

光 能 控 股 有 限 公 司
SOLAR ENERGY HOLDINGS LIMITED
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陽光能源控股有限公司

(公 司 註 冊 地 點)

(上 海 證 券 交 易 所 代 碼 : 757)

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

FINANCIAL HIGHLIGHTS

- Turnover decreased by 61.3% to RMB996.836 million (2011 (restated): RMB2,574.669 million).
- Gross loss was RMB291.384 million (2011: Gross profit of RMB253.848 million).
- Net loss attributable to the equity shareholders of the Company was RMB1,276.554 million (2011: Net profit of RMB54.291 million).
- Basic loss per share was RMB55.99 cents (2011 (restated): Basic earnings per share of RMB2.43 cents).

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

C IDA ED I C | E A E E

	2012 <i>B'000</i>	2011 (restated)
Turnover	996,836	2,574,669
Cost of sales	<u>(1,288,220)</u>	<u>(2,320,821)</u>
Gross profit	(291,384)	253,848
Other revenue	55,808	150,582
Other net income	3,698	3,191
Selling and distribution expenses	(19,303)	(32,169)
Administrative expenses	<u>(252,539)</u>	<u>(269,315)</u>
Profit/(loss)	(503,720)	106,137

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

	2012 <i>B'000</i>	2011
(Loss)/	(1,295,053)	44,155
:		
Exchange differences on translation of financial statements of companies outside of the People's Republic of China ("PRC")	<u>407</u>	<u>(6,769)</u>
	<u>(1,294,646)</u>	<u>37,386</u>
:		
Equity shareolders of the Company	(1,276,147)	47,522
Non-controlling interests	<u>(18,499)</u>	<u>(10,136)</u>
	<u>(1,294,646)</u>	<u>37,386</u>

C O R P O R A T I O N I D A E D A E E F F I A C I A I I

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

EXTRACT FROM THE FINANCIAL STATEMENTS

1. BACKGROUND

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

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

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

2. ASSETS

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

The Group intends to maintain its strong business relationship with its bankers to maintain their continuing support and is actively discussing with its bankers for the renewal of short term banking facilities when they fall due in 2013. In March 2013, the Group renewed the short term bank loans

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;

As a result of this change in application of accounting policy, the Group's turnover and cost of sales for the year ended 31 December 2012 have been both reduced by RMB256,494,000 (year ended 31 December 2011: RMB204,554,000) and amounts paid for materials held by the Group for processing as at 31 December 2011 of RMB45,655,000 have been reclassified as a receivable from the customer.

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

3. SEGMENT INFORMATION

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

(c) Segment results

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

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

	31 D 2012		
	A	B	C
	B'000	B'000	B'000
	B'000	B'000	B'000
Inter-segment revenue	510,375	211,750	274,711
	300,086		91,456
	<u>810,461</u>	<u>211,750</u>	<u>366,167</u>
	<u>(724,058)</u>	<u>19,595</u>	<u>(590,590)</u>
Interest income from bank deposits	3,416	742	272
Interest expenses	(89,051)	(9,764)	(12,152)
Depreciation and amortisation for the year	(135,231)	(4,225)	(63,374)
Share of profits less losses of associates	1,511		
Impairment of goodwill			(208,237)
Impairment of intangible assets			(201,493)
Impairment of prepayments	(134,485)		
Impairment of property, plant and equipment	(139,100)		(22,100)
Impairment of trade debtors	(1,159)		
Write-down of inventories	(145,189)	(9,401)	
	<u>3,046,828</u>	<u>216,074</u>	<u>681,756</u>
(including interests in associates)	<u>124,457</u>		<u>124,457</u>
Additions to non-current segment assets during the year	115,059	372	185
	<u>2,530,046</u>	<u>160,153</u>	<u>203,229</u>
			<u>2,893,428</u>

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

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

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Substantially all of the Group's property, plant and equipment, lease prepayments, goodwill, intangible assets and interests in associates are located or operated in the PRC.

