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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 ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

FINANCIAL HIGHLIGHTS

- Revenue for year increased by 32.4% to RMB3,999.616 million (2016: RMB3,020.976 million).
- Gross profit increased by 99.9% to RMB657.873 million (2016: RMB329.077 million). Gross profit margin increased from 10.9% for the year ended 31 December 2016 to 16.4% for the year ended 31 December 2017.
- Net profit attributable to the equity holders of the Company amounted to RMB107.462 million (2016: Net loss of RMB239.149 million).
- Basic earnings per share amounted to RMB3.35 cents (2016: RMB7.45 cents loss per share).
- Earnings before interest, taxes, depreciation and amortisation (“EBITDA”) for the year increased to RMB433.734 million (10.8% to revenue) from RMB130.913 million (4.3% to revenue) for the year ended 31 December 2016.
- Net asset value per share reaches RMB0.30 (HKD0.37) (2016: RMB0.25 (HKD0.31)) (note: translated at HKD1.2375 to every RMB1).
- The board of directors of the Company does not recommend to declare a final dividend for the year ended 31 December 2017 (2016: Nil).

ANNUAL RESULTS

The directors (the “Directors”) of Solargiga Energy Holdings Limited (the “Company”) present herewith the results of the Company and its subsidiaries (collectively, the “Group”) for the financial year ended 31 December 2017 and the comparative figures as follows.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS for the year ended 31 December 2017

	<i>Notes</i>	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Revenue	3	3,999,616	3,020,976
Cost of sales		(3,341,743)	(2,691,899)
Gross profit		657,873	329,077
Other income and gains, net	4	72,418	(46,591)
Selling and distribution expenses		(67,701)	(30,471)
Administrative expenses		(410,995)	(326,304)
Profit/(loss) from operations		251,595	(74,289)
Share of profits less losses of associates		(14,996)	(18,573)
Finance costs	6	(121,702)	(117,102)
Profit/(loss) before tax	5	114,897	(209,964)
Income tax credit/(expense)	7	8,860	(17,442)
Profit/(loss) for the year		123,757	(227,406)
Attributable to:			
Equity holders of the Company		107,462	(239,149)
Non-controlling interests		16,295	11,743
Profit/(loss) for the year		123,757	(227,406)
Basic and diluted earnings/(loss) per share attributable to ordinary equity holders of the Company (RMB cents)	9	3.35	(7.45)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2017

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Profit/(loss) for the year	123,757	(227,406)
Other comprehensive income/(loss) for the year (after tax and reclassification adjustments):		
Items that may be reclassified subsequently to profit or loss:		
– Changes in fair value of available-for-sale investments	–	(4,443)
– Currency translation differences	<u>32,984</u>	<u>(21,576)</u>
Total comprehensive income/(loss) for the year, after tax	<u>156,741</u>	<u>(253,425)</u>
Attributable to:		
Equity holders of the Company	140,446	(265,168)
Non-controlling interests	<u>16,295</u>	<u>11,743</u>
Total comprehensive income/(loss) for the year	<u>156,741</u>	<u>(253,425)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
at 31 December 2017

	<i>Notes</i>	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Non-current assets			
Property, plant and equipment		1,531,099	1,696,321
Prepayments for acquisitions of property, plant and equipment		14,245	25,143
Land lease prepayments		146,233	120,050
Prepayments for raw materials	10	55,298	66,223
Investments in associates		5,251	41,148
Available-for-sale investments	11	2,430	—
Deferred tax assets		34,763	19,516
Other non-current assets	12	—	21,644
Total non-current assets		1,789,319	1,990,045
Current assets			
Inventories		403,531	670,749
Trade and bills receivables	13	1,648,608	485,910
Prepayments, deposits and other receivables	14	347,327	436,296
Current tax recoverable		12,143	13,259
Pledged deposits		219,097	384,661
Cash and cash equivalents		191,185	293,628
Total current assets		2,821,891	2,284,503
Current liabilities			
Interest-bearing borrowings	15	1,922,322	2,036,867
Trade and bills payables	16	1,055,536	728,247
Other payables and accruals	17	134,476	115,673
Current tax payable		3,618	2,038
Provision for inventory purchase commitments		46,539	49,408
Finance lease payables		8,000	5,000
Total current liabilities		3,170,491	2,937,233
Net current liabilities		(348,600)	(652,730)
Total assets less current liabilities		1,440,719	1,337,315
Non-current liabilities			
Interest-bearing borrowings	15	124,758	179,780
Deferred tax liabilities		2,781	2,851
Deferred income		163,272	180,963
Finance lease payables		1,840	10,840
Other non-current liabilities		112,639	84,193
Total non-current liabilities		405,290	458,627
Net assets		1,035,429	878,688
Equity			
Equity attributable to equity holders of the Company			
Share capital		276,727	276,727
Reserves		673,612	533,769
Non-controlling interests		950,339	810,496
Total equity		1,035,429	878,688

NOTES TO THE FINANCIAL INFORMATION

1. BASIS OF PREPARATION

The annual results set out in the announcement do not constitute the Group's financial statements for the year ended 31 December 2017 but are extracted from those financial statements.

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all 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. They have been prepared under the historical cost convention. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

As at 31 December 2017, the Group's current liabilities exceeded its current assets by RMB348,600,000. As at 31 December 2017, the Group had cash and cash equivalents of RMB191,185,000 and short-term bank loans, including current portion of long-term bank loans of RMB1,922,322,000. The liquidity of the Group is primarily depending 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 31 December 2018. 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 31 December 2018. 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 31 December 2018, unutilised banking facilities as at 31 December 2017 from the Group's major banks with an amount of RMB461,790,000 which will be expired on 31 December 2020 and an amount of RMB45,206,000 which will be expired on 31 December 2019.

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 12 months from the reporting date. Accordingly, the financial statements have been prepared on a going concern basis.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKAS 7	<i>Disclosure Initiative</i>
Amendments to HKAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses</i>
Amendments to HKFRS 12 included in <i>Annual Improvements to HKFRSs 2014–2016 Cycle</i>	<i>Disclosure of Interests in Other Entities: Clarification of the Scope of HKFRS 12</i>

None of the above amendments to HKFRSs has had a significant financial effect on these financial statements.

