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 2012

FINANCIAL HIGHLIGHTS

– Turnover decreased by 61.3% to RMB996.836 million (2011 (restated): RMB2,574.669 million).

– Gross loss was RMB291.384 million (2011: Gross profit of RMB253.848 million).

– Net loss attributable to the equity shareholders of the Company was RMB1,276.554 million (2011: Net profit of RMB54.291 million).

– Basic loss per share was RMB55.99 cents (2011 (restated): Basic earnings per share of RMB2.43 cents).

ANNUAL RESULTS

The directors (the "Directors") of Solargiga Energy Holdings Limited (the "Company") present herewith the results of the Company and its subsidiaries (collectively, the "Group") for the financial year ended 31 December 2012 and the comparative figures as follows.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2012

	Note	2012 RMB'000	2011 RMB'000 (restated)
Turnover	3	**996,836**	2,574,669
Cost of sales		**(1,288,220)**	(2,320,821)
Gross (loss)/profit		**(291,384)**	253,848
Other revenue	4	**55,808**	150,582
Other net income	5	**3,698**	3,191
Selling and distribution expenses		**(19,303)**	(32,169)
Administrative expenses		**(252,539)**	(269,315)
(Loss)/profit from operations		**(503,720)**	106,137
Impairment of prepayments	13	**(134,485)**	–
Impairment of goodwill	14	**(208,237)**	–
Impairment of intangible assets	14	**(201,493)**	–
Impairment of property, plant and equipment	15	**(161,200)**	–
Share of profits less losses of associates		**1,511**	(54)
Finance costs	6(a)	**(110,967)**	(71,949)
(Loss)/profit before taxation	6	**(1,318,591)**	34,134
Income tax credit	7	**23,538**	10,021
(Loss)/profit for the year		**(1,295,053)**	44,155
Attributable to:			
Equity shareholders of the Company		**(1,276,554)**	54,291
Non-controlling interests		**(18,499)**	(10,136)
(Loss)/profit for the year		**(1,295,053)**	44,155
(Loss)/earnings per share *(RMB cents)*			
– Basic and diluted	9	**(55.99)**	2.43

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	2012	2011
	RMB'000	*RMB'000*
(Loss)/profit for the year	**(1,295,053)**	44,155
Other comprehensive income for the year:		
Exchange differences on translation of financial statements of companies outside of the People's Republic of China ("PRC")	**407**	(6,769)
Total comprehensive income for the year	**(1,294,646)**	37,386
Attributable to:		
Equity shareholders of the Company	**(1,276,147)**	47,522
Non-controlling interests	**(18,499)**	(10,136)
Total comprehensive income for the year	**(1,294,646)**	37,386

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2012

	Note	**2012** ***RMB'000***	2011 *RMB'000* (restated)
Non-current assets			
Property, plant and equipment	*15*	**1,917,684**	2,137,010
Intangible assets	*14*	**–**	228,084
Goodwill	*14*	**–**	208,237
Prepayments for acquisition of property, plant and equipment		**4,582**	52,262
Lease prepayments		**101,361**	103,858
Prepayments for raw materials	*13*	**316,543**	396,972
Interest in associates		**124,457**	256,748
Deferred tax assets		**–**	17,907
		2,464,627	3,401,078
Current assets			
Inventories		**424,187**	368,928
Trade and other receivables	*10*	**720,747**	534,845
Current tax recoverable		**7,070**	8,409
Pledged bank deposits		**174,234**	151,682
Cash at bank and in hand		**153,793**	583,743
		1,480,031	1,647,607
Current liabilities			
Trade and other payables	*11*	**846,098**	640,654
Bank loans	*12*	**1,018,985**	705,077
Current tax payable		**–**	6,623
		1,865,083	1,352,354
Net current (liabilities)/assets		**(385,052)**	295,253
Total assets less current liabilities		**2,079,575**	3,696,331
Non-current liabilities			
Municipal government loan		**2,780**	2,947
Bank loans	*12*	**484,500**	845,035
Bonds		**298,600**	298,000
Deferred tax liabilities		**11,757**	48,215
Deferred income		**221,701**	221,903
Other non-current liabilities		**9,007**	7,335
		1,028,345	1,423,435
Net assets		**1,051,230**	2,272,896
Capital and reserves			
Share capital		**218,787**	198,585
Reserves		**800,091**	2,023,460
Total equity attributable to equity shareholders of the Company		**1,018,878**	2,222,045
Non-controlling interests		**32,352**	50,851
Total equity		**1,051,230**	2,272,896

NOTES TO THE FINANCIAL INFORMATION

1. BASIS OF PREPARATION

The annual results set out in the announcement do not constitute the Group's financial statements for the year ended 31 December 2012 but are extracted from those financial statements.

The financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules").

The Group sustained a loss for the year ended 31 December 2012 of RMB1,295,053,000 (2011: profit for the year amounted to RMB44,155,000) including impairment of assets of RMB705,415,000 (2011: Nil) and, as of that date, the Group's current liabilities exceeded its current assets by RMB385,052,000. The Group also used cash and cash equivalents of RMB202,579,000 in its operating activities during the year ended 31 December 2012, and suffered a significant decrease in turnover. Notwithstanding the foregoing, the directors are of the view that the adoption of the going concern assumption in the preparation of the financial statements is appropriate, as they have taken into consideration the following factors and concluded that the Group will have sufficient funds to finance its working capital and adequate committed lines of funding from major financial institutions to meet its liquidity requirements for a period of at least, but not limited to, 12 months from the end of the reporting period.

i. Available banking facilities

Due to the non-compliance with certain financial covenants under the syndicated loan agreement dated 27 May 2011, as subsequently revised by a waiver letter granted by the banks dated 23 August 2012, the balance of the non-current portion of the syndicated loan due in 2014 amounting to US$21,230,000 (equivalent to RMB133,441,000) was reclassified from non-current liabilities to current liabilities as at 31 December 2012. On 26 March 2013, a waiver from non-compliance with the financial covenants was granted by the majority of the lenders.

The Group intends to maintain its strong business relationship with its bankers to maintain their continuing support and is actively discussing with its bankers for the renewal of short term banking facilities when they fall due in 2013. In March 2013, the Group renewed the short term bank loans of US$9,000,000 (equivalent to RMB56,570,000) for the coming one year. Moreover, as at 31 December 2012, the Group had unutilised banking facilities of RMB55,000,000 which will be available for twelve months from the end of the reporting period. The directors are confident that the Group will continue to succeed in negotiating with its bankers to renew its outstanding bank loans as they fall due and/or to extend their repayment terms to meet its future working capital and financial requirements.

ii. Raising of funds through equity transactions

In March 2013, the Group completed an open offer (as disclosed in note 17(a)) and issued 498,260,094 new shares, which raised net proceeds (after deduction of estimated related expenses) amounting to RMB200,443,000. The Group will apply the entire net proceeds to repay its current outstanding interest-bearing bank loans.

Further, the Group may explore and seek to, subject to market conditions and definitive agreements having been entered into, raise equity financing by way of a placing, possibly up to US$6 million before June 2013, to further strengthen the Group's liquidity and working capital.

iii. Other measures to improve liquidity and financial performance

The directors have reviewed the Group's future plans and strategy and have identified various initiatives and have taken active steps which could turn around the Group's business performance and to improve the Group's liquidity, operating cash flows and financial position, which include the following:

1. reduction of capital expenditure in order to reduce cash outflows;
2. increasing in the production ratio of high quality and high efficiency products;
3. implementation of tightened credit control and active search for new customers with sound financial background;
4. implementation of cost saving measures including stringent control of cost of production, administrative expenses and selling expenses to enhance overall profitability; and
5. actively exploring the availability of alternative sources of financing.

After taking into consideration the above factors, the directors are confident that the Group will continue to obtain the ongoing support from its bankers and will have sufficient funding to enable it to operate as a going concern and meet its financial obligations as and when they fall due for at least 12 months from the reporting date. Accordingly, the financial statements have been prepared on a going concern basis. Should the Group be unable to continue to operate as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts, to provide for further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effect of these adjustments has not been reflected in the financial statements.

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 income statement 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 year, 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 31 December 2012 and 2011 from inventories in order to more appropriately reflect the overall substance of these transactions on 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 year ended 31 December 2012 have been both reduced by RMB256,494,000 (year ended 31 December 2011: RMB204,554,000) and amounts paid for materials held by the Group for processing as at 31 December 2011 of 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 year's segment analysis.

