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 2013

FINANCIAL HIGHLIGHTS

– Turnover for the period under review increased by 68.9% to RMB818.94 million (corresponding period in 2012: RMB484.959 million).

– Gross profit for the period under review was RMB18.591 million (corresponding period in 2012: Gross loss of RMB154.725 million).

– Net loss attributable to the equity shareholders of the Company for the period under review decreased by 79.4% to RMB136.431 million (corresponding period in 2012: RMB660.912 million)

– Basic loss per share decreased by 83% to RMB5.02 cents (corresponding period in 2012: RMB29.48 cents per share)

– The board of Directors of the Company does not recommend the distribution of any interim dividend for the six months ended 30 June 2013 (corresponding period in 2012: 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 2013, together with the comparative figures for the corresponding period in 2012. 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 Report 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 STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2013

		Unaudited Six months ended 30 June	
		2013	2012
	Note	***RMB'000***	*RMB'000*
Turnover		**818,940**	484,959
Cost of sales		**(800,349)**	(639,684)
Gross profit/(loss)		**18,591**	(154,725)
Other revenue	*4*	**10,254**	13,415
Other net income	*5*	**3,625**	1,591
Selling and distribution expenses		**(13,711)**	(7,240)
Administrative expenses		**(113,475)**	(118,643)
Loss from operations		**(94,716)**	(265,602)
Impairment of prepayments	*13*	**–**	(134,861)
Impairment of goodwill	*14*	**–**	(208,237)
Share of profits less losses of associates		**3,807**	(201)
Finance costs	*6(a)*	**(50,772)**	(54,483)
Loss before taxation	*6*	**(141,681)**	(663,384)
Income tax credit/(expense)	*7*	**2,212**	(22,163)
Loss for the period		**(139,469)**	(685,547)
Attributable to:			
Equity shareholders of the Company		**(136,431)**	(660,912)
Non-controlling interests		**(3,038)**	(24,635)
Loss for the period		**(139,469)**	(685,547)
Loss per share *(RMB cents)*			
– Basic and diluted	*9*	**(5.02)**	(29.48)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2013

	Unaudited Six months ended 30 June	
	2013	2012
	RMB'000	*RMB'000*
Loss for the period	**(139,469)**	(685,547)
Other comprehensive income for the period (after tax and reclassification adjustments):		
Item that may be reclassified subsequently to profit or loss:		
– Exchange differences on translation of financial statements of companies outside of the People's Republic of China ("PRC")	**3,736**	3,268
Total comprehensive income for the period	**(135,733)**	(682,279)
Attributable to:		
Equity shareholders of the Company	**(132,695)**	(657,644)
Non-controlling interests	**(3,038)**	(24,635)
Total comprehensive income for the period	**(135,733)**	(682,279)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2013

	Note	**Unaudited 30 June 2013 *RMB'000***	Audited 31 December 2012 *RMB'000*
Non-current assets			
Property, plant and equipment		**1,861,602**	1,917,684
Prepayments for acquisition of property, plant and equipment		**7,025**	4,582
Lease prepayments		**100,067**	101,361
Prepayments for raw materials	*13*	**307,833**	316,543
Interests in associates		**128,264**	124,457
		2,404,791	2,464,627
Current assets			
Inventories		**393,966**	424,187
Trade and other receivables	*10*	**668,039**	720,747
Current tax recoverable		**500**	7,070
Pledged deposits		**294,510**	174,234
Cash at bank and in hand		**287,846**	153,793
		1,644,861	1,480,031
Current liabilities			
Trade and other payables	*11*	**784,053**	846,098
Bank loans	*12*	**1,151,390**	1,018,985
		1,935,443	1,865,083
Net current liabilities		**(290,582)**	(385,052)
Total assets less current liabilities		**2,114,209**	2,079,575
Non-current liabilities			
Bank and other loans	*12*	**395,663**	487,280
Bonds		**298,600**	298,600
Deferred tax liabilities		**9,067**	11,757
Deferred income		**216,627**	221,701
Other non-current liabilities		**12,054**	9,007
		932,011	1,028,345
NET ASSETS		**1,182,198**	1,051,230
CAPITAL AND RESERVES			
Share capital		**276,727**	218,787
Reserves		**876,157**	800,091
Total equity attributable to equity shareholders of the Company		**1,152,884**	1,018,878
Non-controlling interests		**29,314**	32,352
TOTAL EQUITY		**1,182,198**	1,051,230

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

1. BASIS OF PREPARATION

This interim financial report 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"). It was authorized for issue on 28 August 2013.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2012 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2013 annual financial statements. Details of these changes in accounting policies are set out in note 2.