3. OPERATING 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 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 operating of photovoltaic power plants ("Segment D"). 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. Revenue, costs and expenses are allocated to those 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 basis as they are presented in the Group's financial statements.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the years ended 31 December 2017 and 2016 is set out below:

	Segment A		Segment B		Segment C		Segment D		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from external customers										
Intersegment revenue	1,054,333	652,487	2,843,331	2,230,621	73,491	71,424	28,461	66,444	3,999,616	3,020,976
Intersegment revenue	<u>1,487,875</u>	<u>351,377</u>	<u>1,613,989</u>	<u>323,749</u>	<u>320,092</u>	<u>886,545</u>	<u>2,185</u>	<u>1,310</u>	<u>3,424,141</u>	<u>1,562,981</u>
Reportable segment revenue	<u>2,542,208</u>	<u>1,003,864</u>	<u>4,457,320</u>	<u>2,554,370</u>	<u>393,583</u>	<u>957,969</u>	<u>30,646</u>	<u>67,754</u>	<u>7,423,757</u>	<u>4,583,957</u>
Reportable segment profit/(loss)										
Reportable segment assets	111,759	(236,863)	29,666	14,652	1,140	8,049	(18,808)	(13,244)	123,757	(227,406)
Reportable segment assets	<u>3,204,874</u>	<u>2,250,710</u>	<u>578,659</u>	<u>832,396</u>	<u>674,060</u>	<u>790,248</u>	<u>153,617</u>	<u>401,194</u>	<u>4,611,210</u>	<u>4,274,548</u>
Reportable segment liabilities	<u>2,461,294</u>	<u>1,770,469</u>	<u>690,585</u>	<u>951,218</u>	<u>302,967</u>	<u>415,056</u>	<u>120,935</u>	<u>259,117</u>	<u>3,575,781</u>	<u>3,395,860</u>
Other segment information:										
Interest income from bank deposits	1,113	740	7,445	4,425	558	646	28	15	9,144	5,826
Finance costs	(49,837)	(51,615)	(45,794)	(35,860)	(15,660)	(15,960)	(10,411)	(13,667)	(121,702)	(117,102)
Depreciation and amortisation	(169,515)	(157,920)	(17,958)	(19,668)	(8,838)	(35,069)	(823)	(11,118)	(197,135)	(223,775)
Share of profits less losses of associates	(14,996)	(18,573)	-	-	-	-	-	-	(14,996)	(18,573)
Impairment losses on trade and other receivables	-	(35,273)	(18,900)	(994)	-	(350)	-	-	(18,900)	(36,617)
Reversal of write-down/(write-down) of inventories	7,195	(825)	-	-	(2,913)	-	-	-	4,282	(825)
Capital expenditure*	83,863	42,790	31,178	79,081	14,574	11,537	-	21,672	129,616	155,080
Investments in associates	5,251	41,148	-	-	-	-	-	-	5,251	41,148

* Capital expenditure consists of additions to property, plant and equipment and intangible assets.

(b) Geographic information

Substantially all of the Group's property, plant and equipment, lease prepayments, goodwill, intangible assets and interests in associates are located or operated in the PRC. The following table sets out information about the Group's revenue from external customers and the Group's non-current prepayments 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.

(i) Revenue from external customers

	2017 RMB'000	2016 RMB'000
Mainland China	2,950,762	1,451,226
Export sales		
– Japan	895,486	1,386,488
– Taiwan	36,686	95,316
– Other Asian Regions	115,368	80,826
– Europe	714	6,151
– America	600	969
Sub-total	1,048,854	1,569,750
Total	3,999,616	3,020,976

(ii) Non-current prepayments

	2017 RMB'000	2016 RMB'000
Mainland China	14,245	33,626
Overseas		
– Taiwan	55,298	57,740
Sub-total	55,298	57,740
Total	69,543	91,366

4. OTHER INCOME AND GAINS, NET

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Other income		
Government grants	29,089	20,913
Interest income from bank deposits	9,144	5,826
Investment income from available-for-sale investment	—	6,205
Gain on disposal of a subsidiary	32,520	220
Gain on previously held equity interest remeasured at acquisition-date fair value	8,819	—
Bargain purchase gain on acquisition of a subsidiary	159	—
	<hr/>	<hr/>
	79,731	33,164
Other (losses)/gains, net		
Net foreign exchange loss	(2,105)	(9,823)
Net loss on disposal of property, plant and equipment	(1,053)	(27,219)
Loss from sales of other materials	(9,794)	(40,925)
Others	5,639	(1,788)
	<hr/>	<hr/>
	(7,313)	(79,755)

5. PROFIT/(LOSS) BEFORE TAX

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

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
(a) Staff costs[#] (including directors' and chief executive's remuneration)		
Salaries, wages and other benefits	192,647	169,263
Contributions to retirement schemes	<u>27,356</u>	<u>25,640</u>
	<u><u>220,003</u></u>	<u><u>194,903</u></u>
(b) Auditor's remuneration	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Audit services	2,641	2,790
Tax services	52	50
Other services	<u>335</u>	<u>225</u>
	<u><u>3,028</u></u>	<u><u>3,065</u></u>
(c) Other items	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Amortisation of lease prepayments	3,862	4,409
Depreciation [#]	193,273	219,366
Provision for warranties [#]	28,446	22,306
Operating lease charges – properties	1,778	1,290
Research and development costs	223,975	143,823
Impairment losses on trade and other receivables	18,900	36,617
Net loss on disposal of property, plant and equipment	1,053	27,219
Cost of inventories sold [#]	2,831,712	2,360,477
Cost of services rendered [#]	<u>510,031</u>	<u>331,422</u>

[#] Cost of inventories sold and cost of services rendered include, in aggregate, RMB371,039,000 (2016: RMB376,519,000) for the year ended 31 December 2017, relating to staff costs, depreciation and provision for warranties which amounts are also included in the respective total amounts disclosed separately above or in note 5(a) for each of these types of expenses.

