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Solargiga Energy

Solargiga Energy Holdings Limited

陽光能源控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 757)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2010

FINANCIAL HIGHLIGHTS

- Turnover for the period under review increased by 162.2% to RMB796.4 million (Corresponding period in 2009: RMB303.7 million).
- Gross profit for the period under review was RMB95.2 million (Corresponding period in 2009: Gross loss of RMB85.6 million).
- Net profit attributable to the equity shareholders of the Company for the period under review was RMB41.1 million (Corresponding period in 2009: Net loss of RMB119.7 million)
- Basic earnings per share was RMB2.28 cents (Corresponding period in 2009: Basic loss of RMB7.07 cents)
- The board of Directors of the Company does not recommend the payment of an interim dividend for the six months ended 30 June 2010.

INTERIM RESULTS

The directors (the “Directors”) of Solargiga Energy Holdings Limited (the “Company”) present herewith the unaudited consolidated interim financial results (the “Interim Results”) of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2010, together with the comparative figures for the corresponding period in 2009. The Interim Results are unaudited, but have been reviewed by the Company’s auditors, KPMG (the “Auditors”) in accordance with Hong Kong Standards on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The Auditors’ report on their review of the Interim Results of the Group will be included in the interim report to be sent to shareholders of the Company. The Interim Results have also been reviewed by the Company’s audit committee.

UNAUDITED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2010

	<i>Note</i>	Six months ended 30 June	
		2010	2009
		<i>RMB’000</i>	<i>RMB’000</i>
Turnover		796,411	303,705
Cost of sales		(701,164)	(389,263)
Gross profit/(loss)		95,247	(85,558)
Other revenue	4	12,310	3,670
Other net income/(loss)	5	115	(274)
Selling and distribution expenses		(4,252)	(2,717)
Administrative expenses		(42,504)	(58,110)
Profit/(loss) from operations		60,916	(142,989)
Finance costs	6(a)	(8,365)	(5,858)
Profit/(loss) before taxation	6	52,551	(148,847)
Income tax (expense)/credit	7	(12,006)	29,100
Profit/(loss) for the period		40,545	(119,747)
Attributable to:			
Equity shareholders of the Company		41,164	(119,747)
Non-controlling interests		(619)	–
Profit/(loss) for the period		40,545	(119,747)
Earnings/(loss) per share (<i>RMB cents</i>)			
– Basic and diluted	9	2.28	(7.07)

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2010

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
Profit/(loss) for the period	40,545	(119,747)
Other comprehensive income for the period		
Exchange differences on translation of financial statements of foreign operations	(1,395)	(3,362)
Total comprehensive income for the period	39,150	(123,109)
Attributable to:		
Equity shareholders of the Company	39,769	(123,109)
Non-controlling interests	(619)	–
Total comprehensive income for the period	39,150	(123,109)

UNAUDITED CONSOLIDATED BALANCE SHEET

At 30 June 2010

		30 June 2010	31 December 2009
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets			
Property, plant and equipment		550,909	536,849
Prepayments for acquisition of property, plant and equipment		72,391	63,264
Lease prepayments		63,257	63,948
Prepayments for raw materials		249,358	214,068
Deferred tax assets		37,665	42,925
		<u>973,580</u>	<u>921,054</u>
Current assets			
Inventories		547,861	441,288
Trade and other receivables	10	506,893	405,361
Pledged deposits		64,660	44,055
Cash at bank and in hand		313,357	236,191
		<u>1,432,771</u>	<u>1,126,895</u>
Current liabilities			
Trade and other payables	11	434,335	206,170
Short-term bank loans		374,838	289,274
Current tax payable		1,565	28
		<u>810,738</u>	<u>495,472</u>
Net current assets		<u>622,033</u>	<u>631,423</u>
Total assets less current liabilities		<u>1,595,613</u>	<u>1,552,477</u>
Non-current liabilities			
Municipal government loan		3,343	3,227
Long-term bank loan		70,000	70,000
Deferred tax liabilities		8,224	4,669
Deferred income		65,138	67,301
		<u>146,705</u>	<u>145,197</u>
Net assets		<u>1,448,908</u>	<u>1,407,280</u>
Capital and reserves			
Share capital		162,458	162,458
Reserves		1,267,508	1,225,261
Total equity attributable to equity shareholders of the Company		<u>1,429,966</u>	<u>1,387,719</u>
Non-controlling interests		18,942	19,561
Total equity		<u>1,448,908</u>	<u>1,407,280</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 (“Listing Rules”) on The Stock Exchange of Hong Kong Limited (“Stock Exchange”), including compliance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim financial reporting” issued by the HKICPA.