Notwithstanding the Group sustained a loss of RMB139 million during the six-month period ended 30 June 2013 and, as of that date, the Group's current liabilities exceeded its current assets by RMB291 million, the directors are of the view that the adoption of the going concern assumption in preparation of the interim 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 is not limited to, twelve months from the end of the reporting period.

(i) Available banking facilities

The Group intends to maintain its strong business relationship with its banks to maintain their continuing support and is actively negotiating with its banks for obtaining new or extending outstanding short term banking facilities. On 21 August 2013, the Group obtained a new short term banking facility of USD27 million (equivalent to RMB167 million) from its major local bank, who has provided the Group with a total of RMB887 million banking facilities as of 30 June 2013. The directors are confident that the Group, will succeed in negotiating with its banks to obtain new banking facilities and to extend the repayment terms of the outstanding short-term bank loans to meet its future working capital requirements.

(ii) New business cooperation

The Company has entered into new business cooperation with Sharp Corporation ("Sharp"), the world's leading solar photovoltaic enterprise, pursuant to which Sharp will purchase a new type of product from the Company – 370 MW of solar modules in the fiscal year of 2013. It is a new business deal for the Company and Sharp after almost a decade-long supply and sales partnership which promises to further strengthen the sustainable tie-up between the Company and Sharp. More importantly, the Company has now become the largest solar product supplier in China for Sharp, with shipment quantities far ahead of its peers. As a result of this new business cooperation, substantial increase in sales was noted during the period under review.

(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 costs 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 banks 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.

2. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

- Amendments to HKAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*
- HKFRS 10, *Consolidated financial statements*
- HKFRS 12, *Disclosure of interests in other entities*
- HKFRS 13, *Fair value measurement*
- *Annual Improvements to HKFRSs 2009-2011 Cycle*
- Amendments to HKFRSs 7 – *Disclosures – Offsetting financial assets and financial liabilities*

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

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 ("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 follow:

	Unaudited Six months ended 30 June 2013			
	Segment A *RMB'000*	**Segment B** *RMB'000*	**Segment C** *RMB'000*	**Total** *RMB'000*
Revenue from external customers	**333,641**	**358,656**	**126,643**	**818,940**
Inter-segment revenue	**146,825**	**–**	**220,372**	**367,197**
Reportable segment revenue	**480,466**	**358,656**	**347,015**	**1,186,137**
Reportable segment profit/(loss)	**(253,764)**	**47,052**	**67,243**	**(139,469)**

	Unaudited 30 June 2013			
	Segment A *RMB'000*	**Segment B** *RMB'000*	**Segment C** *RMB'000*	**Total** *RMB'000*
Reportable segment assets (including interest in associates)	**2,987,409**	**362,119**	**700,124**	**4,049,652**
Reportable segment liabilities	**2,263,281**	**355,823**	**248,350**	**2,867,454**

	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)

	Audited 31 December 2012			
	Segment A *RMB'000*	Segment B *RMB'000*	Segment C *RMB'000*	Total *RMB'000*
Reportable segment assets (including interest in associates)	3,046,828	216,074	681,756	3,944,658
Reportable segment liabilities	2,530,046	160,153	203,229	2,893,428

(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 to which the goods were delivered or the services were provided.

	Unaudited **Six months ended 30 June**	
	2013 ***RMB'000***	2012 *RMB'000*
The PRC (place of domicile)	**165,843**	218,520
Export sales		
– Japan	**511,917**	143,095
– Taiwan	**125,555**	28,225
– Spain	**7,536**	75,218
– Germany	**7,227**	9,186
– Canada	**826**	–
– France	**36**	–
– United Kingdom	**–**	5,548
– The United States of America	**–**	5,167
Sub-total	**653,097**	266,439
Total	**818,940**	484,959

4. OTHER REVENUE

	Unaudited Six months ended 30 June 2013 RMB'000	2012 RMB'000
Government grants	**7,039**	8,728
Interest income from bank deposits	**1,256**	2,581
Rental income from operating leases	**797**	874
Income from sale of scrap materials	**13**	29
Others	**1,149**	1,203
	10,254	13,415

5. OTHER NET INCOME

	Unaudited Six months ended 30 June 2013 RMB'000	2012 RMB'000
Net foreign exchange gain	**3,625**	1,591

6. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

	Unaudited Six months ended 30 June 2013 RMB'000	2012 RMB'000
(a) Finance costs		
Interest on bank and other loans	**46,446**	47,010
Interest on bonds	**7,600**	7,700
Total interest expense on financial liabilities not at fair value through profit or loss	**54,046**	54,710
Less: interest expense capitalised into property, plant and equipment	**(3,274)**	(227)
	50,772	54,483
(b) Other items		
Depreciation	**83,520**	87,266
Write-down of inventories	**69,850**	132,805
Provision for warranty costs	**3,047**	219
Research and development costs	**33,444**	42,247
Write-off of trade debtors	**22,554**	–
Amortisation of intangible assets	**–**	13,296
Amortisation of lease prepayments	**1,294**	1,261
Operating lease charges	**516**	595

7. INCOME TAX CREDIT/(EXPENSE)

Income tax in the consolidated statement of profit and loss represents:

	Unaudited Six months ended 30 June 2013 RMB'000	2012 RMB'000
Current tax – the PRC		
Provision for the period	**–**	–
Over-provision in respect of prior years	**–**	5,845
	–	5,845
Deferred tax		
Origination and reversal of temporary differences	**2,690**	(27,216)
Withholding tax	**(478)**	(792)
Income tax credit/(expense)	**2,212**	(22,163)

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for the six months ended 30 June 2013 and the year ended 31 December 2012. No provision for Hong Kong Profits Tax has been made as the Group either did not have any assessable profits subject to Hong Kong Profits Tax or have accumulated tax losses brought forward from previous years to offset the estimated profits for the period.

Pursuant to the applicable laws, rules and regulations of the British Virgin Islands ("BVI") and the Cayman Islands, the Group is not subject to any income tax in BVI and the Cayman Islands.

Under the Law of People's Republic of China on Corporate Income Tax ("CIT") and its relevant regulations, the tax rate of the Group's PRC subsidiaries is 25% from 1 January 2008 onwards, except for the subsidiaries mentioned below.

Two of the Group's wholly owned subsidiaries, Jinzhou Rixin Silicon Materials Co. Ltd. and Jinzhou Yangguang Energy Co. Ltd. have been accredited as a "High and New Technology Enterprise" by relevant authorities for a term of three years, and have been registered with the local tax authority to be eligible to the reduced 15% corporate income tax rate. Accordingly, these subsidiaries are subject to 15% corporate income tax rate for the six months ended 30 June 2013 and the year ended 31 December 2012.

One of the Group's wholly owned subsidiary, Jinzhou Huachang Photovoltaic Technology Company Limited ("Huachang Guangfu") was entitled to a tax holiday of a 2-year full exemption followed by a 3-year 50% reduction income tax rate commencing on 1 January 2008 ("2+3 Holiday"). Accordingly, Huachang Guangfu is subject to income tax at 12.5% from 2010 to 2012. On the other hand, Huachang Guangfu was granted the status of a "High and New Technology Enterprise" in 2011 that entitles it to a reduced CIT rate of 15% for the three years commencing from the year ended 31 December 2011. As such, Huachang Guangfu is subject to income tax at 12.5% in 2012 and 15% for the six months ended 30 June 2013.

8. DIVIDENDS

The Directors do not recommend the distribution of dividend in respect of the six months ended 30 June 2013 (six months ended 30 June 2012: Nil).

9. LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to the equity shareholders of the Company of RMB136,431,000 (six months ended 30 June 2012: Loss of RMB660,912,000) and the weighted average of 2,720,235,093 ordinary shares (six months ended 30 June 2012: 2,242,170,425 ordinary shares) of the Company in issue during the period as calculated in note 9(b).

(b) Weighted average number of ordinary shares

	Unaudited Number of ordinary shares	
	2013	2012
Issued ordinary shares at 1 January	**2,491,300,472**	2,242,170,425
Effect of shares issued under open offer	**187,191,638**	–
Effect of shares issued under new share subscription	**41,742,983**	–
Weighted average number of ordinary shares for the six months ended 30 June	**2,720,235,093**	2,242,170,425

(c) Diluted loss per share

There were no dilutive potential ordinary shares in issue during the six months ended 30 June 2013 and 2012.

