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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 2018

FINANCIAL HIGHLIGHTS

— Shipment of major products for the period under review amounted to 1,207MW, a growth of 4% comparing to 1,161MW of the corresponding period of last year. However, due to the unanticipated magnitude in the drop in unit selling price, revenue decreased by 8.9% to RMB1,813.778 million (corresponding period in 2017: RMB1,989.961 million).

— Due to the unanticipated decline in sales volume and price caused by the new photovoltaic industry policy released by the Chinese government and the recognition of inventory provision loss during the period under review, gross profit decreased to RMB183.084 million (corresponding period in 2017: RMB305.235 million). Gross profit margin decreased from 15.3% in the first six months ended 30 June 2017 to 10.1% in the six months ended 30 June 2018.

— In addition to the reasons above, the significant increase in input in research and development expenses during the period, leading net loss attributable to the equity shareholders of the Company for the period under review amounted to RMB107.280 million (corresponding period in 2017: Net profit of RMB95.299 million).

— During the period under review, the net cash inflow from operating activities was RMB339.971 million, a significant increase of 103.3% from RMB167.219 million in the corresponding period of last year.

— Basic loss per share amounted to RMB3.34 cents (corresponding period in 2017: RMB2.97 cents earnings per share).

— Net asset value per share amounted to RMB0.26 (HKD0.30) (note: translated at HKD1.15 to every RMB1).

— The board of directors of the Company does not recommend the distribution of any interim dividend for the six months ended 30 June 2018 (corresponding period in 2017: Nil).

INTERIM RESULTS

The directors (the "Directors") of Solargiga Energy Holdings Limited (the "Company") present herewith the unaudited consolidated interim financial results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2018, together with the comparative figures for the corresponding period in 2017. The interim condensed consolidated financial statements are unaudited but have been reviewed by the Company's audit committee and the Company's auditor, Ernst & Young.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the six months ended 30 June 2018 — unaudited

		Six months ended 30 June	
		2018	2017
	Notes	***RMB'000***	*RMB'000*
Revenue	*3*	**1,813,778**	1,989,961
Cost of sales		**(1,630,694)**	(1,684,726)
Gross profit		**183,084**	305,235
Other income and gains, net	*4*	**15,068**	58,589
Selling and distribution expenses		**(41,588)**	(26,166)
Administrative expenses		**(197,408)**	(155,995)
Operating (loss)/profit		**(40,844)**	181,663
Share of losses of associates		**(452)**	(14,644)
Finance costs		**(64,380)**	(61,901)
(Loss)/profit before tax	*5*	**(105,676)**	105,118
Income tax credit/(expense)	*6*	**1,860**	(4,560)
(Loss)/profit for the period		**(103,816)**	100,558
Attributable to:			
Equity holders of the Company		**(107,280)**	95,299
Non-controlling interests		**3,464**	5,259
(Loss)/profit for the period		**(103,816)**	100,558
BASIC AND DILUTED (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY (RMB cents)	*7*	**(3.34)**	2.97

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 30 June 2018 — unaudited

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
(Loss)/profit for the period	**(103,816)**	100,558
Other comprehensive (loss)/income for the period (after tax):		
Items that may be reclassified subsequently to profit or loss:		
– Currency translation differences	**(14,965)**	19,479
Total comprehensive (loss)/income for the period, after tax	**(118,781)**	120,037
Attributable to:		
Equity holders of the Company	**(122,245)**	114,778
Non-controlling interests	**3,464**	5,259
Total comprehensive (loss)/income for the period	**(118,781)**	120,037

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
at 30 June 2018 — unaudited

	Notes	At 30 June 2018 *RMB'000*	At 31 December 2017 *RMB'000*
Non-current assets			
Property, plant and equipment	*8*	**1,514,252**	1,531,099
Prepayments for acquisition of property, plant and equipment		**157,469**	14,245
Land lease prepayments		**144,195**	146,233
Prepayments for raw materials	*9*	**50,680**	55,298
Investments in associates		**5,400**	5,251
Available-for-sale investments		**–**	2,430
Financial assets at fair value through other comprehensive income		**2,430**	–
Deferred tax assets		**39,450**	34,763
		1,913,876	1,789,319
Current assets			
Inventories		**389,730**	403,531
Trade and bills receivables	*10*	**1,490,129**	1,648,608
Contract assets	*10*	**34,089**	–
Prepayments, deposits and other receivables	*11*	**309,691**	347,327
Current tax recoverable		**9,233**	12,143
Pledged deposits		**416,291**	219,097
Cash and cash equivalents		**116,047**	191,185
		2,765,210	2,821,891
Current liabilities			
Interest-bearing borrowings		**1,903,834**	1,922,322
Trade and bills payables	*12*	**1,125,906**	1,055,536
Other payables and accruals	*13*	**174,056**	134,476
Contract liabilities		**81,942**	–
Current tax payable		**561**	3,618
Provision for inventory purchase commitments		**47,127**	46,539
Finance lease payables		**6,840**	8,000
		3,340,266	3,170,491
Net current liabilities		**(575,056)**	(348,600)
Total assets less current liabilities		**1,338,820**	1,440,719

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2018 — unaudited (continued)

	Notes	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Non-current liabilities			
Interest-bearing borrowings		**130,740**	124,758
Deferred tax liabilities		**2,729**	2,781
Deferred income		**178,259**	163,272
Finance lease payables		**–**	1,840
Other non-current liabilities		**96,902**	112,639
		408,630	405,290
NET ASSETS		**930,190**	1,035,429
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	*14*	**276,727**	276,727
Reserves		**555,131**	673,612
		831,858	950,339
Non-controlling interests		**98,332**	85,090
TOTAL EQUITY		**930,190**	1,035,429

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
for the six months ended 30 June 2018 — unaudited

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Cash generated from operations	**342,996**	178,833
Tax paid	**(3,025)**	(11,614)
Net cash flows generated from operating activities	**339,971**	167,219
Net cash flows (used in)/generated from investing activities	**(159,977)**	6,605
Net cash flows used in financing activities	**(255,812)**	(236,111)
Net decrease in cash and cash equivalents	**(75,818)**	(62,287)
Effect of foreign exchange rate changes	**680**	(3,136)
Cash and cash equivalents at 1 January	**191,185**	293,628
Cash and cash equivalents at 30 June	**116,047**	228,205

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

1. BASIS OF PREPARATION

These interim condensed consolidated financial statements for the six months ended 30 June 2018 are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, *Interim Financial Reporting*, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the annual financial statements for the year ended 31 December 2017, which has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The accounting policies and the basis of preparation adopted in the preparation of these interim condensed consolidated financial statements are consistent with those accounting policies adopted in the annual financial statements for the year ended 31 December 2017, except for the adoption of the new HKFRSs as disclosed in note 2 below.

As at 30 June 2018, the Group's current liabilities exceeded its current assets by RMB575,056,000. The liquidity of the Group is primarily dependent on its ability to maintain adequate cash flows from operations, to renew its short-term bank loans and to obtain adequate external financing to support its working capital and meet its obligations and commitments when they become due.