The interim financial information has been prepared in accordance with the same accounting policies adopted in the 2009 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2010 annual financial statements. Details of these changes in accounting policies are set out in note 2.

2. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued two revised Hong Kong Financial Reporting Standards (“HKFRSs”), a number of amendments to HKFRSs and one new Interpretation that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group’s financial statements:

- HKFRS 3 (revised 2008), Business Combinations
- Amendments to HKAS 27, Consolidated and separate financial statements
- Improvements to HKFRSs (2009)

The above developments resulted in changes in accounting policies but none of these changes in policy have a material impact on the current or comparative periods, for the following reasons:

- The impact of the majority of the revisions to HKFRS 3 and HKAS 27 has not yet had a material effect on the Group’s financial statements as these changes will first be effective as and when the Group enters into a relevant transaction (for example, a business combination, a disposal of a subsidiary or a non-cash distribution) and there is no requirement to restate the amounts recorded in respect of previous such transactions.
- The impact of the amendments to HKAS 27 (in respect of allocation of losses to non-controlling interest) has had no material impact as there is no requirement to restate amounts recorded in previous periods.
- As a result of the amendment to HKAS 17, Leases, arising from the “Improvements to HKFRSs (2009)” omnibus standard, the Group has re-evaluated the classification of its interests in leasehold land as to whether, in the Group’s judgement, the lease transfers significantly all the risks and rewards of ownership of the land such that the Group is in a position economically similar to that of a purchaser. The Group has concluded that the classification of such leases as operating leases continues to be appropriate.

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

3. SEGMENT REPORTING

The Group manages its business by business operations and geography. On the adoption of HKFRS 8, Operating segments and 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 resource allocation and performance assessment, the Group has only identified one operating segment, i.e. the manufacturing of, trading of and provision of processing services for polysilicon and monocrystalline and multicrystalline silicon solar ingots/wafers, and the producing of and trading of photovoltaic modules as well as the installation of photovoltaic systems. Further, the Group's business participates primarily in only one geographical location classified by the location of assets, i.e. the People's Republic of China (the "PRC").

For the purpose of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to the reportable segment which are presented in the same way in the Group's consolidated income statement and balance sheet.

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.

	Six months ended 30 June	
	2010 RMB'000	2009 RMB'000
Domestic sales – Mainland China	505,072	252,094
Export sales		
– North America	215,572	2,857
– Japan	72,793	32,228
– Taiwan	875	10,529
– Germany	1,646	3,836
– Norway	–	1,380
– Korea	218	781
– Other countries	235	–
Sub-total	291,339	51,611
Total	796,411	303,705

4. OTHER REVENUE

	Six months ended 30 June	
	2010 RMB'000	2009 RMB'000
Income from sale of scrap materials	4,993	–
Government grants	4,547	2,389
Interest income from bank deposits	1,104	952
Rental income from operating leases	864	324
Insurance claims received	795	–
Others	7	5
	12,310	3,670

5. OTHER NET INCOME/(LOSS)

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
Net foreign exchange gain	113	594
Loss on disposals of property, plant and equipment	–	(869)
Others	2	1
	<u>115</u>	<u>(274)</u>

6. PROFIT/(LOSS) BEFORE TAXATION

Profit/(loss) before taxation is arrived at after charging:

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
(a) Finance costs		
Interest on bank loans wholly repayable within five years	9,145	7,393
Interest on municipal government loan	116	112
	<u>9,261</u>	<u>7,505</u>
Total interest expense on financial liabilities not at fair value through profit or loss	9,261	7,505
Less: interest expense capitalised into construction in progress	(896)	(1,647)
	<u>8,365</u>	<u>5,858</u>
(b) Other items		
Amortisation of lease prepayments	692	346
Depreciation	25,001	12,945
Write-down of inventories	–	172,648
Impairment of trade debtors	–	2,277
Impairment loss on prepayment (<i>note</i>)	–	8,362
Provision for onerous contract (<i>note</i>)	–	11,665
	<u>–</u>	<u>11,665</u>