(a) Segment results, assets and liabilities

For the purpose of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities 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:

The segment results for the year ended 31 December 2012 are as follows:

	Year ended 31 December 2012			
	Segment A *RMB'000*	**Segment B** *RMB'000*	**Segment C** *RMB'000*	**Total** *RMB'000*
Revenue from external customers	**510,375**	**211,750**	**274,711**	**996,836**
Inter-segment revenue	**300,086**	**–**	**91,456**	**391,542**
Reportable segment revenue	**810,461**	**211,750**	**366,167**	**1,388,378**
Reportable segment profit/(loss)	**(724,058)**	**19,595**	**(590,590)**	**(1,295,053)**
Interest income from bank deposits	**3,416**	**742**	**272**	**4,430**
Interest expenses	**(89,051)**	**(9,764)**	**(12,152)**	**(110,967)**
Depreciation and amortisation for the year	**(135,231)**	**(4,225)**	**(63,374)**	**(202,830)**
Share of profits less losses of associates	**1,511**	**–**	**–**	**1,511**
Impairment of goodwill	**–**	**–**	**(208,237)**	**(208,237)**
Impairment of intangible assets	**–**	**–**	**(201,493)**	**(201,493)**
Impairment of prepayments	**(134,485)**	**–**	**–**	**(134,485)**
Impairment of property, plant and equipment	**(139,100)**	**–**	**(22,100)**	**(161,200)**
Impairment of trade debtors	**(1,159)**	**–**	**–**	**(1,159)**
Write-down of inventories	**(145,189)**	**(9,401)**	**–**	**(154,590)**
Reportable segment assets	**3,046,828**	**216,074**	**681,756**	**3,944,658**
(including interests in associates)	**124,457**	**–**	**–**	**124,457**
Additions to non-current segment assets during the year	**115,059**	**372**	**185**	**115,616**
Reportable segment liabilities	**2,530,046**	**160,153**	**203,229**	**2,893,428**

The segment results for the year ended 31 December 2011 are as follows:

	Year ended 31 December 2011			
	Segment A *RMB'000* (restated)	Segment B *RMB'000*	Segment C *RMB'000* (restated)	Total *RMB'000* (restated)
Revenue from external customers	1,038,806	693,733	842,130	2,574,669
Inter-segment revenue	693,559	89,787	322,943	1,106,289
Reportable segment revenue	1,732,365	783,520	1,165,073	3,680,958
Reportable segment profit/(loss)	740	(14,634)	58,049	44,155
Interest income from bank deposits	5,186	250	516	5,952
Interest expenses	(56,295)	(2,544)	(13,110)	(71,949)
Depreciation and amortisation for the year	(112,602)	(2,825)	(50,657)	(166,084)
Share of losses of associates	(54)	–	–	(54)
Write-down of inventories	(155,649)	(4,995)	(1,057)	(161,701)
Reportable segment assets	3,702,980	211,237	1,134,468	5,048,685
(including interests in associates)	256,748	–	–	256,748
Additions to non-current segment assets during the year	1,161,690	19,686	843,607	2,024,983
Reportable segment liabilities	2,442,048	155,815	177,926	2,775,789

(b) Geographical information

Substantially all of the Group's property, plant and equipment, lease prepayments, goodwill, intangible assets and interests in associates are located or operated in the PRC. The following table sets out information about the geographical location of the Group's revenue from external customers and non-current prepayments. The geographical location of customers is based on the location at which the services were provided or the goods delivered.

(i) Revenue from external customers

	2012 ***RMB'000***	2011 *RMB'000* (restated)
The PRC (place of domicile)	**541,816**	1,199,344
Export sales		
– Japan	**281,928**	539,332
– Spain	**94,459**	70,117
– Taiwan	**51,255**	41,392
– Germany	**16,529**	163,165
– The United Kingdom	**5,558**	288,847
– The United States of America	**5,285**	265,334
– France	**6**	–
– Canada	**–**	7,138
Sub-total	**455,020**	1,375,325
Total	**996,836**	2,574,669

(ii) Non-current prepayments

	2012	2011
	RMB'000	*RMB'000*
The PRC (place of domicile)	**26,588**	51,905
Overseas countries		
– Germany	**132,939**	157,981
– The United States of America	**98,997**	199,739
– Taiwan	**62,601**	39,609
Sub-total	**294,537**	397,329
Total	**321,125**	449,234

4. OTHER REVENUE

	2012	2011
	RMB'000	*RMB'000*
Government grants	**41,033**	134,633
Interest income from bank deposits	**4,430**	5,952
Rental income from operating leases	**1,469**	1,736
Income from sale of scrap materials	**90**	687
Others	**8,786**	7,574
	55,808	150,582