10. TRADE AND OTHER RECEIVABLES

	Unaudited 30 June 2013	Audited 31 December 2012
	RMB'000	*RMB'000*
Trade debtors and bills receivable	**273,409**	279,594
Prepayments for raw materials	**58,548**	53,615
Value-added tax recoverable	**203,950**	193,386
Deposits and other receivables	**97,968**	75,350
Amounts due from an associate	**34,164**	118,802
	668,039	720,747

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

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

	Unaudited 30 June 2013 *RMB'000*	Audited 31 December 2012 *RMB'000*
Within 1 month	**151,586**	143,109
1 to 3 months	**39,767**	36,067
4 to 6 months	**9,261**	55,559
7 to 12 months	**51,878**	22,395
Over 1 year	**20,917**	22,464
	273,409	279,594

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 2013 *RMB'000*	Audited 31 December 2012 *RMB'000*
Not past due	**157,297**	188,926
Less than 1 month past due	**12,877**	44,149
1 to 3 months past due	**29,550**	10,940
4 to 6 months past due	**47,162**	4,134
7 to 12 months past due	**9,539**	11,555
Over 1 year past due	**16,984**	19,890
	116,112	90,668
	273,409	279,594

11. TRADE AND OTHER PAYABLES

	Unaudited 30 June 2013 *RMB'000*	Audited 31 December 2012 *RMB'000*
Trade payables and bills payable	**472,932**	579,659
Other payables and accrued expenses	**225,304**	221,502
Receipts in advance	**85,817**	44,937
	784,053	846,098

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 2013 *RMB'000*	Audited 31 December 2012 *RMB'000*
Within 1 month	**182,519**	190,741
1 to 3 months	**113,288**	121,069
4 to 6 months	**70,443**	179,243
7 to 12 months	**73,252**	68,083
After 1 year but within 2 years	**33,430**	20,523
	472,932	579,659

12. BANK AND OTHER LOANS

Certain of the Group's banking facilities are subject to the fulfilment of covenants relating to certain of the Group's financial position ratios, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants.

As at 31 December 2012, the balance of certain non-current portion of the bank loans amounting to RMB133,441,000 was reclassified from non-current liabilities to current liabilities due to the non-compliance with certain financial covenants. Subsequent to 31 December 2012, a waiver from non-compliance with such financial covenants was granted by the lenders.

As at 30 June 2013, other loans amounted to RMB50,663,000 were loans from a third party, Higuchi Industries Limited. Other loans as at 31 December 2012 represented the loans from PRC Government.

13. PREPAYMENTS FOR RAW MATERIALS

As at 30 June 2012 and 31 December 2012, management assessed prepayments for potential impairment and identified that two of the suppliers were in financial difficulties and might default on the delivery of raw materials to the Group. Management discussed the possibility of recovery of the prepayments concerned with the Group's legal counsel and was of the opinion that the chance of recovery of such prepayments was remote. As such, prepayments totalling RMB134,861,000 and RMB134,485,000 were fully provided for respectively.

14. INTANGIBLE ASSETS AND GOODWILL

Intangible assets and goodwill are 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, which is considered to be a cash-generating unit ("CGU"), was severely affected by the weak demand of the solar market and the significant drop in prices of solar products in 2012. As such, the Group recognised an impairment of goodwill of RMB208,237,000 in the first half year of 2012 and an impairment of intangible assets of RMB201,493,000 in the second half year of 2012, which were determined with reference to the recoverable amount of CGU based on value-in-use calculations.

MANAGEMENT DISCUSSION AND ANALYSIS

Market Overview

After experiencing a bleak period of over-capacity, over-supply and industrial consolidation, there were signs of recovery in the first half of 2013. Although the photovoltaic industry in Europe remains pessimistic with a continuous recession on the market, thanks to a strong demand in the US market, as well as the rapid growth of the photovoltaic markets in China and Japan, an overall upward trend is shown in the photovoltaic industry, hopefully leading into a stable growing period.

According to a recent quarterly report issued by Solarbuzz, a research institute for the solar industry, upon three years of consolidation, the market on the whole gradually revives and the photovoltaic industry is entering into a stable growing period. Besides, a balanced demand and supply enables turnaround of the industry. Solarbuzz predicts during the period from 2012 to 2017, the price of system installation will drop due to the fall in the prices of the solar energy materials and components, which helps extend the market reach of solar energy industry and bring forth long term business opportunities. The report of Solarbuzz also indicates that the global demand for photovoltaic products in the second half of 2013 is expected to reach 20GW, representing a year-on-year increase of 22%. Under the strong motivation by both China and Japan markets, the total demand for photovoltaic products in 2013 is expected to hit a record high of 35.1GW, and in the second half of 2013 these two countries will account for more than 45% of the world's demand for the installation of photovoltaic projects. However, since the annual growth rate of the whole industry depends on the large-scale photovoltaic projects to be carried out in China and Japan, the lower than expected performance of these two countries will pose risk to the supply chain at the end of the year.