Note:

At 30 June 2009, the Directors considered that a long-term purchase contract, under which the Group was committed to purchase polysilicon materials at a fixed cost from a supplier, has become onerous when taking into consideration the market price of polysilicon materials and the anticipated future income from sales of products produced by these materials. Accordingly, an impairment loss of RMB8,362,000 representing the entire balance of the advance payment to the supplier under the contract and a provision for onerous contract of RMB11,665,000 were made based on the difference between the contracted price and the market price of the materials.

7. INCOME TAX

Income tax in the consolidated income statement represents:

	Six months ended 30 June	
	2010 RMB'000	2009 RMB'000
Current tax – the PRC		
Provision for the period	3,192	–
Under-provision in respect of prior periods	–	786
	<u>3,192</u>	<u>786</u>
Deferred tax		
Origination and reversal of temporary differences	8,814	(29,886)
	<u>8,814</u>	<u>(29,886)</u>
Income tax expense/(credit)	<u>12,006</u>	<u>(29,100)</u>

No provision for Hong Kong Profits Tax has been made as the subsidiaries of the Group either did not have any assessable profits subject to Hong Kong Profits Tax or have accumulated tax losses brought forward from previous years to offset the estimated assessable profits for the period.

Except for Jinzhou Yangguang Energy Co., Ltd. which is entitled to preferential Corporate Income Tax (“CIT”) rate of 15% as it was granted by the Taihe Distric State Tax Bureau the status of a “High and New Technology Enterprise”, the provision for CIT is based on a statutory rate of 25% the assessable profits of the subsidiaries in the PRC as determined in accordance with the relevant income tax rules and regulations of the PRC.

8. DIVIDENDS

(a) Dividends attributable to the period

The Directors do not recommend the payment of a dividend in respect of the six months ended 30 June 2010 (six months ended 30 June 2009: Nil).

(b) Dividends attributable to the previous financial year

	Six months ended 30 June	
	2010 RMB'000	2009 RMB'000
Final dividend in respect of the previous financial year approved during the period	–	25,361

9. EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the profit attributable to the ordinary equity shareholders of the Company of RMB41,164,000 (six months ended 30 June 2009: loss of RMB119,747,000) and the weighted average of 1,807,170,425 ordinary shares (six months ended 30 June 2009: 1,693,838,167 ordinary shares) of the Company in issue during the period as calculated as set out in note 9(b).

(b) Weighted average number of ordinary shares

	Number of ordinary shares	
	2010	2009
Issued ordinary shares at 1 January	1,807,170,425	1,690,766,500
Effect of shares issued under the share option scheme	—	3,071,667
	<u>1,807,170,425</u>	<u>1,693,838,167</u>

(c) Diluted earnings per share

There were no dilutive potential ordinary shares in issue during the six months ended 30 June 2009 and 2010.

10. TRADE AND OTHER RECEIVABLES

	30 June 2010 RMB'000	31 December 2009 RMB'000
Trade debtors and bills receivable	274,659	165,501
Prepayments for raw materials	65,204	93,540
Deposits and other receivables	167,030	146,320
	<u>506,893</u>	<u>405,361</u>

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

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

	30 June 2010 RMB'000	31 December 2009 RMB'000
Within 1 month	185,264	86,336
1 to 3 months	86,683	66,746
3 to 6 months	2,300	9,717
6 to 12 months	95	2,385
1 to 2 years	317	317
	<u>274,659</u>	<u>165,501</u>

Trade debtors are due within 30 to 90 days from the date of billing.