The Group has carried out a review of its cash flow forecast for the twelve months ending 30 June 2019. Based on such forecast, the directors believe that adequate sources of liquidity exist to fund the Group's working capital and capital expenditure requirements, and to meet its short-term debt obligations and other liabilities and commitments as they become due in the twelve months ending 30 June 2019. In preparing the cash flow forecast, management has considered historical cash requirements of the Group, as well as other key factors, including anticipated sales in the twelve months ending 30 June 2019 and unconditional unutilised banking facilities as at 30 June 2018 from the Group's major banks with an amount of RMB1,693,213,000 which will be expired on 31 December 2020.

Based on the above factors, the directors are confident that the Group will have sufficient funding to enable the Group to operate as a going concern and meet its financial obligations as and when they fall due for at least twelve months from the reporting date. Accordingly, the interim consolidated financial information have been prepared on a going concern basis.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2017, except for the adoption of new standards effective as of 1 January 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group has applied, for the first time, HKFRS 15 *Revenue from Contracts with Customers* and HKFRS 9 *Financial Instruments* that require restatement of previous financial statements. As required by HKAS 34, the nature and effect of these changes are disclosed below.

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the interim condensed consolidated financial statements of the Group.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 supersedes HKAS 18 *Revenue* and HKAS 11 *Construction Contracts*. HKFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group elected to adopt HKFRS 15 using the modified retrospective method to all contracts that are not completed at the date of initial application. The Group concluded that there was no transitional adjustment made on 1 January 2018 to retained earnings upon initial adoption of HKFRS 15. It is because the Group recognises revenue upon the transfer of significant risks and rewards, which coincides with the fulfilment of performance obligations. Additionally, the Group's contracts with customers generally have only one performance obligation.

The impact on the Group's consolidated statement of financial position as at 1 January 2018 is as follows:

	Under HKAS 18	**Reclassification**	**Under HKFRS 15**
	RMB'000	*RMB'000*	*RMB'000*
Contract assets	–	35,125	35,125
Trade and bills receivables	1,648,608	(35,125)	1,613,483
Contract liabilities	–	43,850	43,850
Other payables and accruals	134,476	(43,850)	90,626

Prior to the adoption of HKFRS 15, the conditional right to receive consideration in exchange for goods or services and the obligation to transfer goods or services were represented in "trade and bills receivables" and "other payables and accruals" in the consolidated statement of financial position, respectively. Upon the adoption of HKFRS 15, the Group reclassified above right and obligation to "contract assets" and "contract liabilities", respectively.

HKFRS 9 Financial Instruments

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

(1) Classification and measurement

On 1 January 2018 (the date of initial application of HKFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate HKFRS 9 categories. The main effects resulting from this reclassification are as follows:

	Financial assets at fair value through other comprehensive income *RMB'000*	**Available-for-sale investments** *RMB'000*
Closing balance as at 31 December 2017	–	2,430
Reclassification from available-for-sale investments to financial assets at fair value through other comprehensive income	2,430	(2,430)
Re-measurement of financial assets	–	–
Opening balance as at 1 January 2018	2,430	–
	2,430	–

The financial assets of RMB2,430,000 that were previously classified as available-for-sale investments under HKAS 39 have been reclassified as financial assets at fair value through other comprehensive income under HKFRS 9. No gain or loss was recognised in profit or loss.

(2) Impairment

HKFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group has applied the simplified approach and recorded lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade and other receivables. Furthermore, the Group has applied the general approach and recorded twelve month expected credit losses that are estimated based on the possible default events on its other receivables within the next twelve months. The adoption of HKFRS 9 have had no significant impact on the financial position or performance of the Group except the reclassification mentioned above.

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 four 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 and trading of photovoltaic modules ("Segment B"); (iii) the manufacturing and trading of monocrystalline silicon solar cells ("Segment C"); and (iv) the construction and operation of photovoltaic power plants ("Segment D"). No operating segments have been aggregated to form these reportable segments. Revenue, costs and expenses are allocated to the reportable segments with reference to sales generated by those segments and the costs and expenses incurred by those segments.

(a) Segment results, assets and liabilities

For the purpose of assessing segment performance and allocating resources between segments, the Group's most senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the bases as they are presented in the Group's financial statements. Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the period is set out below:

	Six months ended 30 June 2018				
	Segment A	**Segment B**	**Segment C**	**Segment D**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**
Revenue from external customers	**393,449**	**1,360,733**	**47,789**	**11,807**	**1,813,778**
Inter-segment revenue	**976,384**	**1,119,918**	**280,934**	**610**	**2,377,846**
Reportable segment revenue	**1,369,833**	**2,480,651**	**328,723**	**12,417**	**4,191,624**
Reportable segment (loss)/ profit	**(79,291)**	**10,869**	**(16,262)**	**(19,132)**	**(103,816)**

	At 30 June 2018				
	Segment A	**Segment B**	**Segment C**	**Segment D**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**
Reportable segment assets	**3,122,656**	**690,138**	**722,259**	**144,033**	**4,679,086**
Reportable segment liabilities	**2,536,516**	**715,592**	**376,899**	**119,889**	**3,748,896**

	Six months ended 30 June 2017				
	Segment A	Segment B	Segment C	Segment D	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue from external customers	424,690	1,499,407	50,015	15,849	1,989,961
Inter-segment revenue	216,394	916,363	205,409	1,329	1,339,495
Reportable segment revenue	641,084	2,415,770	255,424	17,178	3,329,456
Reportable segment profit/(loss)	59,917	49,214	4,614	(13,187)	100,558

	At 31 December 2017				
	Segment A	Segment B	Segment C	Segment D	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)
Reportable segment assets	3,204,874	578,659	674,060	153,617	4,611,210
Reportable segment liabilities	2,461,294	690,585	302,967	120,935	3,575,781

(b) For the six months ended 30 June 2018, revenue from the major customers, each of which amounted to 10% or more of the Group's total revenue, is set out below:

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Customer A		
– From segment A	**11,977**	11,544
– From segment B	**307,747**	540,605
– From segment C	**5**	–
Customer B		
– From segment A	**72,099**	58,561
– From segment B	**181,933**	–

(c) Geographic information

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

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Mainland China (place of domicile)	**1,353,740**	1,375,385
Export sales		
— Japan	**330,500**	583,868
— South East Asia	**117,448**	–
— Taiwan	**6,381**	28,700
— America	**–**	610
— Europe	**4,068**	–
— Others	**1,641**	1,398
Sub-total	**460,038**	614,576
Total	**1,813,778**	1,989,961