6. FINANCE COSTS

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Interests on bank and other loans wholly repayable within five years	120,631	116,532
Interests on finance leases	1,071	570
	<hr/>	<hr/>
Total interest expenses on financial liabilities not at fair value through profit or loss	121,702	117,102
	<hr/>	<hr/>

7. INCOME TAX

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

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Current tax – the PRC		
Provision for the year	5,856	13,442
Under-provision in respect of prior years	601	5
	<hr/>	<hr/>
	6,457	13,447
Deferred tax	<hr/>	<hr/>
	(15,317)	3,995
Income tax (credit)/expense for the year	<hr/>	<hr/>
	(8,860)	17,442
	<hr/>	<hr/>

8. DIVIDENDS

The board does not recommend to declare a final dividend for the year ended 31 December 2017 (2016: Nil).

9. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

(a) Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the profit attributable to the ordinary equity holders of the Company of RMB107,462,000 (2016: loss of RMB239,149,000) and the weighted average of 3,211,780,566 (2016: 3,211,780,566) ordinary shares of the Company in issue during the year.

(b) Diluted earnings/(loss) per share

No adjustment has been made to the basic earnings/(loss) per share amounts presented for the years ended 31 December 2017 and 2016 in respect of a dilution as the Group had no dilutive potential ordinary shares in issue during the years ended 31 December 2017 and 2016.

10. 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 to receive within one year are classified as current assets. There was no prepayment for raw materials made to a related party as at 31 December 2017 (31 December 2016: 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 provided a provision of RMB70,369,000.

Based on the updated assessment by management for the year ended 31 December 2017, no further impairment or reversal of impairment was made during the year ended 31 December 2017. The movement in the impairment provision during the year merely represented exchange adjustments.

11. AVAILABLE-FOR-SALE INVESTMENTS

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Unlisted equity investments, at fair value:		
In Mainland China	2,430	—
	2,430	—

Available-for-sale investments represents an investment in a company, which is stated at cost less any impairment as there is no market price available.

As at 31 December 2017, no impairment loss was provided (31 December 2016: Nil).

12. OTHER NON-CURRENT ASSETS

Other non-current assets represent the deductible input value added taxes (“VAT”) that are not expected to be utilised within one year. These deductible input VATs are arisen from the purchases of the property, plant and equipment for a photovoltaic power plant, which are eligible for deduction within the whole life of the power plant in Mainland China.

13. TRADE AND BILLS RECEIVABLES

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Trade receivables	1,345,780	526,041
Bills receivables	376,178	17,117
Less: Impairment	(73,350)	(57,248)
	<u>1,648,608</u>	<u>485,910</u>

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

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Within 1 month	672,937	266,672
1 to 3 months	358,121	40,796
4 to 6 months	233,068	22,913
7 to 12 months	298,998	125,723
Over 1 year	85,484	29,806
	<u>1,648,608</u>	<u>485,910</u>

The Group normally allows a credit period of 30-90 days to its customers. However, regarding domestic photovoltaic module sales, some trade receivables are granted longer credit periods of up to 180 days depending on the construction period of photovoltaic power plants. In addition, 10% of the total amount of receivables are retained as warranties in some domestic contracts, and will generally be recovered in around one year. As a result, the trade receivables turnover days of module sales are generally longer.

The movements in the allowance for doubtful debts during the year are as follows:

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
At 1 January	57,248	25,813
Exchange adjustments	(1,260)	1,618
Impairment losses recognised	18,900	29,817
Amount written off as uncollectible	(1,538)	—
	<u>73,350</u>	<u>57,248</u>

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB73,350,000 (2016: RMB57,248,000) with a carrying amount before provision of RMB73,350,000 (2016: RMB57,248,000).

The individually impaired trade receivables relate to customers that were in financial difficulties or were in default in principal payments and none of the receivables is expected to be recovered.

The ageing analysis of trade and bills receivables that are neither individually or collectively considered to be impaired is as follows:

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Not past due	<u>1,368,439</u>	272,491
Less than 1 month past due	90,543	8,677
1 to 3 months past due	118,350	30,997
4 to 6 months past due	13,609	88,632
7 to 12 months past due	10,516	55,620
Over 1 year past due	<u>47,151</u>	29,493
	<u><u>1,648,608</u></u>	<u><u>485,910</u></u>

As at 31 December 2017, bills receivables had been pledged as security to banks for acquiring interest-bearing bank borrowings amounting to RMB219,749,000 (31 December 2016: RMB4,000,000), for issuing bills payable to suppliers amounting to RMB53,196,000 (31 December 2016: Nil), and for issuing letters of guarantee amounting to RMB20,000,000 (31 December 2016: Nil).

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

14. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Prepayments for raw materials	142,686	160,384
Deductible value-added tax	180,412	229,614
Other receivables	31,029	53,098
Less: Impairment	(6,800)	(6,800)
	<u>347,327</u>	<u>436,296</u>

The movements in the allowance for other receivables during the year are as follows:

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
At 1 January	6,800	—
Impairment losses recognised	<u>—</u>	6,800
	<u>6,800</u>	<u>6,800</u>
At 31 December	<u>6,800</u>	<u>6,800</u>

Included in the above provision for impairment of other receivables is a provision for individually impaired other receivables of RMB6,800,000 (2016: RMB6,800,000) with a carrying amount before provision of RMB6,800,000 (2016: RMB6,800,000).

Except for those other impaired receivables already impaired, the financial assets included in the above balances related to receivables for which there were no recent history of default and no fixed term of repayment.

15. INTEREST-BEARING BORROWINGS

			2017			2016	
		Notes	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity
Current:							
Bank loans – secured	(a)	2.3744–7.14		2018	1,024,880	4–7.8	2017
Bank loans – guaranteed	(b)	2.5–7.14		2018	895,763	1.3734–8	2017
Current portion of long-term borrowings							
Bank loans – secured	(a)	–		–	–	5.39	2017
Bank loans – guaranteed	(b)	–		–	–	5.225	2017
Third parties – guaranteed	(b)	1.6–3.3		2018	1,679	3.3–6.15	2017
Total					<u>1,922,322</u>		<u>2,036,867</u>
Non-current:							
Bank loans – secured	(a)	–		–	–	5.39	2018–2027
Bank loans – guaranteed	(b)	–		–	–	–	–
Third parties – guaranteed	(b)	1.6–6		2019–2020	124,758	3.3	2018–2020
Total					<u>124,758</u>		<u>179,780</u>

- (a) The bank borrowings are secured, among which RMB1,024,880,000 (2016: RMB1,299,045,000) was secured by certain of the Group's bills receivables, property, plant and equipment and land lease prepayments with the net book value of RMB604,297,000 (2016: RMB650,993,000).
- (b) Certain subsidiaries' borrowings are guaranteed by the other subsidiaries of the Group.