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

	30 June 2010 RMB'000	31 December 2009 RMB'000
Neither past due nor impaired	273,480	160,960
Less than 1 month past due	463	492
1 to 3 months past due	–	1,323
3 to 6 months past due	304	2,409
6 to 12 months past due	95	–
1 to 2 years past due	317	317
	1,179	4,541
	274,659	165,501

11. TRADE AND OTHER PAYABLES

	30 June 2010 RMB'000	31 December 2009 RMB'000
Trade payables	293,422	78,603
Bills payable	83,636	63,417
Other payables and accrued expenses	57,277	64,150
	434,335	206,170

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

The ageing analysis of trade payables as of the balance sheet date is as follows:

	30 June 2010 RMB'000	31 December 2009 RMB'000
Within 1 month	164,523	24,533
1 to 3 months	46,576	18,425
3 to 6 months	59,767	25,085
6 to 12 months	21,472	5,654
1 to 2 years	1,084	4,906
	293,422	78,603

MANAGEMENT DISCUSSION AND ANALYSIS

Business Overview

The Group is a leading manufacturer of monocrystalline silicon solar ingots and wafers in the PRC. Its products are used for the manufacture of photovoltaic cells which are important components for solar energy generation systems. During the period under review, the Group is engaged in five main business activities:

- (a) the trading and manufacturing of monocrystalline and multicrystalline silicon solar ingots and wafers;
- (b) the processing of silicon solar ingots and wafers;
- (c) the upgrading and trading of polysilicon;
- (d) the production and sales of monocrystalline and multicrystalline photovoltaic modules; and
- (e) the design and installation of photovoltaic systems.

Currently, the Group's annual production capacity of monocrystalline and multicrystalline silicon solar ingots are 350MW and 30MW, respectively, and its annual silicon solar wafer production capacity is 210MW. With the rapid expansion of the solar energy industry, the Group aspires to become the world's largest monocrystalline silicon solar ingot and wafer manufacturer through continuously upgrading its technology in order to expand its capacity and reduce cost. Moreover, the Group also endeavours to become one of the key players in the multicrystalline silicon solar product market.

In addition, the Group has developed its downstream photovoltaic module and system installation businesses through its 51% owned subsidiary in Jinzhou, Liaoning Province, the PRC. The annual capacity of its photovoltaic modules production is 50MW.

The Group operates its major production facilities in Jinzhou. In addition, the Group operates polysilicon reclaiming and upgrading facilities in Shanghai and Jinzhou which currently have an aggregate annual designed production capacity of 4,200 tonnes.

During the first half of 2010, the global economy experienced gradual recovery from the trough of the global financial crisis. Since the prices of upstream raw materials and downstream products have been relatively stable and the market demand for photovoltaic products has been increasing, the photovoltaic industry was able to head towards healthy and rapid development. The financial position of the Group remains sound. Management has effectively and efficiently adjusted the direction and pace of its development strategies as well as its product portfolio in response to market demands, including the expansion of production capacity of monocrystalline silicon solar ingots, which the Group excel others in terms of technology, commencing the production of multicrystalline products to achieve horizontal expansion and participating in the production of downstream photovoltaic modules to achieve

vertical integration. We are also committed to improving our research and development technologies so as to maintain our leading position in the industry. As a result, the operating performance of the Group in the first half of 2010 recorded significant improvement over the corresponding period last year and successfully achieved a turnaround in profitability.

Market Overview

In line with our expectations of the market as disclosed in March 2010, the demand from the global photovoltaic industry has gradually returned to the growth track after significant adjustments since the financial crisis in 2008. In terms of total number of installed photovoltaic generation systems, Europe's dominance in the photovoltaic industry remains intact. Apart from Germany which has been securing a leading position in recent years, other markets such as Italy, Czech Republic, France and Belgium have also emerged as new entrants. In addition, the photovoltaic market of the United States (the "US") has also proactively addressed the economic downturn in the second half of 2009 and has become another new momentum in the market. As production costs in the photovoltaic industry continued to trend downwards, various governments have proactively encouraged development of the photovoltaic industry through the implementation of a series of measures such as providing loans and guarantees, in order to support the popularity of new energy and facilitate the sustainable development of the global photovoltaic industry.

The US is currently one of the countries actively promoting the development of renewable energy. Since the beginning of 2010 the US government has launched a series of measures to promote clean energy in order to create more jobs and revive its economy. On 21 July 2010, the US Senate Committee on Energy & Natural Resources passed the Ten Million Solar Roofs Act, which will significantly promote the rapid development of the US photovoltaic market throughout the next decade. The above act will create hundreds of thousands of new job opportunities and reduce greenhouse gas emissions. The US government plans to inject US\$250 million to implement this act in 2012 and plans to invest US\$500 million in solar roof plans each year from 2013 to 2021.