4. OTHER INCOME AND GAINS, NET

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Other income		
Government grants	**10,907**	12,873
Interest income from bank deposits	**2,025**	2,701
Gain on disposal of a subsidiary	**–**	32,520
Gain on previously held equity interest remeasured at acquisition-date fair value	**–**	8,819
Bargain purchase gain on acquisition of a subsidiary	**–**	159
	12,932	57,072
Other (losses)/gains, net		
Net foreign exchange (loss)/gain	**(111)**	4,314
Net (loss)/gain on disposal of property, plant and equipment	**(144)**	1,146
Gain/(loss) from sales of other materials	**2,527**	(7,576)
Others	**(136)**	3,633
	2,136	1,517

5. (LOSS)/PROFIT BEFORE TAX

The Group's (loss)/profit before tax is arrived at after charging/(crediting):

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Salaries, wages and other benefits	**89,506**	89,686
Amortisation of lease prepayments	**2,038**	2,070
Depreciation	**104,934**	101,919
Research and development costs	**110,019**	78,674
(Reversal)/provision for warranty	**(15,737)**	14,994
Impairment losses on trade and other receivables	**11,079**	5,340
Loss/(gain) disposal of property, plant and equipment	**144**	(1,146)
Gain on disposal of a subsidiary	**–**	(32,520)
Gain on previously held equity interest remeasured at acquisition-data fair value	**–**	(8,819)
Bargain purchase gain on acquisition of subsidiary	**–**	(159)
Cost of inventories sold*	**1,260,808**	1,490,498
Cost of services rendered*	**369,886**	194,228

* Cost of inventories sold and cost of services rendered include, in aggregate, RMB149,854,000 and RMB192,579,000 for the six months ended 30 June 2018 and 2017, respectively, relating to salaries, wages and other benefits, depreciation and provision for warranty costs which are also included in the respective total amounts disclosed separately above for each of these types of expenses.

6. INCOME TAX (CREDIT)/EXPENSE

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current tax – the PRC		
Provision for the period	**1,881**	6,979
Provision adjustment in respect of prior years	**998**	998
	2,879	7,977
Deferred tax	**(4,739)**	(3,417)
Income tax (credit)/expense for the period	**(1,860)**	4,560

Hong Kong profits tax is calculated at 16.5% of the estimated assessable profits of the Company's subsidiaries incorporated in Hong Kong for the six months ended 30 June 2018 and 2017. No provision for Hong Kong profits tax has been made as the subsidiaries either did not have any assessable profits subject to Hong Kong profits tax or had accumulated tax losses brought forward from previous years to offset the estimated profits for the period.

The Company and its subsidiaries incorporated in the British Virgin Islands and the Cayman Islands are not subject to any income tax pursuant to the local rules and regulations.

The statutory tax rate applicable to the Company's subsidiary incorporated in Germany was 15% for the six months ended 30 June 2018 and 2017. No provision for Germany income tax has been made as the subsidiary did not have any taxable profits for the period.

The statutory tax rate applicable to the Company's subsidiary incorporated in Ghana was 35% for the six months ended 30 June 2018 and 2017. No provision for Ghana income tax has been made as the subsidiary did not have any taxable profits for the period.

The income tax rate of the Company's PRC subsidiaries was 25% except for the subsidiaries mentioned below:

Solargiga Energy (Qinghai) Co., Ltd. ("Qinghai") has been accredited as "High and New Technology Enterprise" by the relevant government authority in 2016 for a term of three years, and has been registered with the local tax authority to be eligible for a reduced income tax rate of 15%. Accordingly, Qinghai was entitled to the 15% income tax rate for the six months ended 30 June 2018 and 2017.

Jinzhou Yangguang Jinmao Photovoltaic Technology Co., Ltd. ("Jinzhou Jinmao") has been accredited as "High and New Technology Enterprise" by the relevant government authority in 2016 for a term of three years, and has been registered with the local tax authority to be eligible for a reduced income tax rate of 15%. Accordingly, Jinzhou Jinmao was entitled to the 15% income tax rate for the six months ended 30 June 2018 and 2017.

Jinzhou Huachang Photovoltaic Technology Ltd ("Jinzhou Huachang") has been accredited as "High and New Technology Enterprise" by the relevant government authority in 2014 for a term of three years, and has been registered with the local tax authority to be eligible for a reduced income tax rate of 15%. Jinzhou Huachang has renewed the "High and New Technology" certificate in 2017 effective for the three years from 2017 to 2019. Accordingly, Jinzhou Huachang was entitled to the 15% income tax rate for the six months ended 30 June 2018 and 2017.

Jinzhou Yangguang Motech Renewable Energy Co., Ltd ("Jinzhou Motech") has been accredited as "High and New Technology Enterprise" by the relevant government authority in 2017 for a term of three years, and has been registered with the local tax authority to be eligible for a reduced income tax rate of 15%. Accordingly, Jinzhou Motech was entitled to the 15% income tax rate for the six months ended 30 June 2018 and 2017.

7. BASIC AND DILUTED (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss attributable to ordinary equity holders of the Company of RMB107,280,000 (six months ended 30 June 2017: profit of RMB95,299,000) and the weighted average of 3,211,780,566 ordinary shares of the Company in issue during the period (six months ended 30 June 2017: 3,211,780,566).

(b) Diluted (loss)/earnings per share

The Company had no dilutive potential ordinary shares in issue for the periods ended 30 June 2018 and 2017.

8. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2018, the Group acquired property, plant and equipment at a total cost of RMB74,500,000 (six months ended 30 June 2017: RMB38,245,000). Assets with a net book value of RMB51,591,000 were disposed of by the Group during the six months ended 30 June 2018 (six months ended 30 June 2017: RMB5,487,000) resulting in a net loss on disposal of items of property, plant and equipment of RMB144,000 (six months ended 30 June 2017: net profit of RMB1,146,000). For the six months ended 30 June 2018, based on the estimated future cash flows of the CGUs concerned, no further impairment losses were provided for as at 30 June 2018 (for the six months ended 30 June 2017: no impairment loss).

9. PREPAYMENTS FOR RAW MATERIALS

In order to secure a stable supply of polysilicon materials, the Group entered into short-term and long-term contracts with certain raw material suppliers and made advance payments to these suppliers which are to be offset against future purchases. Prepayments for raw materials where the Group expects to receive the raw materials more than twelve months after the end of the reporting period are classified as non-current assets and those to receive within one year are classified as current assets. There was no prepayment for raw materials made to a related party as at 30 June 2018 (31 December 2017: Nil).

As at 31 December 2014, management reassessed the prepayments for potential impairment and identified one of the suppliers, from which the Group failed to purchase the agreed quantities of polysilicon under the long-term supply contract, and therefore made a provision of RMB70,369,000.

Based on the assessment updated by management for the six months ended 30 June 2018, no further impairment was provided as at 30 June 2018. The movement in the impairment provision during the period merely represented exchange adjustments.

