost of power generation per unit.

4. Co-operating with long term investors to construct solar energy power generation systems. Without incurring additional capital demand for the Group, a sales opportunity will be created for part of the upstream products for a better return rate. Following the completion of a 33.5MW on grid power plant in 2011, this strategy will continue to be executed and the target will be 35MW this year.

5. To tighten the credit control, transactions are conducted with selected quality customers to improve customer service, and the Group continuously enhances the satisfaction of the customers in order to build up an win-win partnership. This leads to the establishment of long term steady market channels. By doing this, it helps to develop sources of new quality customers continuously.

6. To impose stringent control of expenditure and increase the performance-based incentives awards for staff. Apart from reducing the administrative management fees, we will decrease the production and selling expenses and cost of overall operation and per unit production to enhance the overall profitability by quality production.

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. The Company has complied with the code provisions of the Code on Corporate Governance Practices for the period from 1 January 2012 to 31 March 2012 and the Corporate Governance Code and Corporate Governance Report (the "Corporate Governance Code") for the period from 1 April 2012 to 30 June 2012 as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2012.

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 2012.

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 2012.

Audit Committee

The Audit Committee of the Company, comprising four independent non-executive Directors, 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 2012.

PUBLICATION OF FINANCIAL INFORMATION

The interim report for the six months ended 30 June 2012 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, 29 August 2012

As at the date of this announcement, Mr. Tan Wenhua (Chairman), Mr. Hsu You Yuan, Ms. Zhang Liming and Mr. Tan Xin are executive Directors of the Company, Mr. Chiao Ping Hai is a non-executive Director 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.