In Europe, countries which included Spain and Germany, as well as various international organisations attended the "Mediterranean Solar Plan Conference" held in Spain during May this year to co-operate in developing the solar energy industry. According to this plan, 43 countries, including European Union members in the Mediterranean Basin and countries from North Africa and the Middle East, intend to inject between EUR38 billion to EUR46 billion over the next 20 years to address the issue of power shortages in the rural areas of the southern Mediterranean. In addition, in order to enhance the overall competitiveness of the European solar energy market, the European Photovoltaic Industry Association has been striving to gain research and technological development support for solar energy from the European Union. The European photovoltaic industry is also raising EUR1.235 billion for relevant research and development projects. Those funds will be used to finance the development of different projects in the next three years, including optimising photovoltaic production processes, reducing the costs and improving the connection between the grid and photovoltaic systems. Sixteen European Union members have undertaken to provide full support for the development of the solar energy industry. With the financial support mentioned above, it is expected that the photovoltaic sector will contribute to 12% of power supplied to the European Union in 2020.

Aiming to further develop the renewable energy industry, the PRC government will continue to hold large-scale tenders for the construction of solar energy photovoltaic power stations during 2010. The annual power generation capacity of the installed photovoltaic generation systems will be approximately 280MW with the majority of the projects being in Qinghai Province and Gansu Province, located in the northwest part of the PRC, Inner Mongolia, Ningxia and Xinjiang Autonomous Region. In addition, at the beginning of this year, the PRC Ministry of Finance has apportioned RMB50 billion to fund energy conservation and greenhouse gas emissions reduction to support and encourage the development of the solar energy industry. According to China Renewable Energy Society Solar PV Committee (中國可再生能源學會光伏專業委員會), the solar energy power generation of the PRC is expected to increase by at least 500MW in 2010. Various local governments have also provided subsidies. It is expected that the demand for solar energy in the PRC will continue to increase throughout 2010.

Operation Review

Stable raw material prices and rebound in market demand

During the period under review, following the recovery of the global economy, the market demand for solar energy products rebounded. Since the first quarter of 2010, raw material prices have stabilised which in turn has facilitated a favourable operating environment for manufacturers. In light of the strong demand for photovoltaic products, product prices have showed slight but persistent increases since the beginning of 2010. Therefore, the Group has successfully recovered from the difficult operating environment seen in the corresponding period last year and registered profits for four consecutive quarters since the third quarter in 2009. During the period under review, turnover and net profit attributable to the equity shareholders of the Company amounted to RMB796.411 million and RMB41.164 million, respectively. In addition, as write-down of inventories was no longer required, the overall gross profit margin of the Group has returned to 12.0% from a gross loss for the corresponding period last year.

During the period under review, shipment volumes for our self-manufactured silicon solar ingots and wafers have increased to 222,757kg and 31,036,000 pieces respectively. As at 30 June 2010, the Group was equipped with 197 monocrystalline ingot pullers, 43 wiresaws and 4 multicrystalline casting furnaces, with an aggregate annual planned capacity of 350MW of monocrystalline silicon solar ingots, 210MW of silicon solar wafers and 30MW of multicrystalline silicon solar ingots. However, due to the substantial increase in the market demand for our products, a situation appeared where supply has been unable to meet demand, whereby the existing capacity of the Group failed to fully meet the strong demand from our customers.

Enriching product mix and expanding existing businesses

During the period under review, the Group decided to introduce 200 new monocrystalline ingot pullers model no. 970 which was co-developed with our supplier and is exclusively supplied to the Group for the production of monocrystalline silicon solar ingots of 8 inches and 8.7 inches, which can be sliced into small angled and right-angled monocrystalline silicon solar wafers of 156mm x 156mm. We have commenced the installation of those monocrystalline ingot pullers in phases since July 2010. Furthermore, in face of the rapid development of the photovoltaic industry, the Group has been keeping pace with the market trend. The Group is able to produce monocrystalline silicon solar wafers of 150µm to 180µm in thickness in accordance with customers' needs, which shows further optimisation and improvement of the Group's slicing technology. In the meantime, the Group has also developed and produced wafers which can be used for the production of solar cells with higher conversion efficiency, which in turn can be used for the production of high wattage modules, winning extensive recognition from our customers.