10. TRADE AND BILLS RECEIVABLES, AND CONTRACT ASSETS

(a) Trade and bills receivables

	As at 30 June 2018 *RMB'000* (Unaudited)	As at 31 December 2017 *RMB'000* (Audited)
Trade receivables	**1,333,412**	1,345,780
Bills receivables	**241,146**	376,178
Less: Impairment	**(84,429)**	(73,350)
	1,490,129	1,648,608

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

	As at 30 June 2018 *RMB'000* (Unaudited)	As at 31 December 2017 *RMB'000* (Audited)
Within 1 month	**380,029**	672,937
1 to 3 months	**505,968**	358,121
4 to 6 months	**249,108**	233,068
7 to 12 months	**247,834**	298,998
Over 1 year	**107,190**	85,484
	1,490,129	1,648,608

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

As at 30 June 2018, bills receivables had been pledged as security to banks for acquiring interest-bearing bank borrowings amounting to RMB143,000,000 (31 December 2017: RMB219,749,000), for issuing bills payable to suppliers amounting to RMB16,922,000 (31 December 2017: RMB53,196,000), and for issuing letters of guarantee amounting to RMB18,000,000 (31 December 2017: RMB20,000,000).

(b) Contract assets

As at 30 June 2018, the Group had contract assets of RMB34,089,000 (as at 31 December 2017: Nil) with no impairment for expected credit losses.

11. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 30 June 2018	As at 31 December 2017
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Prepayments for raw materials	**95,905**	142,686
Deductible value-added tax	**192,977**	180,412
Other receivables	**27,609**	31,029
Less: Impairment	**(6,800)**	(6,800)
	309,691	347,327

12. TRADE AND BILLS PAYABLES

	As at 30 June 2018	As at 31 December 2017
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Trade payables	**467,034**	611,729
Bills payables	**658,872**	443,807
	1,125,906	1,055,536

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

	As at 30 June 2018 *RMB'000* **(Unaudited)**	As at 31 December 2017 *RMB'000* (Audited)
Within 1 month	**317,310**	413,868
1 to 3 months	**325,517**	285,633
4 to 6 months	**402,909**	292,278
7 to 12 months	**40,873**	18,226
Over 1 year	**39,297**	45,531
	1,125,906	1,055,536

(b) As at 30 June 2018, the Group's bills payables of RMB33,845,000 (31 December 2017: RMB95,700,000) were secured by Group's bills receivables of RMB16,922,000 (31 December 2017: RMB53,196,000) (note 10).

13. OTHER PAYABLES AND ACCRUALS

	As at 30 June 2018 *RMB'000* **(Unaudited)**	As at 31 December 2017 *RMB'000* (Audited)
Other payables and accrued expenses	**147,686**	110,890
Other tax payables	**24,059**	23,444
Dividends payable	**2,311**	142
	174,056	134,476

14. CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

The directors did not recommend the payment of a dividend in respect of the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

(b) Share capital

The Company's ordinary shares are set out below:

	As at 30 June 2018		As at 31 December 2017	
	No. of shares	**Amount** *RMB'000* **(Unaudited)**	No. of shares	Amount *RMB'000* (Audited)
At 30 June/31 December	**3,211,780,566**	**276,727**	3,211,780,566	276,727

MANAGEMENT DISCUSSION AND ANALYSIS

Market Overview

China's installed photovoltaic power generation capacity has ranked first in the world for five consecutive years, in which history was made in 2017 with 53.06GW of newly-added volume of photovoltaic power generation capacity. During the period under review, the solar market maintained its rapid growth. According to data from the China Photovoltaic Industry Association* (中國光伏行業協會), the newly-added volume of photovoltaic power generation to grid connection in China was 24.3GW (comparable to the 24GW in the corresponding period of 2017). Of which, distributed power plants accounted for 12.24GW (70% growth from the corresponding period of 2017). Accumulated photovoltaic capacity reaches 154.5GW (31 December 2017: 130.2 GW).

Since its launch, the Photovoltaic Power Generation Top Runner Program* (領跑者計劃) of the National Energy Bureau of China (中國國家能源局) has promoted healthy competition through high standards of technical certification and efficiency requirements. According to the targets for 2017 to 2020 announced by the National Energy Bureau, projects totaling an annual 8GW will be arranged under the Top Runner Program. By analysing the results of the successful tenders, it was found that mono-crystalline photovoltaic products still hold its absolute advantage, with over 50% adopting double-sided power generation. It is expected the products used in the successful bids will lead the technical levels of the industry and will become the mainstream of the market.

In addition, the Chinese government has also developed a special photovoltaic poverty alleviation program* (光伏扶貧方案) to, apart from helping conserve energy and reduce carbon emission, improve the lives of the poor through photovoltaic power generation. At the end of 2017, the National Energy Bureau and the State Council Poverty Alleviation Office* (國務院扶貧開發領導小組辦公室) jointly issued the "Notice on the Release of the First Batch of Photovoltaic Poverty Alleviation Projects of the 13th Five-Year Plan"* (《關於下達"十三五"第一批光伏扶貧項目計劃的通知》), and where 8,689 village-level photovoltaic poverty alleviation power stations with a total installed photovoltaic capacity of 4.186GW will be installed under the project. According to the National Energy Administration's "Guidance on Energy-related Work for 2018"* (《二零一八年能源工作指導意見》) issued by the National Energy Bureau, the 15GW scale of the village-level photovoltaic poverty alleviation power station will be installed in three years (2018-2020). In 2018, the village-level photovoltaic poverty alleviation power station will be about 4.18GW, benefiting about 2 million population from poverty-stricken households. This photovoltaic poverty alleviation program places its focus on the distributed power plant market and is also conducive to the continued growth in the Group's market share of the monocrystalline silicon products.

As at the end of 2017, China has completed and exceeded the installation target of solar energy set out in the "13th Five-Year Plan for Solar Energy Development" (《太陽能發展「十三五」規劃》) ahead of schedule. However, in order to accelerate the ripening of photovoltaic grid parity and guide the photovoltaic industry into a more robust development direction, China National Development and Reform Commission (中國國家發展和改革委員會), Ministry of Finance (財政部), National Energy Bureau (國家能源局), jointly issued a "Notice on Matters Related to Photovoltaic Power Generation" in 2018 on 31 May 2018 (referred to as "531 New Policy" below). It guides the market and industry to adjust their development ideas, and changing the key structure of the development of the photovoltaic industry from scale-expansion to quality and efficiency improvement. It also encourages high-end products, promotes technological advancement, reduces power generation costs, lowers dependence on subsidies, and promotes the industry to high quality development. Therefore, although the announcement of the "531 New Policy" has sent shockwaves to the market in the short-term, it is in fact promoting the launch of a comprehensive market-oriented cycle of grid parity by 2020. By then, "photovoltaic solar power, wind power, energy storage", the core of the third generation of energy, will replace the core of second generation of energy of "coal, oil, natural gas".