() 2012 2011

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

4. **HE ^b E E E**

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

5. **HE ^b E I C | E**

	2012 <i>B'000</i>	2011 ,
Net foreign exchange gain	3,698	3,013
Gain on disposal of property, plant and equipment	-	178
	<u>3,698</u>	<u>3,191</u>

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

	2012 B'000	2011
() Financial expenses		
Interest on bank loans wholly repayable within five years	97,451	80,271
Interest on bonds	16,019	5,475
Interest on municipal government loan	197	215
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Total interest expenses on financial liabilities not at fair value through profit or loss	113,667	85,961
Less: interest expenses capitalised into construction in progress*	(2,700)	(14,012)
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	110,967	71,949
	<hr/>	<hr/>
() Personnel expenses		
Salaries, wages and other benefits	112,483	102,537
Contributions to retirement schemes	16,678	15,170
Equity-settled share-based payment expenses		1,940
	<hr/>	<hr/>
	129,161	119,647
	<hr/>	<hr/>
() Administrative expenses		
Audit services	2,075	1,861
Tax services	64	-
Other services	2,221	767
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	4,360	2,628
	<hr/>	<hr/>
() Other expenses		
Depreciation	173,742	137,096
Write-down of inventories	154,590	161,701
Research and development costs	90,994	127,979
Amortisation of intangible assets	26,591	26,785
Provision for warranty costs	1,672	6,465
Amortisation of lease prepayments	2,497	2,203
Operating lease charges – property	1,266	864
Impairment of trade debtors	1,159	-
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7. I C | E A I H E C , I D A E D I C | E , A E E

Income tax in the consolidated income statement represents:

2012	2011
<i>B'000</i>	'

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

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

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

10. TRADE AND OTHER RECEIVABLES

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

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

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

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

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

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

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

11. TRADE AND OTHER PAYABLES

	2012 <i>B'000</i>	2011 ,
Trade payables	343,927	103,636
Bills payable	235,732	252,701
Other payables and accrued expenses	266,439	284,317
	<u>846,098</u>	<u>640,654</u>

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

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

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

12. INTER-BANKING

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

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

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

13. 預付賬款

As at 31 December 2012, management has assessed prepayments for potential impairment and identified that two of the suppliers are in financial difficulties and may default on the delivery of raw materials to the Group. Management has discussed the possibility of recovery of the prepayments concerned and are of the opinion that the chance of recovery of such prepayments is remote. As such, prepayments totalling RMB134,485,000 have been fully provided for during the year.

14. 商標及無形資產

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

Since the last quarter for 2011, the Group's solar cell business has been severely affected by the weak demand of the solar market and the significant drop in prices of solar products. As such, the Group has recognised impairment of goodwill and intangible assets of RMB208,237,000 and RMB201,493,000 respectively in 2012, which has been determined with reference to the recoverable amount of the CGU.

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

	2012 %	2011 %
Growth rate	3	3
Discount rate	<u>16.5</u>	<u>19</u>

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

15. 物業、廠房及設備減值

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

16. 會計政策變動

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

17. 附屬公司貸款

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

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

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

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

Asia is the second biggest market of demand for solar energy, which amounted to 8.69GW in 2012. Attributed by the strong driving forces from the rapid growth of the Chinese end markets in the second half of 2012. The Chinese Government indicated that photovoltaic power generation and application of solar thermal technology have been the fastest growing renewable energy technologies in the world in the last decade. Furthermore, it has clearly stated that photovoltaic technologies is designated as one of the major technological development projects in the Twelfth Five-Year Plan, and “Special Plan for Solar Power Generation Technology in Twelfth Five-Year Plan” has been formulated. The Chinese Government aims to lift its self-research and development capability and grasp the core technology, which will support China’s transition from a major manufacturer in the solar energy industry to a rising power of the industry and create a favourable cycle for the development of the solar energy industry.

In respect of U.S. market, the proportion of demand of the whole U.S. market in 2012 was 13%, amounted to 3.68GW. It is mainly attributable to California benefitting from the energy quota and subsidy policy of the renewable energy. In fact, the California market accounted for over one third of the whole U.S. market in 2012. According to the reports issued by Solar Energy Industries Association (“SEIA”) and GTM Research, the federal and state governments of the U.S. subsidise the development of clean energy, which helps drive the growth of demand in solar energy, and the decrease in price of solar energy panels and electricity systems also helps trigger demand.

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

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During the year under review, the Group maintained its production capacity of silicon ingots to further explore its technological advantage. As at 31 December 2012, the Group was equipped with 589 monocrystalline ingot pullers and 4 multicrystalline casting furnaces, of which 397 monocrystalline ingot pullers were located in the Jinzhou production base while the remaining 192 monocrystalline ingot pullers were installed in the plant of Solargiga Energy (Qinghai) Company Limited (“Qinghai Yangguang”), which is 51% owned by the Group, in Xining, Qinghai Province. Among the 192 monocrystalline ingot pullers, 96 monocrystalline ingot pullers was put into mass production in December 2011 and another 96 monocrystalline ingot pullers will be put into trial procedures depend on the recovery of the market condition, resulted in the annual production capacity of silicon ingots of 1.2GW, further strengthen the Group’s leading position in monocrystalline solar energy products industry.