In respect of the U.S. market, the statistics from NDP Solarbuzz North America PV Market Quarterly shows that the newly-added photovoltaic installation volume in the U.S. exceeded 1.8GW in the first half of 2013, hitting a record high of 10GW in the installation volume of the U.S., and ranking the fourth over the globe. The development of photovoltaic industry in the U.S. expedites and 80% increase in the accumulated installation volume in the coming 18 months is expected, thereby the installation volume will exceed 17 GW at the end of 2014. The buoyant demand in the U.S. market considerably drives the photovoltaic demand globally. Yet, the anti-dumping and anti-subsidy tariff levels the prices of photovoltaic components between China and the U.S., which impairs the competitive edge of Chines enterprises operating in the U.S..

For the European market, in the second quarter of 2013, among the five major markets in Europe, only the demand in the UK increased over last year, while the rest experienced a decrease. The macro-economic environment in Europe remained stagnant. More and more countries from the European Union adopted tightening measures in response to the request from the European Union for reducing the deficit of public finance, under which, the photovoltaic industry became the first target to bear the brunt of the deficit reduction. Numerous governments in Europe claimed the retrospective tariff from the photovoltaic industry or cut the subsidies against the industry, which further lowered the expected economic return of the photovoltaic industry and also dampened the confidence of the consumers. Also, the trade disputes between China and Europe brought adverse impact. The European photovoltaic market was in face of severe challenges. Nevertheless, the disputes had been settled through negotiation and placing limitation on the price and the volume so as to prevent the rise of ruinous market prices. In respect of Germany, under the influence of reducing the subsidies on the photovoltaic power generation, the new installed capacity of photovoltaic engine in the first five months in 2013 diminished almost 50% over the corresponding period in 2012 to 1.5GW. In lack of policy support and facing a keen competition from the manufacturers in Asia, numerous solar energy enterprises in Germany declared bankruptcy or retreated from the photovoltaic business. The photovoltaic industry in Germany is exposed to difficulties. However, the photovoltaic components made in Germany are mainly for internal power generation purposes and there are imported solar energy components at the same time. As a result, enterprises which gone bankrupt are mainly those manufacture photovoltaic materials and equipment. The downstream photovoltaic power generation enterprises are not affected.

Having a view on Japan, although the Japanese government has lowered the Feed-In Tariff (FIT) against large scale power stations to 37.8 yen per kWh, the adjustment does not generate any impact on the profitability of the power station. To date, Japan still remains as a region which offers the most favourable subsidies among the world. The installed capacity in Japan has been on the rise over the past three quarters. In the first quarter of 2013, the new installed capacity was 1.7GW, and its total volume is expected to approach 5GW yearly, enabling Japan to become the world's second largest photovoltaic application market, second only to China. Japanese consumers traditionally emphasizes on high quality, and the country offers considerable subsidies and imposes stringent accreditation barriers. These are the reasons why Japan being a market among the world with the highest average selling price of the photovoltaic products. Its products even have 10% room for premium. It is believed that those Chinese enterprises which are able to extend its sales channel in Japan can see an improvement in their profitability.

In China, in the first half of 2013, the photovoltaic industry had seen signs of recovery after experiencing more than one year of bleak environment and the improvement in supply and demand drove a turnaround of the industry. Since the new policy in respect of photovoltaic market had not yet formulated in the first quarter, no leapfrog development was achieved by the photovoltaic market in China. The installed capacity was approximately 1.2GW, and a majority of enterprises remained positive. Overall speaking, the surging demand for machine installation and the continuing contracting capacity promotes a more reasonable ration for the actual and effective supply and demand. Meanwhile, the rate of operation and the market share of the top 20 module manufacturers have increased in the first half of 2013, visualizing a preliminary effect of industry integration. Benefitted from the distributed power generation and the establishment of the policy in relation to the photovoltaic benchmark tariff subsidy, it is anticipated that the photovoltaic industry of China will march toward healthy development in the second half of 2013 to reach a development peak in the future.