In the Indian market, the planned photovoltaic construction for 2018 is 11GW and the installation capacity is expected to reach 12GW. They are hopeful of, after overtaking Japan in 2017, surpassing the U.S. and become the second largest market for photovoltaics in the world. India's Ministry of New and Renewable Energy announced the extension of the implementation schedule for the 40GW solar park and ultra-large-scale solar project from 2020 to 2022. On 20 June 2018, Shri Anand Kumar, Secretary General of the Ministry of New Energy and Renewable Energy of India, said, "We must achieve 350GW solar capacity by 2030 to meet demands, of which it will reach 100GW by 2022. Therefore, we must tender at least 30GW per year from 2020 onwards to achieve an additional 250 GW."

According to the latest research data from GTM Research and the US Solar Energy Industry Association ("SEIA"), the installed capacity of photovoltaic power in the first quarter of 2018 in the United States amounted to 2.5GW, an increase of 13% from the corresponding period of last year. GTM Research and SEIA predicted the annual installed capacity of photovoltaic power for 2018 will reach 10.8GW. Thereafter, it is expected growth in solar power will gather further momentum in 2019 and accelerate in 2020. Part of the reason is that California recently implemented a solar policy in all new homes. According to the analysis, by 2023, the United States will install more than 14GW of photovoltaic capacity each year.

In the Japanese market, although the Feed-in-Tariff (FIT) subsidy was further lowered on 1 April 2018, the market still expects Japan's newly installed capacity to maintain at 7GW in 2018. The Japanese government's zero-energy residential project "ZEH" is expected to continue to be the main catalyst for growth in the residential solar installation market. ZEH was launched in early 2016 to reduce the energy consumption of residential buildings and enhance its energy efficiency. The target is to have 50% of new residential buildings to be zero-energy housing by 2020. In addition, on 3 July 2018, the Japanese government passed the newly revised "Energy Basic Plan", aiming to position renewable energy sources such as solar energy and wind energy as the main power source, and to raise the proportion of renewable energy generation to total power generation from 22% to 24% by 2030, with the hope that renewable energy will become the mainstream by 2050.

The European market is entering a recovery phase and is expected to boost demand. Minimum Import Price (MIP) policy will end on 30 September 2018, which will make Europe a highly competitive market. In the emerging markets, according to the report of the second quarter of 2018 by EnergyTrend, Australia's demand is expected to boom this year. The Middle East, Morocco and Egypt in North Africa, Mexico and Brazil in South America are also expected to grow considerably this year. According to the GTM Research report, compared with only eight GW-class countries in 2017, there will be 13 countries in the world where the installed capacity of photovoltaics will reach GW-class in 2018, indicating that the demand for global photovoltaic products will increase significantly in emerging markets.

In summary, in addition to the stable demand in the traditional markets, emerging markets continue to develop in scale. Global demand is decentralised. The "One Belt, One Road" international cooperation strategy also promotes the development of emerging markets. This will offset the short-term slide in growth of the Chinese photovoltaic market. The outlook of the global photovoltaic market is still relatively optimistic. The global photovoltaic market installed capacity is expected to continue its steady growth, with an expected newly installed capacity of close to 100GW in 2018.

Operations review

The Group focuses on the vertical integration for photovoltaic monocrystalline products, providing one-stop solutions for the photovoltaic industry ranging from the manufacturing and sales of silicon ingots and wafers, photovoltaic cells and photovoltaic modules, the installation of photovoltaic system and the development, design, construction, operation and maintenance of photovoltaic generation plants. Apart from not self-manufacturing polysilicon, the scope of its business covers the whole industry chain of photovoltaic industry.

Although the Group possesses the capacities to manufacture the aforementioned mono-crystalline silicon ingots, mono-crystalline silicon wafers, solar cells and modules, the production capacity of each is not exactly the same. Currently, the Group's production capacities for monocrystalline silicon ingots and monocrystalline silicon wafers are both 1.2GW respectively and is expected to increase to 1.8GW respectively in the second half of the year. Monocrystalline solar cell annual production capacity remains at 400MW with photovoltaic module production capacities at 2.2GW (including the 1GW capacity commissioned at the end of the second quarter of the year). The strategy adopted by the Group is to focus its investments in upstream monocrystalline silicon ingot/wafer capacities and in downstream module capacity and to have its downstream module capacity slightly greater than its upstream monocrystalline silicon ingot/wafer capacities, while maintaining or only slightly increasing its manufacturing capacity in solar cells. Therefore, through this capacity allocation strategy, the Group will be able to satisfy the external demands for its photovoltaic modules, of which the Group has its largest manufacturing capacity, while, at the same time, boosting the internal demands for its monocrystalline silicon ingots/ wafers. Further, through the strategy of partly self-manufacturing and partly externally procuring the mid-stream solar cells, under the abovementioned strategy to drive the Group's overall capacity utilisation from bottom up, the Group is able to better mitigate the market risks arising from fluctuant sales of upstream silicon wafers or unstable supply of mid-stream solar cells.

In terms of operating results, in the first half of 2018, although the market was generally affected by the news of the "531 New Policy", especially those inefficient photovoltaic products on the market, the Group's high-end photovoltaic products continued to be welcomed by domestic state-owned enterprises and multinational composite enterprises. Total shipment increased from 1,161MW in the first half of 2017 to 1,207MW in the first half of 2018, of which subcontracted processing volume increased from 338MW in 2017 to 361MW in 2018.

In terms of price, affected by the news of the "531 New Policy", the sudden and rapid freezing of market demand caused the supply side to irrationally cut prices in the short term. However, not only did the price cuts failed to immediately stimulate demand, it even caused deferrals in procurement by the buy side. In addition, the decrease in purchase price of raw and auxiliary materials was not as elastic in the said price cuts. The Group's overall gross profit was hence greatly compressed. The gross profit margin reduced from 15.3% in the first half of 2017 to 10.1% in the first half of 2018, resulting in an operating loss of RMB40.844 million in the first half of 2018, whereas an operating profit of RMB181.663 million was recorded in the first half of 2017.

However, despite the sudden and irrational factors of the aforementioned market, and even though the average unit price of the product in the future is still expected to gradually decrease with the advent of grid parity, the Group can rely on (1) the comparative advantages from technological superiority of its diversified product lines; (2) the progressive commissioning of the high-efficiency production equipment; and (3) the highly competitive supporting outsourced production, to significantly drive its production costs down. It is expected that the magnitude of decrease in cost of the Group's products will be greater than that of the decrease in unit selling price and the Group's gross profit will return to a reasonable level.

While maintaining its own leading technological advantage in monocrystalline products, and adhering to the vertical integration strategy, through external demand for the Group's downstream modules driving the internal demand of its upstream ingots and wafers, also through establishing and strengthening strategic partnerships, the Group and its partners will be able to leverage their respective strengths and experiences in laying a solid foundation for broader co-operation in the future. For example, particularly in our solar cell segment with a lower internal capacity, under the vertical integration strategy of the Group, the Group has established strong strategic alliances with local and overseas manufacturers, through which the Group's photovoltaic wafers are sold to our strategic partners and the Group in turn purchase solar cells from them. According to our needs, this arrangement provides a stable sales channels for our photovoltaic wafers and a secure source for our solar cells if there is any turbulence in the market. As such, the Group is able to focus on manufacturing the upper stream monocrystalline silicon ingots and wafers and also on developing the markets and sales channels for the downstream photovoltaic modules at the same time. Hence this becomes the Group's competitive advantage by benefiting from its vertical integration strategy in upper and lower stream monocrystalline silicon products.