	2017 RMB'000	2016 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	1,920,643	1,916,503
In the second year	–	16,000
In the third to fifth years, inclusive	–	55,000
Beyond five years	–	108,000
	<u>1,920,643</u>	<u>2,095,503</u>
Other borrowings repayable:		
Within one year	1,679	120,364
In the second year	122,994	364
In the third to fifth years, inclusive	1,764	416
	<u>126,437</u>	<u>121,144</u>
	<u>2,047,080</u>	<u>2,216,647</u>

16. TRADE AND BILLS PAYABLES

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Trade payables	611,729	546,813
Bills payables	443,807	181,434
	1,055,536	728,247

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

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Within 1 month	413,868	311,257
1 to 3 months	285,633	119,240
4 to 6 months	292,278	218,125
7 to 12 months	18,226	61,451
Over 1 year	45,531	18,174
	1,055,536	728,247

- (b) As at 31 December 2017, the Group's bills payables of RMB95,700,000 were secured by Group's bills receivables of RMB53,196,000 (31 December 2016: Nil).

17. OTHER PAYABLES AND ACCRUALS

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Other payables and accrued expenses	67,040	78,831
Other tax payables	23,444	13,103
Receipts in advance	43,850	23,588
Dividends payable	142	151
	134,476	115,673

18. BUSINESS COMBINATION

On 31 March 2017, Jinzhou Yangguang Energy Co., Ltd.* ("Jinzhou Yangguang"), an indirect wholly-owned subsidiary of the Company, entered into an agreement (the "Agreement") with Liaoning Oxiranchem, Inc.* ("Liaoning Oxiranchem") to purchase a 63% equity interest of Jinzhou Chuanghui New Energy Co., Ltd.* ("Jinzhou Chuanghui") at a consideration of RMB53,000,000. On 31 March 2017, to facilitate the completion of the Agreement, Jinzhou Yangguang and Liaoning Oxiranchem entered into a debt settlement agreement for purpose of settlement of certain indebtedness and other liabilities in relation to Jinzhou Chuanghui.

* for identification only

The fair values of the identifiable assets and liabilities of Jinzhou Chuanghui as at the date of acquisition were as follows:

	Fair value recognised on acquisition <i>RMB'000</i>
Property, plant and equipment	155,441
Land lease prepayments	20,669
Inventories	189
Trade and bills receivables	680
Prepayments, deposits and other receivables	35,992
Current tax recoverable	63
Cash and bank balances	11,229
Interest-bearing borrowings	(85,000)
Trade payables	(16,690)
Accruals and other payables	<u>(38,193)</u>
 Total identifiable net assets at fair value	 <u>84,380</u>
 Satisfied by:	
The fair value of the original 37% equity interest in the acquiree as at the acquisition date	31,221
Debt settlement	<u>53,000</u>
 Bargain purchase gain on acquisition of a subsidiary	 <u>159</u>

The values of assets and liabilities recognised on acquisition are their estimated fair values. The fair values of property, plant and equipment, and lease prepayments made for the lands held under operating leases recognised as a result of the business combination are based on their market values.

An analysis of the cash flows in respect of the acquisition of Jinzhou Chuanghui is as follows:

	<i>RMB'000</i>
Cash and bank balances acquired	11,229
Net inflow of cash and cash equivalents including in cash flows from investing activities	<u>11,229</u>

Since the acquisition, Jinzhou Chuanghui contributed no revenue and caused a loss of RMB12,264,000 to the consolidated profit of the Group for the year ended 31 December 2017.

Had the combination taken place at the beginning of the period, the revenue of the Group and the profit of the Group for the year would have been RMB3,999,616,000 and RMB84,188,000, respectively.

19. DISPOSAL OF A SUBSIDIARY

On March 31 2017, Jinzhou Yangguang Energy Co., Ltd.* (“Jinzhou Yangguang”), an indirect wholly-owned subsidiary of the Company, entered into an agreement (the “Agreement”) with Liaoning Oxiranchem, Inc.* (“Liaoning Oxiranchem”) to sell a 100% equity interest in Golmud Solargiga Energy Electric Power Co., Ltd.* (“Golmud Solargiga”) for a selling price of RMB155,400,000. On 31 March 2017, to facilitate the completion of the Agreement, Jinzhou Yangguang and Liaoning Oxiranchem entered into a debt settlement agreement for purpose of settlement of certain indebtedness and other liabilities in relation to Golmud Solargiga.

The following table summarises the carrying value of net asset of Golmud Solargiga as at the date of disposal:

	2017 RMB'000
Net asset disposed of:	
Property, plant and equipment	197,774
Land lease prepayments	15,750
Other non-current assets	13,642
Trade and bills receivables	9,878
Prepayments, deposits and other receivables	72,794
Current tax recoverable	209
Cash and bank balances	1,194
Interest-bearing borrowings	(186,500)
Trade payables	(1,809)
Accruals and other payables	<u>(52)</u>
	<u>122,880</u>
Gain on disposal of a subsidiary	<u>32,520</u>
	<u>155,400</u>

	2017 RMB'000
Satisfied by:	
Debt settlement	152,016
Cash consideration	<u>3,384</u>
	<u>155,400</u>

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	2017 RMB'000
Cash and bank balances disposed of	<u>(1,194)</u>
Net outflow of cash and cash equivalents in respect of the disposal of a subsidiary	<u>(1,194)</u>

* for identification only

MANAGEMENT DISCUSSION AND ANALYSIS

Market Overview

In 2017, the global photovoltaic market experienced strong growth. According to data from the China Photovoltaic Industry Association* (中國光伏行業協會), the global newly-added volume of photovoltaic power generation capacity reached 102 GW (2016: 73 GW), an increase of over 40% year-on-year. Accumulated Photovoltaic capacity reaches 405 GW. China's installed capacity surged far beyond expectations and has ranked first in the world for five consecutive years. The United States suffered from a slight drop in installed capacity due to policy risks but still ranked second in the world. Emerging markets such as India have grown significantly and have replaced Japan as the third largest in the world.