Currently, our self-manufactured multicrystalline silicon solar wafers have won recognition from renowned customers, both at home and abroad, and the production thereof has already been included in the Group's next stage expansion plan so as to accelerate the realisation of the aim of becoming the global leader of monocrystalline silicon solar ingots and wafers and one of the major manufacturers of multicrystalline silicon solar ingots and wafers worldwide.

As at 30 June 2010, one of the Group's subsidiaries, Jinzhou Jinmao Photovoltaic Technology Company Limited ("Jinzhou Jinmao") is primarily engaged in the development of solar energy photovoltaic modules and installation of solar energy power generation systems with an annual production capacity of 50MW. Jinzhou Jinmao is in the process of obtaining relevant technology certifications to enhance our competitiveness in the solar energy photovoltaic modules market. After obtaining the relevant technology certifications by the end of this year, it is expected that the Group will be able to effectively capitalise on the opportunities arising from market recovery.

Exploring overseas markets and expanding customer base

For the six months ended 30 June 2010, the PRC remained the major market of the Group, accounting for approximately 63.4% of our total sales. The major overseas markets of the Group were North America and Japan, accounting for approximately 27.1% and 9.1% of our total sales respectively. Following the expansion of our production capacity, the Group will actively explore new customers in overseas markets, identify premier long-term customers and achieve healthy and stable development.

Financial review

Turnover

For the six months ended 30 June 2010, the Group's turnover increased to RMB796.411 million from RMB303.705 million for the corresponding period last year, representing a year-on-year increase of 162.2%. The increase was mainly due to an increase in market demand, resulting in a significant increase in our sales volume.

Cost of sales

For the six months ended 30 June 2010, cost of sales increased by 80.1% to RMB701.164 million from RMB389.263 million for the corresponding period last year. As a percentage of total turnover, cost of sales decreased from approximately 128.2% to 88.0%. The decrease was mainly due to no write-down of inventories being made by the Group with cost returning to a normal level.

Gross profit and gross profit margin

During the period under review, the Group recorded a gross profit of RMB95.247 million and a gross profit margin of 12.0%, as compared with a gross loss of RMB85.558 million for the corresponding period last year.

Selling and distribution expenses

Selling and distribution expenses mainly comprised packaging expenses, freight charges and insurance expenses. Selling and distribution expenses increased by 56.5%, from RMB2.717 million for the six months ended 30 June 2009 to RMB4.252 million for the period under review, accounting for 0.5% (for the six months ended 30 June 2009: 0.9%) of the Group's total turnover. The increase in expenses was due to the growth in sales volume for the period.

Administrative expenses

Administrative expenses mainly comprised staff costs and research and development expenses. The administrative expenses for the first half of 2010 amounted to RMB42.504 million, a year-on-year decrease of 26.9% from RMB58.110 million for the corresponding period last year, accounting for approximately 5.3% of the Group's turnover. Another major item of administrative expenses were share-based payments in relation to shares granted to employees prior to the initial public offering amounting to RMB2.478 million (for the six months ended 30 June 2009: RMB4.646 million). In addition, for the corresponding period last year, expenses in relation to the grant of share options to employees in 2008 amounting to RMB16.049 million was recognised. Excluding the above non-recurring expenses, the administrative expenses for the period under review amounted to RMB40.026 million, representing an increase of 7.0% from RMB37.415 million for the corresponding period last year. The increase in administrative expenses is mainly due to the increase in the number of employees and the strengthened management team so as to cope with the increased demand for human resources for the expansion of production capacity and downstream business expansion.

Finance costs

The Group's finance costs increased from RMB5.858 million for the six months ended 30 June 2009 to RMB8.365 million for the six months ended 30 June 2010. Finance costs represented mainly interest on bank loans and the municipal government loans. The reason for the increase in finance costs was mainly due to the additional bank borrowings during the period to meet working capital requirements.