5. OTHER NET INCOME

	2012	2011
	RMB'000	*RMB'000*
Net foreign exchange gain	**3,698**	3,013
Gain on disposal of property, plant and equipment	**–**	178
	3,698	3,191

6. (LOSS)/PROFIT BEFORE TAXATION

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

		2012	2011
		RMB'000	*RMB'000*
(a)	**Finance costs**		
	Interest on bank loans wholly repayable within five years	**97,451**	80,271
	Interest on bonds	**16,019**	5,475
	Interest on municipal government loan	**197**	215
	Total interest expenses on financial liabilities not at fair value through profit or loss	**113,667**	85,961
	Less: interest expenses capitalised into construction in progress*	**(2,700)**	(14,012)
		110,967	71,949

* *The borrowing costs have been capitalised at a rate of 6.65% to 8.32% (2011: 4.42% to 8.97%) per annum.*

		2012	2011
(b)	**Staff costs**		
	Salaries, wages and other benefits	**112,483**	102,537
	Contributions to retirement schemes	**16,678**	15,170
	Equity-settled share-based payment expenses	**–**	1,940
		129,161	119,647
(c)	**Auditor's remuneration**		
	Audit services	**2,075**	1,861
	Tax services	**64**	–
	Other services	**2,221**	767
		4,360	2,628
(d)	**Other items**		
	Depreciation	**173,742**	137,096
	Write-down of inventories	**154,590**	161,701
	Research and development costs	**90,994**	127,979
	Amortisation of intangible assets	**26,591**	26,785
	Provision for warranty costs	**1,672**	6,465
	Amortisation of lease prepayments	**2,497**	2,203
	Operating lease charges – property	**1,266**	864
	Impairment of trade debtors	**1,159**	–

7. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

Income tax in the consolidated income statement represents:

	2012	2011
	RMB'000	*RMB'000*
Current tax – the PRC		
Provision for the year	**–**	30,573
Over-provision in respect of prior years	**(5,845)**	(688)
	(5,845)	29,885
Withholding tax	**858**	–
Deferred tax		
Origination and reversal of temporary differences	**(18,551)**	(39,906)
Income tax credit	**(23,538)**	(10,021)

8. DIVIDENDS

(a) Dividends payable to equity shareholders of the Company attributable to the year

The Directors of the Company have not recommended the payment of dividend for both years ended 31 December 2012 and 2011.

(b) Dividend payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2012	2011
	RMB'000	*RMB'000*
Final dividend of RMB3.5 cents (HK$4.1 cents) per share in respect of the previous financial year, approved and paid during 2011	**–**	78,476

For the final dividend in respect of the year ended 31 December 2010, the difference of RMB15,225,000 between the final dividend of RMB63,251,000 proposed in 2010 and the amount approved in 2011 of RMB78,476,000 represented dividends attributable to new shares issued upon the conversion of convertible bonds before the closing date of the register of members.

9. (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The calculation of basic loss per share is based on the loss attributable to the ordinary equity shareholders of the Company of RMB1,276,554,000 (2011: profit attributable to the ordinary equity shareholders of the Company of RMB54,291,000) and the weighted average of 2,279,802,481,ordinary shares (2011 (restated): 2,237,507,745 ordinary shares) of the Company in issue during the year as calculated in note 9(b).

(b) Weighted average number of ordinary shares

	Number of ordinary shares	
	2012	2011 (restated)
Issued ordinary shares at 1 January	**2,242,170,425**	1,807,170,425
Shares issued upon conversion of convertible bonds	**–**	404,013,699
Effect of the bonus element under open offer	**25,379,759**	26,323,621
Shares issued under open offer	**12,252,297**	–
Weighted average number of ordinary shares	**2,279,802,481**	2,237,507,745

Note: Comparative figures for the weighted average number of ordinary shares for 2011 have been adjusted retrospectively for the effect of the open offer made in December 2012.

(c) Diluted earnings per share

There were no dilutive potential ordinary shares in issue during the years ended 31 December 2012 and 2011.