The installed capacity of China's photovoltaic power generation maintained its rapid growth. In the first half of the year, the "630" installation rush drove the installed capacity of China's photovoltaic power stations to its peak, pushing up the annual global photovoltaic market scale to exceed the 100 GW mark for the first time. According to the latest data released by the National Energy Bureau of China (中國國家能源局), China's newly installed capacity for photovoltaic power generation in 2017 was 53.06 GW (2016: 34.54 GW), a year-on-year increase of 53.6%, a record high. Among which, 33.62 GW was large-scale photovoltaic power plants, an increase of 11%; distributed photovoltaic power plants accounted for 19.44 GW, an explosive growth of 3.7 times. China's cumulative installed capacity reached 130.25 GW (2016: 77.42 GW), ahead of and exceeding the installation target of 110 GW of solar energy for the "13th Five-Year Plan for Solar Energy Development" (《太陽能發展「十三五」規劃》) by 2020.

Looking ahead to 2018, the world's new photovoltaic installation is expected to reach 107 GW. According to Bloomberg New Energy Finance* (彭博新能源財經) forecast, China's photovoltaic power generation industry will continue to maintain a strong growing trend. Driven by policy incentives and capacity expansion, new photovoltaic installation capacity will reach the range of 47 GW to 65 GW. Distributed photovoltaic power generation will continue to develop at a relatively fast pace. It is expected that the proportion of new distributed power generation installations in the total newly installed capacity will increase from 38% in 2017 to around 60%. Energy Trend predicts that China will formally reduce the feed-in-tariff (FiT) of photovoltaic, and will strictly implement the current year subsidies from 2019 onwards. This implies there will be two waves of installation rush, "630" and "1230" this year, in order to enjoy the higher subsidies. It is expected that by the end of 2020, the cumulative installed capacity of photovoltaic power generation in China will reach 250 GW. On the other hand, the analysis also predicts that the European market will enter the recovery phase. France, the Netherlands, Spain and other countries will resume on-grid connection of large-scale ground power stations from the third quarter of 2018. Further, the European minimum import price (MIP) will be gradually phased out. After that, Europe will become a more competitive market, and will become one of the main driving forces for the global market size to maintain above 100GW in the next two or three years.

* for identification only

During the year, the Company's capacity utilisation rate remained high, and the market experienced periods of short supply. Although the scale of the industry continues to expand, production technology continues to improve. Production costs continue to decline, and hence the industry's overall gross margin remains stable. The industry has become accustomed to annual "630" and "930" installation rushes. Even with the annual cycle of photovoltaic installations, the annual total installed photovoltaic capacity was still able to rise steadily.

Since its launch, the Photovoltaic Power Generation Top Runner Program* (領跑者計劃) has promoted healthy competition through high standards of technical certification and efficiency requirements. In addition, in response to the national policy, the National Energy Bureau of China (中國國家能源局) has launched an upgraded Super Runner Program (超級領跑者計劃), the program of application of advance technology on construction of photovoltaic power generating plants, to encourage and support enterprises with large-scale and advanced technologies. The Super Runner Program focuses on the development of high-efficiency products, which include the Group's N-type double-sided photovoltaic modules and other high-end products. These products are expected to gain attention from the market.

The Chinese government has also developed a special photovoltaic poverty alleviation program* (光伏扶貧方案) to improve the lives of the poor through photovoltaic power generation. This Program will help conserve energy and reduce carbon emission. In 2017, China has developed in excess of 10GW photovoltaic power plants under this program and is expecting to develop a further 20GW per year in both 2018 and 2019, and by 2020, the total scale will reach 60GW. This will directly assist 10 million population in poverty, and strive to get them out of poverty. 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.

On the technical side, as mentioned above, with the improvement of production process technology and production efficiency, the average selling price of photovoltaic products has declined in the past few years, and the gross margin of the industry has remained stable. It is expected that the Chinese market will maintain a relatively stable developing trend. According to predictions by China Photovoltaic Industry Association* (中國光ovoltaic 協會), the global photovoltaic market will maintain its growth momentum. The Guiding Opinions on Energy-related Work for 2017 (《二零一七年能源工作指導意見》) issued by the National Energy Bureau of China (中國國家能源局) urged to stress on the development of solar energy while continuing to implement the Photovoltaic Power Generation Top Runner Program* (領跑者計劃) in order to drive down the costs of photovoltaic power generation.

* for identification only

In the U.S. market, Energy Trend analysts pointed out that U.S. Section 201 may impact the U.S. and even the global solar energy industry supply chain, price and other aspects in the short run. However, with the support for the photovoltaic projects in each state, the cost competitive advantage will gradually become apparent. The installed capacity is expected to maintain steady growth over the long term. According to the latest research data from GTM Research and the US Solar Energy Industry Association (“SEIA”), as of the end of 2017, the installed capacity of photovoltaic power in the United States has exceeded 2GW for eight consecutive quarters, and approximately 11.8 GW has been newly connected to the grid in the United States in 2017. According to the photovoltaic projects planned and currently under construction, more than 10GW of photovoltaic capacity will be installed each year. By 2022, it is estimated that the annual newly installed photovoltaic capacity in the United States will exceed 18GW. GTM Research and SEIA estimate that the cumulative US solar market will increase by nearly threefold over the next five years.

Energy Trend reported that India has replaced Japan as the third largest market for photovoltaics in the world with the installed capacity of 9.62 GW in 2017. India has been actively developing renewable energy in recent years. The latest research report on the green energy market shows that the Indian cumulative solar power generation currently reaches 20GW, of which public utilities accounted for 18.4GW and rooftop solar accounted for 1.6GW. India has achieved its national solar power planned target of 20GW solar power generation by 2022 well ahead of schedule. Hence, the government has revised the target to 100 GW. The world's largest single solar power plant, the Rewa Ultra Mega Solar Project, has also been through the bidding process and construction is expected to begin in 2018. Encouraged by the policies, the overall installed capacity of India in 2018 is expected to increase significantly.