Income tax

Income tax expenses were RMB12.006 million for the six months ended 30 June 2010, while a net tax credit amounting to RMB29.100 million was recorded for the corresponding period last year due to the recognition of deferred tax assets.

Profit attributable to the equity shareholders

During the period under review, the Group witnessed a turnaround as compared with the corresponding period last year and recorded a profit attributable to the equity shareholders of RMB41.164 million, accounting for 5.2% of our total turnover. A loss attributable to the equity shareholders of RMB119.747 million was recorded during the corresponding period last year.

Inventory turnover days

The inventories of the Group comprised mainly raw materials namely polysilicon, crucibles and other auxiliary raw materials and finished goods. Owing to the expansion in production capacity as well as the good relationship with its suppliers, the Group was able to increase its inventory of raw materials when the market was in short supply. During the period under review, the inventory turnover days decreased by 42 days from 171 days for the corresponding period of last year to 129 days. The Group's optimal inventory levels should be sufficient for three months' consumption in the case of polysilicon and one month consumption for other auxiliary raw materials.

Trade receivable turnover days

The Group's credit policy allows a credit period of 30 to 90 days from the invoice date for its trade receivables. For the first half of 2010, the trade receivable turnover days of the Group decreased by 23 days from 73 days for the corresponding period of last year to 50 days, which was in line with our credit policy.

Trade payable turnover days

For the first half of 2010, the trade payable turnover days of the Group decreased by 16 days from 64 days for the corresponding period of last year to 48 days. Our good long-term relationship with suppliers enabled the Group to enjoy a reasonable credit period during the period.

Liquidity and financial resources

The Group's principal sources of working capital during the period under review were cash flows from operating activities and bank borrowings. As at 30 June 2010, the Group's current ratio (current assets divided by current liabilities) was 1.77 (31 December 2009: 2.27). The Group had net borrowings of RMB70.164 million as at 30 June 2010 (31 December 2009: RMB82.255 million) with cash in bank and on hand of RMB313.357 million (31 December 2009: RMB236.191 million), pledged deposits of RMB64.660 million (31 December 2009: RMB44.055 million), short-term bank loans of RMB374.838 million (31 December 2009: RMB289.274 million), long-term bank loan of RMB70 million (31 December 2009: RMB70 million) and long-term municipal government loan of RMB3.343 million (31 December 2009: RMB3.227 million). Net debt to equity ratio (net debt divided by equity of shareholders) was 4.9% (31 December 2009: 5.9%). Such ratios show that the Group's financial position remains healthy.

The Group's net cash inflow from operating activities for the period under review amounted to RMB63.308 million which was mainly due to the improved condition of trade receivables collection and the reasonable credit period for purchasing payment granted by suppliers.

The Group's net cash inflow from investing activities amounting to RMB16.014 million was mainly capital expenditure for enhancing production capacity.

The Group's net cash inflow generated from financing activities amounted to RMB55.814 million, mainly consisted of new bank loans for satisfying the demand of liquidity.

Contingent liabilities

At 30 June 2010, the Group had no material contingent liabilities.

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 of the operations to which they relate. The currencies giving rise to this risk to the Group are primarily the US Dollar and Hong Kong Dollar. The Directors do not expect any significant impact from movements 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 to an acceptable level by buying or selling the US Dollar at spot rates where necessary to address short-term imbalances.

Human resources

As at 30 June 2010, the Group had 1,530 (30 June 2009: 1,168) employees. The increase of employees was mainly due to the expansion of production scale.

Future prospects and strategies

As the relevant technologies of the solar energy industry are becoming mature and our awareness of environmental protection has been growing, together with the increase in direct and indirect measures to encourage the development of the solar energy industry by various countries and organisations, it shows that replacing traditional fossil fuels by renewable energy such as solar energy has become a global trend and the prospects of the industry are promising.