Operations Review

The Group established an effective and unique vertical integrated supply chain that resembles an "inverted pyramid", thereby gradually completing its transformation from a solar products materials manufacturer to a one-stop service provider of solar power projects which will operate under "Golden Cup" model. Under such model, individual products including ingots, wafer, cells and modules within the supply chain can also be sold separately to third parties. As such, satisfactory operating results have been achieved during the period under review.

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 30 June 2013, 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 Solargiga"), which is 51% owned by the Group, in Xining, Qinghai Province, among which, 96 monocrystalline ingot pullers was put into mass production in December 2011 and the remaining 96 monocrystalline ingot pullers are under trial operation, enabling the annual production capacity of silicon ingots to duly reach 1.2GW.

The Group's "Golden Cup" supply chain allows external sales of upstream products such as ingots, wafers and cells, which helps to boost income. Except for supplying the production required for downstream wafers of the Group, the external shipment volume of silicon solar ingots was 45.19MW, representing a 16.5% rise as compared to 38.78MW in 2012. The increase was mainly driven by increasing market demand and business development of major customers. Solargiga has secured 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 performance products with a photovoltaic conversion efficiency of 22–23%. During the period under review, the external shipment volume of N-type silicon ingots was representing approximately 80.9% of the total external shipment volume of silicon ingots. N-type products are mainly targeted at Japanese customers.

Wafer Business

As at 30 June 2013, the Group possessed 121 wiresaws in the Jinzhou production base, with an annual production capacity of wafers reaching 900MW. Except for supplying the production required for downstream cells of the Group during the period under review, the external shipment volumes of processing of silicon solar wafers of the Group were 148.5MW, representing an increase of 28.7% in total compared with 115.42MW for corresponding period last year. Similar to the silicon ingot business, the increase in exports volume was mainly driven by increasing market demand and business development of major customers.

Cell Business

During the period under review, the manufacturing base of the Group in Jinzhou is equipped with production lines of solar cells having production capacity of 300MW. Except for supplying the production required for downstream components of the Group, the external shipment volume of solar cells was approximately 45.7MW, approximate to the external shipment volume of 45.77 MW of the same period of last year. It contributed turnover of approximately RMB126.686 million (the first half year of 2012: RMB158.221 million), accounting for 15.5% of the Group's turnover (the first half year of 2012: 32.6%). The manufacturing of cells provides stable and high raw materials supply for the modules business of the Group, and enhances the overall operation efficiency. The cells were also sold to the customers in China and Japan.

Module Business

The Group has expanded its solar modules production line by holding a 51% interest in Jinzhou Jinmao Photovoltaic Technology Company Limited ("Jinzhou Jinmao") and Jinzhou Solar Technology Company Limited ("Jinzhou Solar"), a wholly-owned subsidiary of the Group. The modules production base is currently located in Jinzhou, at which quality products are manufactured to fulfill the demand of bulk order from long term Japanese customers. Despite partially outsourced processing activities, the production capacity has been expanding from 150MW at the beginning of the year and then to 175MW in the third quarter. During the period under review, the external shipment volume of solar modules was approximately 79.9MW as compared with the external shipment volume of 6.67MW for the same period of last year, representing an increase of approximately 11 times in total volume.

In light of the breakthrough achieved by the module business of the Group during the period, the Group and Sharp Corporation ("Sharp") from Japan extended to new area of business cooperation by building on their cooperation foundation original formed in 2012. During the 2013 financial year (based on Japanese calendar), Sharp will purchase a new type of product from the Group, summing up 370MW of solar module products. Such cooperation enables the Group to become the largest supplier of solar products in China. Having nearly a decade of purchase and sales relationship, the Group has commenced its cooperation with Sharp through supply of silicon solar ingots to Sharp, afterwards gradually extended to the areas of silicon solar wafers, solar cells and, starting from 2013, the newly added solar module.

Photovoltaic System Investment Business

The Group has proactively acquired a number of construction permits in respect of photovoltaic power plant projects in order to develop the terminal market business by fully capitalising on its advantage of vertical integration to drive the product demand from the bottom to the top. For example, the Group secured the 20MW large scaled photovoltaic power plant project in Golmud, Qinghai Province by holding a 49% interest of the project. Its construction primarily adopted the modules produced by the Group's vertical integration. This project has been completed at the end of 2011 and is currently 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 2013, the turnover of the Group was RMB818.94 million, representing an increase of 68.9% compared with the corresponding period in 2012. During the period under review, due to the general recovery of overall global solar market, the demand slowly picked up while raw material prices became stable. Together with the expanded business cooperation scope between the Group and Sharp, the turnover increased accordingly.