10. TRADE AND OTHER RECEIVABLES

	2012	2011
	RMB'000	*RMB'000* (restated)
Trade debtors and bills receivable	**279,594**	181,591
Prepayments for raw materials	**53,615**	53,101
Other receivable from a processing customer	**–**	45,655
Value – added tax recoverable	**193,386**	188,337
Amount due from an associate	**118,802**	–
Deposits and other receivables	**75,350**	66,161
	720,747	534,845

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 that are neither individually nor collectively considered to be impaired is as follows:

	The Group	
	2012	2011
	RMB'000	*RMB'000*
Neither past due nor impaired	**188,926**	134,143
Less than 1 month past due	**44,149**	26,009
1 to 3 months past due	**10,940**	2,755
4 to 6 months past due	**4,134**	17,288
7 to 12 months past due	**11,555**	1,396
Over 12 months past due	**19,890**	–
	90,668	47,448
	279,594	181,591

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of individual customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balance are still considered fully recoverable. The Group does not hold any collateral over these balances.

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

11. TRADE AND OTHER PAYABLES

	2012	2011
	RMB'000	*RMB'000*
Trade payables	**343,927**	103,636
Bills payable	**235,732**	252,701
Other payables and accrued expenses	**266,439**	284,317
	846,098	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 based on invoice date as of the end of reporting period is as follows:

	2012	2011
	RMB'000	*RMB'000*
Within 1 month	**190,741**	307,386
1 to 3 months	**121,069**	20,554
4 to 6 months	**179,243**	9,999
7 to 12 months	**68,083**	1,415
After 1 year but within 2 years	**20,523**	16,983
	579,659	356,337

12. INTEREST-BEARING BORROWINGS

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

As of 31 December 2012, the Group failed to achieve certain financial covenants as stipulated in one of the loan agreements entered into by the Company. On discovery of such non-compliance, the Directors informed the lenders and commenced renegotiation of the terms of this loan with the relevant banks. On 26 March 2013, a waiver from non-compliance with the financial covenants of the loan was granted by the majority of the lenders.

In accordance with the requirements of the prevailing accounting standards in Hong Kong, the carrying amount of RMB133,441,000 in respect of the non-current portion of the above-mentioned loan due in 2014 was reclassified as a current liability in the consolidated statement of financial position as of 31 December 2012.

13. PREPAYMENTS FOR RAW MATERIALS

As at 31 December 2012, management has 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 prepayments is remote. As such, prepayments totalling RMB134,485,000 have been fully provided for during the year.

14. GOODWILL AND INTANGIBLE ASSETS

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

Since the last quarter for 2011, 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. As such, the Group has recognised impairment of goodwill and intangible assets of RMB208,237,000 and RMB201,493,000 respectively in 2012, which has been determined with reference to the recoverable amount of the CGU.

The recoverable amount of the CGU has been 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.

	2012	2011
	%	%
Growth rate	**3**	3
Discount rate	**16.5**	19

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.

15. IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

In view of the current solar market situation, the Group assessed the recoverable amount of property, plant and equipment of each cash-generating unit ("CGU"). As a result, the carrying amount of certain property, plant and equipment was written down by RMB161,200,000 (2011: Nil). The estimated recoverable amounts were based on the value in use of each individual CGU determined by the estimated future cash flow discounted at a pre-tax discount rate which ranged from 16.5% to 18.6%.

16. COMPARATIVE FIGURES

Certain comparative figures have been restated to conform to the new presentation upon the change in application of accounting policy as disclosed in note 2(b).

17. NON-ADJUSTING EVENTS AFTER THE REPORTING DATE

(a) In March 2013, the Company raised approximately HK$250,113,000 (equivalent to approximately RMB200,443,000) after deduction of the estimated related expenses by way of an open offer of 498,260,094 new shares on the basis of one offer share for every five existing shares held. The Group will apply the entire net proceeds to repay its current outstanding interest-bearing bank loans.

(b) As disclosed in note 12, due to the non-compliance with certain financial covenants under the syndicated loan agreement dated 27 May 2011, as subsequently revised by a waiver letter granted by the banks dated 23 August 2012, the balance of the non-current portion of the syndicated loan due in 2014 amounting to US$21,230,000 (equivalent to RMB133,441,000) was reclassified from non-current liabilities to current liabilities as at 31 December 2012. On 26 March 2013, a waiver from non-compliance with the financial covenants was granted by the majority of the lenders.

MANAGEMENT DISCUSSION AND ANALYSIS

Market Overview

The global solar energy industry continues to face challenges of overcapacity, oversupply and increasing inventory levels in the upstream and downstream business. In 2012, the solar energy industry was still in the process of digesting the over-investment in capacity in 2010 and 2011. According to a recent report issued by Solarbuzz, a research institute for the solar energy industry, the demand of solar power generation slowed down in 2012. The demand increased by only slightly 5%, from 27.7GW in 2011 to 29GW in 2012, a first time record of lower than 10% in the past ten years. The analysis also showed that the growth did not meet the expectation of over 30GW of demand of solar energy that estimated in 2012 by the industry.