Silicon ingot and wafer business

Apart from not producing its own polysilicon, a chemical product, in the scope of its business, the Group covers an all-rounded photovoltaic industry production chain under its vertically integrated business model. As such, the Group both self-manufactures and process upstream of ingots, wafers and solar cells for the utilisation by its downstream modules, in order to enhance the respective external market competitiveness of each product segment, and to allow for their external sales. During the period, demand for monocrystalline products had continuously increased which led to rapid growing market share of monocrystalline products. In addition to the traditional monocrystalline P-type products, shipment volume of monocrystalline N-type products with higher conversion efficiencies are also increasing. With the continued realisation of advantages in better improvement in conversion efficiency, more stable decay rate in its photovoltaic systems, continued reduction in unit costs, etc. of monocrystalline products, it is expected that the advantages of monocrystalline products will become more obvious in the field of photovoltaic power generation, and the market share of monocrystalline silicon products will further increase significantly. Guided by this advantageous environment in the industry, the Group, through its long-term strategic partnerships with well-known solar cell-focused manufacturers, not only enjoys priority distribution channels for the sales of its monocrystalline wafers, but also ensures the long-term stable utilisation of the Group's capacity and shipment volume. The benefits of the Group's upstream and downstream vertical integration are fully realised.

The Group have consolidated its leading position in the monocrystalline silicon solar ingot and wafer manufacture industry in terms of technology and product quality. The quality stability of its monocrystalline silicon products is amongst those of the industry leaders. During the period, the external shipment volume of monocrystalline silicon

ingots was 206.4MW, representing an increase of 12% compared to 184.5MW in the corresponding period of 2017. External shipment volume of monocrystalline silicon wafers has remained stable at 323.3MW (331.7MW in the corresponding period of 2017). Major customers of external sales included huge state-owned enterprises in China, such as State Power Investment Corporation (中國國家電力投資集團公司) ("SPIC"), TW Solar Group (通威太陽能集團), Motech Industries, Inc. (MOTECH), etc.

In addition, the Group has invested in a project located in Qujing City, Yunnan Province, China in two phases. Each phase consists of 600MW and the total investment will be 1.2GW in two phases. The first phase of 600MW capacity is expected to commence mass production in the second half of 2018. The management believes that there is local suppliers for raw material, polysilicon, required for the project, which will significantly reduce the cost involved in raw material transportation; the local water and electricity costs at the new plant has to be lower than that at our major production base to facilitate the lowering of manufacturing cost of ingots and wafers; strong support from the local government are available, in particular financial support obtained for land, warehouses and a variety of factory facilities, the construction and follow-up operation, in order to improve the operating efficiency of the new plant. The Group expects the Qujing Project will become the new layout point of the Group, and further improve the Group's overall manufacturing costs.

Solar cell business

The Group's production lines of solar cells are located at the Group's manufacturing base in Jinzhou, Liaoning. During the period, the annual production capacity of solar cells was 400MW (31 December 2017: 400MW). Solar cells are mainly provided internally to the downstream module business of the Group. Only a small portion of solar cells with special specifications are sold to our selected customers in China and Japan. The Group's solar cell manufacturing capacity is highly flexible. Our products range is hence extensive, which includes monocrystalline, multicrystalline, P-type high end, N-type double-sided solar cells, etc. Focusing on the implementation of the vertical integration strategy on monocrystalline products, most of the solar cells being main products are mainly provided to the Group's downstream solar modules companies.

Besides, in terms of solar cell production process, in addition to the current mass production capacity of monocrystalline P-type solar cells and the mainstream of the future of monocrystalline N-type solar cells, the Group also possesses the technology reserves including P-type mono-crystalline solar cell Passivated Emitter and Rear Cell (PERC) technology, which is gradually gaining market share, multi-crystalline black silicon solar cell technology, etc. In addition, the Group has also been collaborating with university teams of the highest levels in the field of global perovskite (鈣鈦礦) research in projects to jointly develop perovskite solar cells in order to pave the way for solar cell development in the next decade and keep abreast of the latest trends in the photovoltaic industry.

Module business

During the period under review, due to the influence of the aforementioned "531 New Policy" by the Chinese government, the unit price of the modules was irrationally lowered. This led to a decrease in total sales from RMB1,499.41 million in the first half of 2017 to RMB1,360.73 million in the first half of 2018. In terms of shipments, although the "531 New Policy" also caused sudden freezing in short-term market demand, the Group's photovoltaic module shipments maintained an upward trend during the period. The Group's external shipments during the period were 643.3 MW, greater than the 616.5MW external shipments in the corresponding period of 2017. With regard to the planning of module production capacity, the Group has newly added an annual production capacity of 1 GW of module production capacity, which was officially commenced mass-production at the end of the second quarter of 2018, adding that to the existing annual production capacity of 1.2 GW. The total production capacity has reached 2.2 GW.

External sales was mainly made to huge Chinese state-owned enterprises and Japanese multinational composite enterprises, such as CGN New Energy Holdings Co., Ltd. (中國廣核新能源控股有限公司) ("CGN"), China Huadian Corporation (中國華電集團公司) ("Huadian"), Beijing Enterprises Holdings Limited (北京控股集團有限公司) ("BEGCL"), SHARP Corporation and SANSHIN ELECTRONICS CO., LTD., etc.

On the other hand, following the increasing awareness of the benefits of higher conversion efficiency and more competitive costs offered by the Group's focused monocrystalline photovoltaic modules, there is a stronger demand for high conversion efficiency photovoltaic modules and a rapid growth in this market. With the introduction of the "Top Runner Program", "Super Runner Program" and other favourable policies, coupled with the further growth in the market share of monocrystalline silicon products with higher photovoltaic conversion efficiencies, demand for N-type monocrystalline photovoltaic modules has surged. Being the company with the largest number of successful bids in the third batch of the Top Runner Program, China National Power Investment Corporation* (中國國家電力投資集團) announced in July this year that the Group has become one of the three major module suppliers of the project, and will supply modules such as N-type monocrystalline silicon and P-type PERC modules for the project.