Cost of sales

For the six months ended 30 June 2013, cost of sales increased by 25.1% to RMB800.349 million from RMB639.684 million for the corresponding period in 2012. Cost of sales represented 97.7% of total turnover, a decrease of 34.2 percentage points compared to the corresponding period in 2012. The decrease in proportion was mainly due to the decrease in inventory provision made during the period (for the six months ended 30 June 2013: RMB69.85 million; six months ended 30 June 2012: RMB132.805 million).

Gross profit and gross profit margin

For the six months ended 30 June 2013, the Group recorded a gross profit of RMB18.591 million and a gross profit margin of 2.3%, which showed improvement from gross loss of RMB154.725 million and gross loss margin of 31.9% for the corresponding period in 2012.

Selling and distribution expenses

Selling and distribution expenses mainly comprised packaging expenses, freight charges and insurance expenses. Selling and distribution expenses increased by 89.4% to RMB13.711 million for the six months ended 30 June 2013 from RMB7.24 million for the corresponding period in 2012, representing 1.7% of the total turnover of the Group (2012: 1.5%).

Administrative expenses

Administrative expenses mainly comprised staff costs and research and development expenses. The administrative expenses for the first half of 2013 amounted to RMB113.475 million, decreased by 4.4% as compared to RMB118.643 million for the corresponding period in 2012, representing 13.9% of the turnover of the Group. The decrease in administrative expenses was mainly due to a drop in research and development expenses from RMB42.247 million in the first half of 2012 to RMB33.444 million in the first half of 2013.

Finance costs

The finance costs of the Group decreased from RMB54.483 million for the six months ended 30 June 2012 to RMB50.772 million for the six months ended 30 June 2013. Finance costs represented mainly the interest on bank loans and bonds.

Income tax

Income tax income were RMB2.212 million for the six months ended 30 June 2013, while the income tax expense amounted to RMB22.163 million for the corresponding period in 2012. Income tax income recorded for the six months ended 30 June 2013 were attributable to the reversal of temporary deferred tax differences.

Loss attributable to the equity shareholders

For the six months ended 30 June 2013, the Group recorded a loss attributable to the equity shareholders of RMB136.431 million, representing a decrease of 79.4% as compared to a loss attributable to the equity shareholders of RMB660.912 million for the corresponding period in 2012.

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 93 days (the corresponding period in 2012: 113 days), a decrease of 20 days from the corresponding period in 2012.

Trade receivable turnover days

For the first half of 2013, the trade receivable turnover days of the Group decreased to 61 days (the corresponding period in 2012: 92 days). The decrease in trade receivable turnover days was due to the cut down 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 in order to ensure capital liquidity. Accordingly, trade payable turnover days during the period under review increased to 88 days (the corresponding period in 2012: 60 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 2013, the current ratio (current assets divided by current liabilities) of the Group was 0.85 (31 December 2012: 0.79). The Group had net borrowings of RMB1,263.297 million as at 30 June 2013 (31 December 2012: RMB1,476.838 million), including cash in bank and on hand of RMB287.846 million (31 December 2012: RMB153.793 million), pledged deposits of RMB294.51 million (31 December 2012: RMB174.234 million), bank loans due within one year of RMB1,151.39 million (31 December 2012: RMB1,018.985 million), non-current bank and other loans of RMB395.663 million (31 December 2012: RMB487.28 million) and non-current corporate bonds of RMB298.6 million (31 December 2012: RMB298.6 million). The net debt to equity ratio (net debt divided by total equity) was 106.9% (31 December 2012: 140.5%). In addition, excluding the effect of the reclassification of the non-current bank loans of RMB133.441 million from non-current liabilities to current liabilities given the waiver has been granted by the borrowers after the reporting period on 31 December 2012, 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 and other loans would be RMB620.721 million.

Contingent liabilities

As at 30 June 2013, the Group had no material contingent liabilities.

Foreign currency risk

The Group is exposed to foreign currency risk primarily arising from sales and purchases and cash and bank deposits that are denominated in a currency other than RMB, the functional currency 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 2013, the Group had 3,599 (30 June 2012: 3,458) employees.