In the Japanese market, the 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, Japan also introduced a solar bidding system in October 2017. The overall demand has been stable. The Group has been penetrating the Japanese market for more than ten years, and is expected to maintain steady growth in order volume.

Emerging markets have begun to develop in scale, global demand has been decentralised, and the “One Belt One Road” international cooperation strategy has promoted the development of emerging markets. According to predictions by the GTM Research report, compared with only 8 gigawatt countries in 2017, there will be 13 countries reaching gigawatt status in its annual photovoltaic installed capacity in 2018, indicating that emerging market demand for photovoltaic products will lead the rise in overall global demand. Analysts at Energy Trend predicts that the European market will enter the recovery phase and become one of the main driving forces for maintaining the annual global market size at levels above 100GW. France, the Netherlands, Spain and

other countries will resume on-grid connection of large-scale ground power stations from the third quarter of 2018. Further, the European minimum import price (MIP) will be gradually phased out. After that, Europe will become a more competitive market. The Group has achieved success in developing markets such as Taiwan and Southeast Asia, and will diversify its sales channels in the terminal module market.

In summary, it is expected that the global photovoltaic market will continue to grow in the next few years. By 2022, the global cumulative installed photovoltaic capacity is expected to reach 470 GW.

Operations review

The Group is a leading supplier of upstream and downstream vertically integrated photovoltaic products and services in the PRC. We sell our photovoltaic products to upstream, midstream and end-user customers in photovoltaic industry. We focus 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.

As at 31 December 2017, the Group's production chain includes 1.2GW monocrystalline silicon ingot, 1.2GW monocrystalline silicon wafer, 400MW solar cell and 1.2GW module production capacities. However, 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. 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.

Therefore, as mentioned in the announcement dated 25 September 2017, the Group will invest in a project located in Qujing City, Yunnan Province, China in two phases, each phase representing 600MW capacity, with a total of 1.2GW. The first phase comprising 600MW of monocrystalline silicon ingot and monocrystalline silicon wafer capacities is expected to commence mass production by the end of the second quarter of 2018 (for further details, please refer to the “Silicon Ingot and Wafer Business” section below). By then, the Group’s manufacturing capacities of monocrystalline silicon ingots and monocrystalline silicon wafers will each reach 1.8GW. In addition, as mentioned in the announcement dated 1 March 2018, the Group will expand the annual photovoltaic module production capacity by 1GW and is also expecting to commence mass production by the end of the second quarter of 2018 (for further details, please refer to the “Module Business” section below). After the above expansion, from the second half of 2018 onwards, the Group’s monocrystalline silicon wafer and monocrystalline silicon wafer production capacity will reach 1.8 GW, the solar cell capacity will remain at 400 MW, and the photovoltaic module production capacity will reach 2.2 GW.

In terms of operating results, since upgrade and transformation work on upstream ingot and wafer manufacturing capacities was performed in 2016, utilisation ratio was relatively low and the benefit from economy of scale could not be realised; higher prices from long-term raw material, polysilicon, supply contract also led to last year’s losses. Since the turn of the year, upgrade and transformation work on upstream ingot and wafer manufacturing capacities has improved efficiencies, along with successful development of the client base of downstream photovoltaic modules, and external shipment volume increased from 1,543.6MW in 2016 to 2,427.8MW in 2017, representing an increase of 57%. Within which, subcontracted processing volume also increased from 484.4MW in 2016 to 695.2MW in 2017, representing an increase of 43%. During the year, gross margin was significantly increased to over 16.4%. Further, long-term supply contract of high-priced raw material, polysilicon, has mostly been completed and with the huge jump in capacity utilisation, the Group’s bargaining power has improved significantly and the Group was hence able to enjoy the full benefit of economy of scale. Due to the aforementioned reasons, compared to the operating loss of RMB74.289 million in 2016, an operating profit of RMB251.595 million was recorded for the year of 2017. The Group has officially turned around its losses.

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 in the scope of business, the Group's all-rounded photovoltaic industry production chain with its vertically integrated business model covering both upstream and downstream businesses allows external sales, which mainly included sales to 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., of its upstream products such as silicon ingots, wafers and solar cells which are produced and processed in-house to strengthen the competitiveness of external market, apart from being provided to its downstream business.

During the year, demand for monocrystalline products had continuously increased which led to rapid growing market share of monocrystalline N-type products. Not only the traditional monocrystalline P-type products, the 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. Further, as mentioned above, through long-term strategic partnerships with well-known solar cell-focused manufacturers, the Group may enjoy priority distribution channels for the sales of its monocrystalline wafers, and ensure long-term stable utilisation of the Group's capacity and shipment volume.

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 industry leading ratios. During the year, the external shipment volume of monocrystalline silicon ingots was 315.5MW, representing an increase of 34% compared to 234.8MW in the corresponding period of 2016. The increase was mainly due to the increase in the volume of subcontracted processing of ingots. External shipment volume of monocrystalline silicon wafers was 822.3MW, representing an increase of 62% compared to 508.6MW in 2016. Sales increase is mainly a result of the completion in the technological transformation and renovation of production equipment. Production is returning to normal operations and the benefits of economies of scale resuming. However, while portions of the Group's monocrystalline silicon solar ingots and wafers are provided to the downstream solar cell manufacturing company, the improvement may not be reflected in the consolidated financial statements under the external sales.

In addition, as mentioned in the announcement dated 25 September 2017, the Group will invest in a project located in Qujing City, Yunnan Province, China in two phases. Each phase invests 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 end second quarter of 2018. 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. After careful assessment of the location for capacity expansion, Yunnan Qujing satisfies all these requirements and was hence selected to be the location for this investment project. The Group expects the Qujing Project will become the new layout point of the Group, expand the customer base for the Group and further improve the Group's overall manufacturing costs. Reflecting the above benefits in the lowering of overall costs of our ingots and wafers, transferring to our customers, the Company will provide our customers with more competitive products, and as a result creating a win-win situation.