Though the subsidy policies for solar energy in the European market decreased in 2012, Europe is still the biggest market of demand for solar energy, which amounted to 16.48GW and accounting for 60% of the global market. The German Government set a target of an accumulated installed capacity of solar energy in Germany at 52GW by 2020. If the total installed capacity exceeds the target, no subsidy would be granted for the excess of the newly installed capacity which over the target level.

Asia is the second biggest market of demand for solar energy, which amounted to 8.69GW in 2012. Attributed by the strong driving forces from the rapid growth of the Chinese end markets in the second half of 2012. The Chinese Government indicated 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. Furthermore, it has clearly stated that photovoltaic technologies is designated as one of the 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 aims to 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 U.S. market, the proportion of demand of the whole U.S. market in 2012 was 13%, amounted to 3.68GW. It is mainly attributable to California benefitting from the energy quota and subsidy policy of the renewable energy. In fact, the California market accounted for over one third of the whole U.S. market in 2012. According to the reports issued by Solar Energy Industries Association ("SEIA") and GTM Research, 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 helps trigger demand.

Operations Review

During the year under review, the Group established an effective and unique of "inverted pyramid" vertical integrated supply chain. It gradually completed the transformation of "Golden Cap" from a solar energy materials manufacturer to a one-stop service provider of solar power projects. The Group aims to become a high quality and technology company and distinguish itself from other participants in the industry. The Group has already obtained 51 patents and 11 patents are in the process of application. The Group will continue to devote efforts in research and development. Besides, individual products of the Company including ingots, wafer, cells and modules within the supply chain can also be sold to third parties.

Silicon Ingot Business

During the year under review, the Group maintained its production capacity of silicon ingots to further explore its technological advantage. As at 31 December 2012, the Group was equipped with 589 monocrystalline ingot pullers and 4 multicrystalline casting furnaces, of which 397 monocrystalline ingot pullers were located in the Jinzhou production base while the remaining 192 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. Among the 192 monocrystalline ingot pullers, 96 monocrystalline ingot pullers was put into mass production in December 2011 and another 96 monocrystalline ingot pullers will be put into trial procedures depend on the recovery of the market condition, resulted in the annual production capacity of silicon ingots of 1.2GW, further strengthen the Group's leading position in monocrystalline solar energy products industry.

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 77.59MW, representing a 45.1% drop compared to 141.24MW in 2011. 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 of the Group 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 year under review, the external shipment volume of N-type silicon ingots was about 62.48MW, representing an aggregate amount of approximately 80.5% of the external shipment volume of silicon ingots. N-type products are mainly targeted at Japanese customers.

Wafer Business

As at 31 December 2012, the Group has 121 wiresaws in the Jinzhou production base, with an annual production capacity of wafers reaching 900MW. In addition to the supply of wafers to the downstream cells and module, the Group also sells wafers to independent customers directly. The external shipment volumes of silicon solar wafers of the Group were 244.7MW during the year under review, representing an increase of 34.4% in total compared with 182.11MW in 2011. The increase was mainly due to the increase in the proportion of the wafer processing business during the year and the decrease in internal sales of wafer to the downstream business.

Cell Business

During the year under review, the manufacturing base of the Group in Jinzhou is equipped with production lines of solar cells with production capacity of 300MW and external shipment volume of solar cells was approximately 91.15MW, representing a decline of 35.1% in total volume compared with the external shipment volume of 138.90 MW of last year. It contributed a segment turnover of approximately RMB274.711 million (2011: RMB842.130 million), accounting for 27.6% of the Group's turnover (2011: 32.7%). The manufacturing of cells provides stable and high raw materials supply for the modules business of the Group, and enhances the overall operation efficiency. In addition, the products are not only supplied to the downstream manufacture of modules, but also sold to the customers from domestic or Japan

Module Business

The Group has equipped with solar modules production line 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 year under review, the external shipment volume of solar modules of Jinzhou Jinmao was approximately 55.69MW, representing a decline of 38.9% in total volume compared with the external shipment volume of 91.09MW of last year. The Group currently has obtained a stable order stream from Chinese and Japanese customers. In addition to increase production capacity of existing modules by enhancing existing technology, the Group will also adapt commission processing to meet the demands for purchasing modules from customers.