Using its “inverted pyramid” vertical integration supply chain model, the Group was able to fully utilise its upstream products for the production of its downstream products, and the upstream products including ingots, wafers and cells were also sold externally. The external shipment volume of silicon solar ingots of the Group was 77.59MW, representing a 45.1% drop compared to 141.24MW in 2011. Solargiga has gained a leading position in the monocrystalline silicon solar ingot manufacture industry in terms of technology, product quality and quantity. The products of the Group are the only monocrystalline silicon solar ingots in China for which national products exemption from quality surveillance inspection has been granted. Major products are silicon ingot of 5.5 inches to 8.7 inches in diameter. The photovoltaic conversion efficiency of its monocrystalline silicon products of the Group is also higher than the industry average. Apart from the traditional P-type products, the Group also provides N-type high-efficiency products with a photovoltaic conversion efficiency of 22–23%. During the year under review, the external shipment volume of N-type silicon ingots was about 62.48MW, representing an aggregate amount of approximately 80.5% of the external shipment volume of silicon ingots. N-type products are mainly targeted at Japanese customers.

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

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For the year ended 31 December 2012, the turnover of the Group was RMB996.836 million, representing a decrease of 61.3% compared with the year ended 31 December 2011. During the year ended 31 December 2012, due to the slowdown of global solar market, the selling prices of solar products dropped which led to the decrease in turnover.

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

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

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For the year ended 31 December 2012, the Group recorded a loss attributable to the equity shareholders of RMB1,276.554 million, while a profit attributable to the equity shareholders of RMB54.291 million was recorded for the year ended 31 December 2011.

The inventories of the Group comprised mainly raw materials, namely polysilicon, crucibles and other auxiliary raw materials, and finished goods. During the year ended 31 December 2012, the inventory turnover days of the Group were 111 days (2011: 59 days), an increase of 52 days from the corresponding period in 2011. The optimal inventory levels of the Group should be sufficient for approximately three months' consumption in the case of polysilicon and one month consumption for other auxiliary raw materials.

For the year ended 31 December 2012, the trade receivable turnover days of the Group increased to 84 days (2011: 25 days). The increase in trade receivable turnover days was due to the extension of credit terms to customers during the year. Generally, the Group allows a credit period of 30 to 90 days for its customers.

Due to the lengthened cash collection cycle, the Group decided to extend payments to suppliers during the year under review. Accordingly, trade payable turnover days during the year ended 31 December 2012 increased to 72 days (2011: 22 days).

The principal sources of working capital of the Group during the year under review were cash flows from bank borrowings. As at 31 December 2012, the current ratio (current assets divided by current liabilities) of the Group was 0.79 (31 December 2011: 1.22). The Group had net borrowings of RMB1,476.838 million as at 31 December 2012 (31 December 2011: RMB1,115.634 million), including cash at banks and on hand of RMB153.793 million (31 December 2011: RMB583.743 million), pledged deposits of RMB174.234 million (31 December 2011: RMB151.682 million), bank loans due within one year of RMB1,018.985 million (31 December 2011: RMB705.077 million), non-current bank loans of RMB484.5 million (31 December 2011: RMB845.035 million), non-current corporate bonds of RMB298.600 million (31 December 2011: RMB298.000 million) and non-current municipal loan of RMB2.78 million (31 December 2011: RMB2.947 million). The net debt to equity ratio (net debt divided by total equity) was 140.5% (31 December 2011: 49.1%). By excluding the effect of the reclassification of the non-current bank loans of RMB133.441 million from



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



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

For information, the Group's employees are as follows:

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

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

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

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

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

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

C E F EGI E F E BE

The register of members of the Company will be closed from 24 June 2013 to 27 June 2013, both days inclusive, during which period no transfer of shares will be effected. In order to be eligible to attend and vote at the forthcoming annual general meeting of the Company, all transfers accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 1712–16, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 21 June 2013.

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

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The Company has adopted the Model Code for Securities Transactions as set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by the Directors. Specific enquiries have been made by the Company to confirm that all Directors have been complied with the Model Code throughout the year ended 31 December 2012.

C A EG E A CE

The Company reviews and enhances its corporate governance practices continuously and is committed to a high standard of corporate governance. The Company has complied with the code provisions of the Code on Corporate Governance Practices for the period from 1 January 2012 to 31 March 2012 and the Corporate Governance Code and Corporate Governance Report (the “Corporate Governance Code”) for the period from 1 April 2012 to 31 December 2012 as set out in Appendix 14 of the Listing Rules throughout the nine months ended 31 December 2012.