As a company focusing on monocrystalline silicon photovoltaic products, equipped with high-quality, self-produced upstream monocrystalline silicon ingots and monocrystalline silicon wafers, customers' demand for the Group's monocrystalline modules has always remained high. The proportion of sales of the Group's mono-to-multicrystalline silicon photovoltaic modules has remained at 70:30. In addition to flexibly supporting the manufacturing of mono- and multi- crystalline photovoltaic modules, the Group will continue to expand and strengthen the development and sales of monocrystalline silicon high-efficiency module products such as N-type double-sized glass photovoltaic modules, half-cell photovoltaic modules, P-type monocrystalline solar cell Passivate

Emitter and Rear Cell (PERC), smart photovoltaic modules, and Super Runner Program-related high-end products. Among them, modules of N-type monocrystalline IBC solar cell, which produces higher current output, open circuit voltage, fill factor and other electrical performance advantages, are also expected to start stable large-scale shipment to major overseas customers before the end of 2018. It will become one of the Group's main module products.

In our continuous effort to drive production costs down, the new 1GW addition of high-efficiency module production line was officially commissioned at the end of the second quarter of this year. Adding this to the module production line with an annual production capacity of 1.2GW, the total annual production capacity has reached 2.2GW. Not only will the economies of scale be more distinguished, through commencement of production by the newly added capacity, it enhances the flexibility in scheduling of high-end products. Unit production costs and product yield will also continuously be improved significantly.

In summary, through customer demand for the Group's downstream modules, it has, not only driven the internal demand for the Group's upstream monocrystalline ingots and monocrystalline wafers, it also helps realise the benefits arising from the Group's vertical integration strategy, and better mitigate the market risks arising from fluctuant sales of upstream silicon wafers or unstable supply of mid-stream solar cells.

Construction and operation of photovoltaic system business

To consolidate its advantages of the business model of vertical integration, the Group actively expanded the business of end-user market apart from its efforts in stabilising its upstream and midstream business development, thereby driving demand for products from downstream to upstream. As such, in respect of the business opportunity derived from the construction of distributed power plants, apart from establishing internal photovoltaic power plant system companies of the Group, the Group also plans to establish joint venture companies with companies from other industries in order to share the profits and also provide extra distribution channels for the Group's module sales. In respect of large-scale centralised power plants, the Group will, through investing as minority shareholders, seek construction opportunities as an EPC service provider and help drive the sales of the Group's modules.

Financial Review

Revenue

During the period ended 30 June 2018, although the market was affected by the "531 New Policy" of the Chinese government and market demand was irrationally frozen, reaping the benefits of the Group's strengthening of its strategic partnerships with customers of its downstream module products over the years, high-end photovoltaic products are very popular by domestic SOEs and overseas composite companies. Total

shipments increased from 1,161 MW in the first half of 2017 to 1,207 MW in the first half of 2018, of which total processing volume also increased from 338 MW in 2017 to 361 MW in 2018, which are both higher than the same period last year. However, in terms of sales price, in addition to the goal of accelerating the achievement of a comprehensive grid parity and the drive by the technological improvement and product efficiency each year to achieve lower selling prices, sales prices faces irrational downward pressure due to influence of the "531 New Policy". As such, the Group's revenue amounted to RMB1,813.778 million, representing a decrease of 9% from RMB1,989.961 million for the same period in 2017.

Cost of sales

Up to 30 June 2018, cost of sales decreased from RMB1,684.726 million last year to RMB1,630.694 million, representing a drop of 3%. The main reason was the continuous improvement of the manufacturing technology of each manufacturing cycle, leading to the decrease in per-W production cost.

Gross profit and gross profit margin

During the period, affected by the news of the "531 New Policy", the sudden and rapid freezing of market demand caused the supply side to irrationally cut prices in the short term. However, not only did the price cuts failed to immediately stimulate demand, it even caused deferrals in procurement by the buy side. In addition, the decrease in purchase price of raw and auxiliary materials was not as elastic as in the said price cuts, causing significant inventory provision loss. Affected by the twofold influences, the Group recorded gross profit of RMB183.084 million in the first half of 2018, lower than the RMB305.235 million in the corresponding period of 2017. The Group's overall gross profit was also being compressed. The gross profit margin reduced from 15.3% in the first half of 2017 to 10.1% in the first half of 2018.

Selling and distribution expenses

Selling and distribution expenses mainly comprised packaging expenses, freight charges and insurance expenses. Selling and distribution expenses increased to RMB41.588 million in the first half of 2018 from RMB26.166 million in the first half 2017. The increase in selling and distribution expense was mainly due to the increase in volume of external shipment in 2018 and also customers' special requirements on the deliveries.

Administrative expenses

Administrative expenses mainly comprised staff costs and research and development expenses. The administrative expenses in the first half of 2018 amounted to RMB197.408 million, increased by 27% as compared to RMB155.995 million in the corresponding period of 2017. The increase was mainly due to the continuous

enhancement of manufacturing process and existing and new products, which resulted in an increase input in research and development expenses. In turn, it led to an increase in administrative expenses.

Finance costs

Finance costs represented mainly bank loan interests. As the amounts of long-term and short-term financing during the period has been similar to those of last year, the finance costs of RMB64.380 million for the period, similar to the RMB61.901 million of the corresponding period of last year. No material variance was noted.

Income tax

Income tax credit was RMB1.860 million in the first half of 2018, while an income tax expense amounted to RMB4.560 million was recorded in the corresponding period of 2017. Income tax credit recorded in 2018 was mainly due to the recognition of the Group's deferred tax assets.

Profit attributable to the equity holders

For the six months ended 30 June 2018, the Group recorded a loss attributable to the equity shareholders of RMB107.280 million, as compared to a profit attributable to the equity shareholders of RMB95.299 million for the corresponding period of 2017.

Inventory turnover days

In order to replace traditional petrochemical energy in a larger scale and to effectively achieve the ultimate goal of green and clean energy, continuous technological advancement has driven down the prices of photovoltaic products over the years. This led to declining trends in prices of many related raw and auxiliary materials for production and finished products. Hence, in terms of inventory reserve strategy, the Group has been focusing its efforts in raising inventory turnover and lowering the inventory turnover days in order to mitigate the risk of a sudden decline in inventory prices, help reduce committed capital and, at the same time, further strengthen the Group's operation working capital. As a result, the Group's inventory turnover days has been lowered to 44 days during the year (31 December 2017: 58 days).

Trade receivable turnover days

The Group completed the vertical integration of upstream and downstream monocrystalline silicon products. Apart from not producing polysilicon in-house, the scope of the Group's business covers self-production of monocrystalline silicon ingots, monocrystalline silicon wafers, solar cells and solar modules. However, due to the large capacity of upstream products in earlier years, external sales were at the time dominated by monocrystalline silicon wafers. Hence, to get closer to the customer needs of the module end-user market, the capacity of module production gradually increased

from 400 MW in 2013 to 2.2 GW by the end of the second quarter of 2018. Under the rapid growth of the capacity of module production, the solar modules sales accounted for over 70% of the Group's overall sales. According to the terms of the industry's general module sales contract, the recovery of module receivable depends on the construction progress of the photovoltaic power plant. For instance, some trade receivables can only be recovered after the customer's photovoltaic power plant is connected to the grid. In addition, 10% of the total amount of receivables are retained as warranties. These warranties will generally be recovered in around one year. As a result, the trade receivables turnover days of module business are generally longer. As the Group's module sales has sustained rapid growth in the proportion of operating income, the trade receivables turnover days increased. Further, as most sales in the first half of 2018 was recorded during the second quarter, most of the receivables are not yet received. As a result of the above, the trade receivables turnover days of the Group increased to 157 days (2017: 96 days) in the first half of 2018.

