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Solargiga Energy

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2012

Unaudited

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2012

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

NOTES TO INTERIM FINANCIAL INFORMATION

1. BASIS OF PREPARATION

This interim financial information has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), including compliance with Hong Kong Accounting Standard (“HKAS”) 34, Interim financial reporting, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

The interim financial information has been prepared in accordance with the same accounting policies adopted in the 2011 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2012 annual financial statements. Details of these changes in accounting policies are set out in note 2.

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

2. CHANGES IN ACCOUNTING POLICIES

(a) Recently issued accounting standards

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

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

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

(b) Changes in application of accounting policies

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

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

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

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

3. SEGMENT REPORTING

In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resources allocation and performance assessment, the Group

	Unaudited			
	Six months ended 30 June 2011 (restated)			
	Segment A	Segment B	Segment C	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue from external customers	881,450	157,360	210,615	1,249,425
Inter-segment revenue	444,559	–	425,945	870,504
Reportable segment revenue	<u>1,326,009</u>	<u>157,360</u>	<u>636,560</u>	<u>2,119,929</u>
Reportable segment profit	<u>82,294</u>	<u>1,287</u>	<u>29,752</u>	<u>113,333</u>
	Audited			
	31 December 2011			
	Segment A	Segment B	Segment C	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Reportable segment assets (including interest in associates)	3,702,980	211,237	1,134,468	5,048,685

(b) **Geographic information**

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

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

4. OTHER REVENUE

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

5. OTHER NET INCOME

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

6. (LOSS)/PROFIT BEFORE TAXATION

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

	Unaudited	
	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
(a) Finance costs		
Interest on bank loans wholly repayable within five years	54,611	34,167
Interest on municipal government loan	99	108
	<u>54,710</u>	<u>34,275</u>
Total interest expense on financial liabilities not at fair value through profit or loss	54,710	34,275
Less: interest expense capitalised into property, plant and equipment	(2,145)	(1,052)
	<u>52,565</u>	<u>33,223</u>

7. INCOME TAX

Income tax in the consolidated income statement represents:

	Unaudited	
	Six months ended 30 June	
	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>
Current tax – the PRC		
Provision for the period	–	31,914
Over-provision in respect of prior years	<u>(5,845)</u>	<u>–</u>

9. (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

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

(b) Weighted average number of ordinary shares

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

(c) Diluted (loss)/earnings per share

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

10. TRADE AND OTHER RECEIVABLES

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

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

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

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

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

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

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

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

11. TRADE AND OTHER PAYABLES

	Unaudited 30 June 2012 RMB'000	Audited 31 December 2011 RMB'000
Trade payables	314,399	103,636
Bills payable	174,518	252,701
Other payables and accrued expenses	291,515	284,317
	<u>780,432</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 at the end of the reporting period based on invoice date is as follows:

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

12. INTEREST-BEARING^d BANK LOANS

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

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

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

13. PREPAYMENTS FOR RAW MATERIALS

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

14. GOODWILL

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

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

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

	30 June 2012 %
Growth rate	3
Discount rate	<u>15.5</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.

MANAGEMENT DISCUSSION AND ANALYSIS

Market Overview

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

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

Operations Review

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

Silicon Ingot Business

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

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

Cost of sales

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

Gross profit and gross profit margin

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

Selling and distribution expenses

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

Administrative expenses

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

Finance costs

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

Income tax

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

Inventory turnover days

Foreign currency risk

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

Human resources

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

Future prospects and strategies

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

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

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

1. Save for the investment in the research and development of products and the enhancement of the quality and efficiency, all capital expenditure will be suspended in order to reduce cash outflows.
2. In the process of enhancing the quality, the reduction of the cost is pursued at the same time. However, in the process of reducing costs, the target of the enhancement of the quality has to be reached without compromising the quality.
3. Increasing the production ratio of N-type products and launching and enhancing high effective products which may help the reduction in cost of power generation per unit.

4. Co-operating with long term investors to construct solar energy power generation

PUBLICATION OF FINANCIAL INFORMATION

The interim report for the six months ended 30 June 2012 containing all the detailed information will be dispatched to the shareholders of the Company and published on the respective websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.solargiga.com>) in due course.

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

Hong Kong, 29 August 2012

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