System Installation Business

Since the Group is mainly engaged in the manufacturing of solar products, it is not the Group's long term strategy to hold the photovoltaic power plant. Therefore, currently, among the photovoltaic power plants that the Group holds, being photostatic power plants in Qinghai Golmud, Liaoning Jinzhou and Germany, certain power plants under the Germany power plant project have been disposed of. The Group is seeking the opportunity to dispose of major power plants projects to generate working capital for the Group or for construction of new power plants for the production of solar modules.

Financial Review

Turnover

For the year ended 31 December 2012, the turnover of the Group was RMB996.836 million, representing a decrease of 61.3% compared with the year ended 31 December 2011. During the year ended 31 December 2012, 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 year ended 31 December 2012, cost of sales decreased by 44.5% to RMB1,288.220 million from RMB2,320.821 million for the year ended 31 December in 2011. Cost of sales represented 129.2% of total turnover, an increase of 39.1% compared to 2011. The increase in ratio was mainly due to the further inventory provision made during the period (2012: RMB154.590 million; 2011: RMB161.701 million).

Gross profit and gross profit margin

For the year ended 31 December 2012, the Group recorded a gross loss of RMB291.384 million and a gross loss margin of 29.2%, as compared to a gross profit of RMB253.848 million and a gross profit margin of 9.9% for the year ended 31 December 2011.

Selling and distribution expenses

Selling and distribution expenses mainly comprised packaging expenses, freight charges and marketing and promotional expenses. Selling and distribution expenses decreased by 40% to RMB19.303 million for the year ended 31 December 2012 from RMB32.169 million in 2011, representing 1.9% of the total turnover of the Group (2011: 1.2%).

Administrative expenses

Administrative expenses mainly comprised staff costs and research and development expenses. The administrative expenses for the year of 2012 amounted to RMB252.539 million, decreased by 6.2% as compared to RMB269.315 million in 2011, representing 25.3% of the turnover of the Group.

Finance costs

The finance costs of the Group increased from RMB71.949 million for the year ended 31 December 2011 to RMB110.967 million for the year ended 31 December 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 bonds issued on 24 August 2011 and the additional bank borrowings for business operations.

Income tax

Income tax credit was RMB23.538 million for the year ended 31 December 2012, while an income tax credit amounting to RMB10.021 million was recorded for the year ended 31 December 2011. Income tax credit recorded for the year ended 31 December 2012 was due to the reversal of temporary deferred tax differences.

(Loss)/profit attributable to the equity shareholders

For the year ended 31 December 2012, the Group recorded a loss attributable to the equity shareholders of RMB1,276.554 million, while a profit attributable to the equity shareholders of RMB54.291 million was recorded for the year ended 31 December 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 year ended 31 December 2012, the inventory turnover days of the Group were 111 days (2011: 59 days), an increase of 52 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 year ended 31 December 2012, the trade receivable turnover days of the Group increased to 84 days (2011: 25 days). The increase in trade receivable turnover days was due to the extension of credit terms to customers during the year. 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 year under review. Accordingly, trade payable turnover days during the year ended 31 December 2012 increased to 72 days (2011: 22 days).

Liquidity and financial resources

The principal sources of working capital of the Group during the year under review were cash flows from bank borrowings. As at 31 December 2012, the current ratio (current assets divided by current liabilities) of the Group was 0.79 (31 December 2011: 1.22). The Group had net borrowings of RMB1,476.838 million as at 31 December 2012 (31 December 2011: RMB1,115.634 million), including cash at banks and on hand of RMB153.793 million (31 December 2011: RMB583.743 million), pledged deposits of RMB174.234 million (31 December 2011: RMB151.682 million), bank loans due within one year of RMB1,018.985 million (31 December 2011: RMB705.077 million), non-current bank loans of RMB484.5 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 RMB2.78 million (31 December 2011: RMB2.947 million). The net debt to equity ratio (net debt divided by total equity) was 140.5% (31 December 2011: 49.1%). By excluding the effect of the reclassification of the non-current bank loans of RMB133.441 million from non-current liabilities to current liabilities which the waiver has been granted by the banks subsequent to the end of reporting period, the Group's current ratio as at 31 December 2012 would be 0.85, bank loans due within 1 year would be RMB885.544 million and the non-current bank loans would be RMB617.941 million.

Contingent liabilities

As at 31 December 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 31 December 2012, the Group had 3,635 (31 December 2011: 3,655) employees.