Trade payable turnover days

The trade payables turnover day was 120 days, which rose significantly comparing to 97 days of the corresponding period of last year, was mainly due to the strategic partnerships established with our major suppliers, under stable and frequent co-operations, and the suppliers have gradually increased our lines of credits and payment terms.

Liquidity and financial resources

The principal sources of working capital of the Group during the year were cash flows from bank borrowings. As at 30 June 2018, the current ratio (current assets divided by current liabilities) of the Group was 0.83 (31 December 2017: 0.89). The Group had net borrowings of RMB1,502.236 million as at 30 June 2018 (31 December 2017: RMB1,636.798 million), including cash in bank and on hand of RMB116.047 million (31 December 2017: RMB191.185 million), pledged deposits of RMB416.291 million (31 December 2017: RMB219.097 million), bank loans due within one year of RMB1,903.834 million (31 December 2017: RMB1,922.322 million) and noncurrent bank and other loans of RMB130.740 million (31 December 2017: RMB124.758 million). The net debt to equity ratio (net debt divided by total equity) was 161.5% (31 December 2017: 158.1%).

Earnings before interest, taxes, depreciation and amortisation ("EBITDA")

During the period, earnings before interest, taxes, depreciation and amortisation ("EBITDA") was RMB65.676 million (3.6% to revenue) (RMB271.008 million in the corresponding period of 2017, 13.6% to revenue). The main reason for the decrease in EBITDA was due to the drop in the Group's revenue during the period.

Foreign currency risk

The Group is exposed to foreign currency risk primarily through sales and purchases, cash, bank deposits and bank loans 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 and Euro. 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 which naturally mitigates the exchange rate risk. In addition, the Group will consider the difference in interest rates and fluctuations in the exchange rates of foreign currency denominated and local currency-denominated loan balance, and the need to mitigate the risk through low-risk forward contracts, in order to strike a balance between the exposure to the variations in interest costs and fluctuations in foreign exchange rates.

Human resources

As at 30 June 2018, the Group had 3,833 (31 December 2017: 3,565) employees.

Future prospects and strategies

It is always the darkest before dawn. "531 New Policy" will accelerate the early arrival of grid parity. The market is currently undergoing a structural transformation, in terms of production capacity and product quality improvement, to encourage high-end and high-efficiency products, and promote technological advancement, reduce costs of power generation, reduce dependence on subsidies, promote industry to high quality development, and accelerate to reach grid parity. The problems in the power grid and energy storage are also improving continuously. Therefore, after reaching gird parity, without the need for government subsidies, it is expected that the photovoltaic market will prosper and those operators who survive shall enjoy fruitful results.

As for the impact of China's "531 New Policy" on the world market, as China's solar industry chain is complete, the competitiveness is currently unmatched by other countries. In some countries with mature solar markets, hampered by the limitation of financial subsidies, their solar market has been shrinking for years. Currently, as the cost of electricity generated by photovoltaic power plant has significantly reduced, with FIT also followed and dropped significantly, the installation of photovoltaic power plants has surged once again. The reduction of the cost of electricity generated by photovoltaic power plant has also allowed many emerging markets to enter the GW-level clubs. Growth in these countries and areas will partly offset the negative influence from the deterioration in the Chinese market. As a result, the Group will leverage on the solid foundation of strategic cooperation with existing overseas customers and further expand sales in the overseas markets.

Analysts expect that, by the end of 2020, culminated installation will surge above 250GW. The advantage of high conversion ratios, stable decay rate in its photovoltaic systems, continued reduction in unit cost, etc. of monocrystalline products are highlighted. In addition, with the increased attention by national policy on distributed solar power plants, markets of monocrystalline products are expected to grow continually. Hence, monocrystalline products are becoming the popular choice in solar projects and the market share of monocrystalline products is improving. The proportion of solar plants installing monocrystalline PV systems and the monocrystalline products used by distributed power plants have increased as a result.

Further, since the introduction of the "Top Runner Program" (the "Program"), the Program has promoted healthy competition through high standards of technical certification and efficiency requirements. In view of this, the National Energy Bureau launched an upgraded version of the national "Top Runner Program", the program of application of advance technology on construction of photovoltaic power generating plants, also known as the "Super Runner Program", focusing and promoting large-scale and advanced technology companies. "Super Runner Program" considers efficient product development as its main focus, this includes double-sided photovoltaic modules, black silicon photovoltaic modules, half-cell photovoltaic modules and smart modules. The Group's high-end product, N-type double-sided photovoltaic modules, is expected to gain attention from the market. Amongst all solar products, by focusing on the development of monocrystalline products, the Group commands industry-leading technology for the production of monocrystalline products. Through vertically integrating its upstream and downstream manufacturing capacities, apart from not self-producing polysilicon, the Group covers the whole industry chain of the photovoltaic industry, fully leveraging the synergy among different business segments of the Group.

The strategy adopted by the Group is to focus its investments in upstream monocrystalline silicon ingot/wafer capacities and in downstream module capacity and to have its downstream module capacity slightly greater than its upstream monocrystalline silicon ingot/wafer capacities, while maintaining or only slightly increasing its manufacturing capacity in solar cells. Therefore, through this capacity allocation strategy, the Group will be able to satisfy the external demands for its photovoltaic modules, of which the Group has its largest manufacturing capacity, while, at the same time, boost the internal demands for its monocrystalline silicon ingots/wafers. Further, through the strategy of partly self-manufacturing and partly externally procuring the mid-stream solar cells, under the abovementioned strategy to drive the Group's overall capacity utilisation from bottom up, the Group is able to better mitigate the market risks arising from fluctuant sales of upstream silicon wafers or unstable supply of mid-stream solar cells.

DIVIDEND

The Directors do not recommend the distribution of interim dividend in respect of the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

CORPORATE GOVERNANCE AND OTHER INFORMATION

Corporate Governance

The Company has complied with the requirements set out in the Corporate Governance Code as set out in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2018.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to 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 2018.

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

There was no purchase, sale or redemption by the Company or any of its subsidiaries of the Company's listed securities during the six months ended 30 June 2018.

Audit Committee

The audit committee of the Company, comprising three 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 2018.

PUBLICATION OF FINANCIAL INFORMATION

The interim report for the six months ended 30 June 2018 containing all the detailed information will be dispatched to the shareholders of the Company and published on the respective websites of The Stock Exchange of Hong Kong Limited (http://www.hkexnews.hk) and the Company (http://www.solargiga.com) in due course.

By Order of the Board
Solargiga Energy Holdings Limited
Wang Junze
Executive Director

Hong Kong, 31 August 2018

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