Solar Cell business

The Group's production lines of solar cells are located at the Group's manufacturing base in Jinzhou, Liaoning. During the year, the annual production capacity of solar cells was 400MW (2016: 350MW). Solar cells are mainly provided internally to the downstream module business of the Group, only a small portion is sold to the customers in China and Japan. The Group's solar cell manufacturing capacity is highly flexible, 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 year, demand for solar modules has grown rapidly and it led to an increase in photovoltaic module sales. External shipment of the Group reached 1,252MW, compared to 769MW for 2016, representing an increase of 62%. The increase in external shipment was mainly the result of the successful development of the client base, reflected in the significant growth in both the number of customers and in the quantity of their purchases. 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..

Following the increasing awareness of the benefits of high conversion efficiency solar modules is a stronger demand for high conversion efficiency solar 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. As the Group specialises in monocrystalline silicon photovoltaic products, with its own in-house support of high-quality self-made upstream monocrystalline silicon ingots and monocrystalline silicon wafers, customer demand for the Group’s high conversion efficiency solar modules increases every year. The proportion of sales of the Group’s monocrystalline silicon photovoltaic modules climbed from 58%:42% mono-to-multi-crystalline in 2016 to that of 75%:25% in 2017. 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.

With the Group's focus on vertical integration of upstream and downstream monocrystalline photovoltaic products, demand for downstream monocrystalline photovoltaic modules not only drives the internal demand for the Group's upstream ingots and wafers, but also helps to realise the benefits of the Group's competitive advantage of its vertical integration and improve the Group's consolidated gross profit margin.

In addition, as mentioned in the announcement dated 1 March 2018, the Group will expand the annual photovoltaic module production capacity by 1GW and is also expecting to commence mass production by the end of the second quarter of 2018. After the expansion, the photovoltaic module production capacity will reach 2.2 GW. By directly satisfying the demands for its downstream photovoltaic modules by end user customers, the Group is able to boost production of its self-manufacturing wafers. It is able to 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

The cost of photovoltaic power generation must continue to decline as technology continues to improve in order to replace traditional petrochemical energy in a larger scale and to effectively achieve the goal of green and clean energy. As such, although the average selling price during the year declined substantially over last year, as a result of successful customer development, the size of the customer base and the purchases by individual customers are showing strong growing trends. The external shipment volume increased significantly by 57% compared to last year. As a result, for the year ended 31 December 2017, the Group recorded revenue of RMB3,999.616 million, which was an increase of 32% from RMB3,020.976 million in 2016, and continued to maintain a rapid growth trend.

Cost of sales

For the year ended 31 December 2017, cost of sales increased by 24% to RMB3,341.743 million from RMB2,691.899 million of last year. The increase in cost of sales was mainly due to the increase in external sales volume. Cost of sales represented 83.6% of total revenue, representing a decrease of 5.5 percentage points from 2016. The decline in this ratio was made possible by the completion of the transformation of machinery and equipment during the year, which resulted in a significant increase in utilisation of production capacity with significant improvement in production efficiency. This highlighted the benefits of economies of scale.

Gross profit and gross profit margin

The Group recorded a gross profit of RMB657.873 million and a gross profit margin of 16.4% in 2017, as compared to a gross profit of RMB329.077 million and a gross profit margin of 10.9% in 2016. The significant improvement in the gross profit and the gross profit margin was mainly driven by the following reasons:

- (1) With the rapid increase in the end-user market share of monocrystalline silicon solar products, the Group's consolidated gross profit margin has been significantly improved as a result of the Group's strategy focusing on the vertical integration of upstream and downstream monocrystalline silicon solar product lines through the entire production chain;
- (2) as transformation and upgrade of the upstream monocrystalline silicon ingot and monocrystalline silicon wafer production equipment have been completed, production efficiency has improved. With the increase in the utilisation of production capacity during the year, the advantage of economy of scale of monocrystalline silicon ingot and monocrystalline silicon wafer is shown;
- (3) due to successful customer development of the downstream modules customer base, the number of the customers and the size of each purchase by individual customers are showing strong growing trends. The external shipment volume of monocrystalline photovoltaic modules increased significantly. The demand for downstream monocrystalline photovoltaic modules not only drives the internal demand for the Group's upstream ingots and wafers, but also helps better mitigate the market risks arising from fluctuant sales of upstream silicon wafers or unstable supply of mid-stream solar cells;
- (4) long-term procurement contracts for high-priced raw materials, polysilicon, have mainly been completed in 2016. With high utilisation of production capacity coupling with the increase in the Group's purchases during the year, the Group's bargaining power improved. Unit purchase price was lowered as a result.

Selling and distribution expenses

Selling and distribution expenses mainly comprised packaging expenses, freight charges and insurance expenses. Selling and distribution expenses increased to RMB67.701 million in 2017 from RMB30.471 million in 2016. The increase in selling and distribution expense was mainly due to the increase in volume of external shipment in 2017.

Administrative expenses

Administrative expenses mainly comprised staff costs and research and development expenses. The administrative expenses in 2017 amounted to RMB410.995 million, increased by 26% as compared to RMB326.304 million in 2016. The increase was mainly due to the continuous enhancement of manufacturing process and existing and new products, which resulted in an increase in research and development expenses. In turn, it led to an increase in administrative expenses.

Finance costs

Finance costs represented mainly bank loan interests. The Group's finance costs increased from RMB117.102 million in 2016 to RMB121.702 million in 2017, a slight increase of 3.9%. As mentioned above, revenue of the Group has grown increased significantly from RMB3,020.976 million in last year to RMB3,999.616 million in this year, representing an increase of 32.4%. Given the significant increase in corresponding purchases, no noticeable increase in the Group's finance cost was recorded. It was a result of better financial control on the use of funds during the year. With a turnover in profit, the financial structure of the Group has been further improved, creating more room for negotiation of finance costs. The Group expects to continue reducing finance costs in the future and will obtain various different financing channels.

Income tax

Income tax credit was RMB8.86 million in 2017, while an income tax expense amounted to RMB17.442 million was recorded in 2016. Income tax credit recorded in 2017 was mainly due to the recognition of the Group's deferred tax assets.

Profit attributable to the equity holders

The Group recorded a profit attributable to the equity shareholders of RMB107.462 million in 2017, as compared to a loss attributable to the equity shareholders of RMB239.149 million in 2016.