Future prospects and strategies

During the National People's Congress and the Chinese People's Political Consultative Conference ("NPC &CPPCC") which just held days ago, vice-premier of the state Mr. Li Keqiang once stated that "the development is top priority and cost-reduction is the top strategy". Development is the key to solve all issues in China, and how to achieve integrated and cost-reduction development is the top question need to be considered in front of China. This statement brings a highlight of discussion on developing new energy in NPC &CPPCC,

"Curbing for the blind expansion of industries such as solar energy and wind power" is mentioned in the Chinese Government Work Report this year. The formal minister of National Energy Administration Mr. Zhang Guobao states that, new energy such as wind power and solar energy attributed relatively low proportion in the energy structure currently. We can only mention that it is a good beginning for the new energy, and the most important task now is to break the bottleneck in grid connection and avoid the blind expansion in equipment manufacturing industry of solar energy and wind power.

The development plan of the state is a favourable factor of the Group. Leveraging with the large scale of the Group and under the restructure of solar industry, together with the monitor on small manufacturer by the state, the Group will enjoy positive affects. Moreover, developing on the new energy is considered to be a necessary plan for the state, therefore, the Group is optimistic towards the outlook.

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. Continue to devote research and development fund to maintain its leading position in industrial technology, mainly focus on the leading in product quality, enhancement of competitiveness of new product research and development.

2 Enhance the production and sales promotion on high-end products, for example, it will continue to increase the output delivery and customer development for N-type, which was capable of mass production since 2006 and is maintaining several international customers; as well as rejuvenate the business expansion on 210 diagonal monocrystal clip, which will enable a significant cost per unit of downstream in-house manufacturing products or customer of downstream modules.

3 Seeking opportunity to select strategic partnership alliance:

(i) manufacturing: the alliance comprises cooperation on equity or business, seeking for mutual benefits to achieve synergic effects, so as to strengthen the leading position of the Group in the industry;

(ii) construction on photovoltaic power plant: introduce external financial investor to invest in the photovoltaic power plant project that secure by the Group, and by means of purchasing the in-house manufacturing modules, it will provide more distribution channels for the downstream products of the Group;

4 Stringently control and significantly reduce the capital expenditure on various expenses, to ensure sufficient operation capital. Moreover, it can also seek for opportunity of capital increase by cash, to further improve its financial structure.

5 Prudent selection on the customers, and conduct strict control on credit sales to secure the recovery of trade receivable, as well as establish long-term sales channel with customers of good reputation.

AUDIT COMMITTEE

The Company's Audit Committee has reviewed the accounting principles and practices adopted by the Group and the Group's annual results for the year ended 31 December 2012.

DIVIDEND

No interim dividend was paid in 2012 (2011: RMB Nil). The Directors do not recommend the payment of a final dividend per share for 2012 (2011: RMB Nil).

EXTRACT OF THE INDEPENDENT AUDITOR'S REPORT

The auditor expresses an unqualified opinion in the auditor's report, but wishes to draw attention to the readers of the financial statements by adding an emphasis of matter paragraph as follows:

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Emphasis of matter

Without qualifying our opinion, we draw attention to note 1(b) in the consolidated financial statements which describes that the Group sustained a loss of RMB1,295,053,000 during the year ended 31 December 2012 and, as of that date, the Group's current liabilities exceeded its current assets by RMB385,052,000. The Group also used cash and cash equivalents of RMB202,579,000 in its operating activities during the year ended 31 December 2012, and suffered a significant decrease in turnover. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. As further detailed in note 1(b) to the consolidated financial statements, the Group raised net proceeds amounting to RMB200,443,000 through an open offer in March 2013 and has identified further measures to improve its performance and financial position. The consolidated financial statements have been prepared on a going concern basis, the validity of which is dependent on the successful implementation of these further measures to enable the Group to operate as a going concern and meet its financial liabilities as they fall due for the foreseeable future. The consolidated financial statements do not include any adjustments that would result should the Group be unable to continue to operate as a going concern.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 24 June 2013 to 27 June 2013, 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 21 June 2013.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of its listed securities.

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 throughout the year ended 31 December 2012.

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 31 December 2012 as set out in Appendix 14 of the Listing Rules throughout the nine months ended 31 December 2012.

PUBLICATION OF FINANCIAL INFORMATION

The 2012 annual report 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.

ANNUAL GENERAL MEETING

It is proposed that the annual general meeting of the Company be held on 27 June 2013. Notice of the annual general meeting will be published and issued to shareholders in due course.

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

Hong Kong, 27 March 2013

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.