Future prospects and strategies

The State Council of China announced a guideline for the photovoltaic industry, the "Opinions of the State Council on Promoting the Healthy Development of Photovoltaic Industry" (the "Opinions") in July 2013. Under which, a target of reaching over 35GW total installed capacity of photovoltaic power generation by 2015 was stipulated. Far from market expectation, it is believed that the plan can blaze a path for the photovoltaic industry to recover from the trough of over-capacity and under development of domestic market in China. To restrain the uncontrolled expansion of photovoltaic industry, the Opinions introduced several requirements in respect of the photovoltaic product manufacturing projects, including the fulfillment of the requirements that the conversion efficiency of monocrystalline silicon photovoltaic cells shall not be less that 20% and the conversion efficiency of polycrystalline silicon photovoltaic cells shall not be less that 18%, etc. The Opinions expressly pointed out the government's anticipation of eliminating obsolete enterprises through the mechanism of "compelling to retreat", and promoting industry integration. Upon consolidation of the industry, a leading enterprise with core competitiveness will be differentiated. Besides, through active exploration to emerging markets and the enterprise internationalisation, it is hopeful that a healthy development can be seen in the solar energy industry.

Given the current market situation and the industry development trend, the Group has adopted the following responsive strategies by leveraging on its own advantages:

1. In order to satisfy the large demand from customers for the module products of the Group and in light of the macro environment of over-supply, the Group will transform its operation mode from upstream products with huge production volume to downstream products with less production volume, which means a vertically integrated supply that resembles an "inverted pyramid". Accordingly, the Group will become a one-stop service provider of solar energy generation projects operating under a model that appears like "Golden Cup" from a manufacturer of solar energy silicon ingots and silicon wafer.

2. Strengthening technology research and development, consistently developing products with higher efficiency and anti-PID monocrystalline products. By upgrading the conversion efficiency of end products, the unit cost of power generation can be lowered, thereby paving a favourable competitive base for market expansion.

3. Increasing the proportion of production and sales of N-type products to overcome market competition.

4. With the unmatched competitive edge that majority of products are exported to Japan, and adhering to its aim of quality improvement, the Group strives to reduce cost of power generation per Watt, so as to strengthen its capability to extend its reach to other regions including the emerging markets.

5. The promulgation of policies in respect of distributed photovoltaic power generation will facilitate healthy development of solar energy industry in the future, and there are opportunities arising from the active promotion of solar power generation by governments of emerging markets, which results from the significant drop of installation cost of the devices for solar power generation. The Group will enhance the strength of system development and EPC capability which are applicable to ground or roof-top, grid-connected or independent solar power generation systems that have already been built in both domestic and foreign areas. It will also conduct proactive exploration of downstream market so as to increase its overall profitability.

DIVIDEND

The Directors do not recommend the distribution of interim dividend in respect of the six months ended 30 June 2013 (six months ended 30 June 2012: Nil).

CORPORATE GOVERNANCE AND OTHER INFORMATION

Corporate Governance

The Company has complied with the requirements set out the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2013. The Company's compliance with the provisions and recommended best practices of the Code are set out in the Corporate Governance Report contained in the 2012 Annual Report.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions (the "Model Code") 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 complied with the Model Code for the six months ended 30 June 2013.

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

During the six months ended 30 June 2013, the Company has issued 498,260,094 new Shares pursuant to an open offer on the basis of one offer share for every five existing Shares held on the record date at the subscription price of HK$0.51 per offer Share (the "Open Offer"). The Open Offer was completed on 20 March 2013. The net proceeds amounted to HK$251 million and have been utilized to repay the Company's bank loans as initially intended. In addition, the Company has issued 199,998,000 new Shares and 22,222,000 new Shares to Hiramatsu International Corp. and Ding Chenxi, respectively, at the subscription price of HK$0.36 per Share (the "Subscription"). The Subscription was completed on 27 May 2013. The net proceeds amounted to HK$80 million and has been applied towards repayment of the Company's bank loans as initially intended.

Save as disclosed above, 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 2013.

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 2013.

PUBLICATION OF FINANCIAL INFORMATION

The interim report for the six months ended 30 June 2013 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, 28 August 2013

As at the date of this announcement, Mr. Tan Wenhua (Chairman), Mr. Hsu You Yuan, Mr. Tan Xin and Mr. Wang Chunwei are executive Directors of the Company, and Mr. Wong Wing Kuen, Albert, Ms. Fu Shuangye, Dr. Lin Wen and Mr. Zhang Chun are independent non-executive Directors of the Company.