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 58 days during the year (2016: 86 days).

Trade receivable turnover days

The Group completed the vertical integration of upstream and downstream monocrystalline silicon products in 2011. 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 1.2 GW in 2017. 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 receivable are retained as a warranties. This warranty will generally be recovered in around one year. As a result, the trade receivables turnover days of module business are generally longer. From the rapid growth of the ratio of revenue in modules sales of the Group, the trade receivables turnover days of the Group increased to 96 days (2016: 63 days) in 2017.

Trade payable turnover days

The trade payables turnover day was 96 days (2016: 102 days) during the year. Compared with 102 days of last year, the turnover days was kept at around the same level and has met the Group's target in payable payment days.

Liquidity and financial resources

The principal sources of working capital of the Group during the year were cash flows from bank borrowings. As at 31 December 2017, the current ratio (current assets divided by current liabilities) of the Group was 0.89 (31 December 2016: 0.78). The Group had net borrowings of RMB1,636.798 million as at 31 December 2017 (31 December 2016: RMB1,538.358 million), including cash in bank and on hand of RMB191.185 million (31 December 2016: RMB293.628 million), pledged deposits of RMB219.097 million (31 December 2016: RMB384.661 million), bank loans due within one year of RMB1,922.322 million (31 December 2016: RMB2,036.867 million) and non-current bank and other loans of RMB124.758 million (31 December 2016: RMB179.78 million). The net debt to equity ratio (net debt divided by total equity) was 158.1% (31 December 2016: 175.1%).

Earnings before interest, taxes, depreciation and amortisation (“EBITDA”)

Earnings before interest, taxes, depreciation and amortisation (“EBITDA”) for the year was RMB433.734 million (10.8% to revenue) which showed solid improvement from RMB130.913 million (4.3% to revenue) in 2016. The driving force behind the improvement in EBITDA was the improvement in the Group’s manufacturing process efficiency. Machinery and equipment after technical upgrade has gradually resumed production, illustrating economy of scale. Results of research and development has also come to fruition in 2017.

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 31 December 2017, the Group had 3,565 (31 December 2016: 3,664) employees.

Future prospects and strategies

In accordance with the Thirteenth Five-Year Plan of China, the installed solar capacity is targeted to reach over 110GW by the end of 2020 including an installed photovoltaic capacity of over 105GW, market confidence was greatly boosted, creating favourable conditions for photovoltaic growth and development in China. As at the end of 2017, China has exceeded the installation target set out in the Thirteenth Five-Year Plan well ahead of schedule. Analysts expect that, by the end of 2020, culminated installation will surge above 250GW. Under the improving environment in the global photovoltaic industry and the frequent launches of favourable policies and plans by the PRC government, 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. Further, 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.

In addition, detailed strategy of each business segment is also discussed as follow:

1. *Monocrystalline ingots and monocrystalline wafers*

The Group is a leading supplier of monocrystalline ingots and monocrystalline wafers. As the market share of monocrystalline products continues to grow, the Group will continue to assess suitable locations to expand its capacities to manufacture more competitive monocrystalline ingots and monocrystalline wafers (eg. the Group's monocrystalline ingot and monocrystalline wafer expansion project in Qujing, Yunnan province as previously announced, with a scale of 1.2GW, which will better utilise the local conditions, in order to lower its manufacturing costs), hence allowing the Group to continue to strive to maintain its status as a top five manufacturer of monocrystalline wafers.

2. *Solar cells*

Under the Group's vertical integration strategy, solar cell is the segment with less production capacity. The Group hence formed strong long-term strategic partnerships with local and overseas well-known solar cell-focused manufacturers, which strengthens the mutual working relationship. As a result, the Group will sell its upstream wafers to the strategic partners and in turn the strategic partners will provide the Group with the solar cells needed for module manufacturing. As such, the Group will be able to focus its resources in developing its monocrystalline ingots, monocrystalline wafers or photovoltaic modules. On the other hand, to the solar cell-focused manufacturers, they will be able to obtain a stable supply of monocrystalline wafers and also a stable sales channel of solar cells, and achieving a win-win target.

3. Photovoltaic modules

As a result of successful customer development, the size of the customer base and the purchases by individual customers are showing strong growing trends. In order to satisfy further customer needs, the Group will expand its module capacity at the opportune moment and aim to become a top 10 module provider of China. Further, the increase in sales of downstream modules and also the increase in the proportion of sales of high-end module, which earns higher gross profit margins, not only drive the internal demand for the Group's upstream ingots and wafers, but also improve the Group's consolidated gross profit margin under its vertical integration strategy.

4. Construction and Operating of Photovoltaic Systems Business

In respect of the business opportunity derived from the construction of distributed power plants, apart from establishing internal photovoltaic power plant system subsidiary companies, 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.

AUDIT COMMITTEE

The Company's Audit Committee has reviewed the accounting principles and practices adopted by the Group and the Group's annual results for the year ended 31 December 2017, and has discussed and reviewed the risk management, internal control and reporting matters.

DIVIDEND

No final dividend was paid in 2017 (2016: Nil). The Directors do not recommend the payment of a final dividend for 2017 (2016: Nil).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 15 June 2018 to 21 June 2018, 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 14 June 2018.

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions as set out in Appendix 10 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 been complied with the Model Code throughout the financial year ended 31 December 2017.

CORPORATE GOVERNANCE

The Company reviews and enhances its corporate governance practices continuously and is committed to a high standard of corporate governance. The Company has complied with the Corporate Governance Code and Corporate Governance Report (the “Corporate Governance Code”) set out in Appendix 14 to the Listing Rules throughout the year ended 31 December 2017.

PUBLICATION OF FINANCIAL INFORMATION

The 2017 annual report containing all the detailed information will be dispatched to the shareholders of the Company and published on the respective websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.solargiga.com>) in due course.

ANNUAL GENERAL MEETING

It is proposed that the annual general meeting of the Company be held on 21 June 2018. Notice of the annual general meeting will be published and issued to shareholders in due course.

By Order of the Board
Solargiga Energy Holdings Limited
Wang Junze
(formerly known as Wang Chunwei)
Executive Director

Hong Kong, 21 March 2018

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