Last year the United States passed a US\$787 billion economic stimulus plan called the American Recovery and Reinvestment Act of which approximately US\$100 billion will be spent in the direct investment of clean energy and the implementation of a tax reduction policy to encourage the development of clean energy. By 2012, 10% of the gross electricity of the US will be renewable energy and the proportion will be increased to 25% by 2025. In Europe, starting from 2012, all the member states of the European Union will be required to adopt the newly passed Energy Performance of Buildings Directive to ensure that all new buildings can achieve the green energy building target of “close to zero” carbon dioxide emission by 2020. Photovoltaic power generation will be among the key technologies used to achieve this target. According to the forecast of the European Photovoltaic Industry Association, roof power generation area in Europe will reach 22,000 square kilometers by 2020, by then solar roof power generation systems will satisfy 40% of electricity needed in Europe.

On the other hand, the PRC government is proactively promoting the solar energy industry. The National People’s Congress of the People’s Republic of China has approved the enactment of the updated “Renewable Energy Law” (「可再生能源法」) in December 2009. The National Energy Board is drafting a new energy development plan aimed at propelling the proportion of non-fossil fuels to approximately 15% in total power supply by 2020. In July 2010, the National Development and Reform Commission has listed the construction of the Western Photovoltaic Power Station as one of the new 23 key projects to develop western China for 2010. Meanwhile, the PRC government approved the construction of the National New Energy Demonstration Town (「國家新能源示範城」) in Turfan of Xinjiang Province, whereby exploring the integration of new energy into city construction and transportation, fully utilising solar energy resources to promote the development of a city. The China Architecture Design & Research Group (中國建築設計研究院) and the Chinese Renewable Energy Society (中國可再生能源學會) have jointly established the “Scope of Application Technology for the Construction of Domestic Solar Energy Photovoltaic System” (民用建築太陽能光伏系統應用技術規範) and plans to standardise the use of photovoltaic systems in the construction of new, expanded and reconstructed civilian buildings to provide energy for domestic use. The Group believes, once the PRC government determines the pricing structure for solar energy power generation, the whole industry will take an important step in development.

As a leading solar energy enterprise in the PRC, the Group will spare no effort to capitalise on the following strategies to accelerate the future development of the enterprise:

Enhancing capacity and technology and optimising production efficiency

After years of development, the Group has secured a leading position in the monocrystalline solar ingot and wafers manufacturing sector of the industry. In regards to the expansion of production capacity, it is expected that, after the completion of production capacity expansion in the third quarter of 2010, production capacity of monocrystalline solar ingots will be increased to 800MW and monocrystalline wafers will be increased to 420MW. In respect of product development, the Group will further develop and master its slicing technology in order to further reduce production costs. Leveraging on its solid technology foundation, the Group can currently produce monocrystalline solar wafers to customers' specification of 125mm or 156mm, and of 150 μ m to 180 μ m in thickness.

In light of market demands, the Group will continue to devote effort in research and development with a view to expanding the product ranges as well as to optimise its ability to improve ingot crystallisation, wafer slicing and the reclaiming and upgrading of polysilicon. The Group will also enhance production efficiency and reduce costs through exchanging technologies and introducing the latest technologies.

Accelerating downstream business and maximising synergies

Another of the Group's future profit growth points lies in the development of the downstream business of solar energy photovoltaic modules as well as such businesses as system design and installation. There is ample room for enhancement in terms of technology and market share. Currently, the Group's annual capacity for solar energy photovoltaic modules is 50MW. The Group is actively pursuing product certification. It is expected that upon obtaining product certification from Europe and the US, capacity can be expanded to 100MW within this year and doubled to 200MW by the end of 2011.

To enhance cost advantage, the Group has entered into a cooperation agreement with the Xining Economic & Technology Development Zone Administration Committee to acquire a 51% equity interest in Qinghai Chenguang New Energy Co., Ltd. ("Qinghai Chenguang") by means of a new capital injection in Qinghai Chenguang amounting to RMB45,900,000 for the construction of production equipment for monocrystalline silicon ingots. The expected total investment of the project is RMB300,000,000. The 2-phase construction of the project is scheduled to commence in late 2010 and late 2011 respectively. By mid-2013 when the investment project runs at full capacity, the new facilities of Qinghai Chenguang will have a total of 192 monocrystalline ingot pullers and the annual production capacity may reach 2,000 tonnes of monocrystalline silicon ingots, or approximately 350MW.

Meanwhile, Qinghai Chenguang will set up a 200kW photovoltaic pilot power plant in the production plant area under the auspices of the Xining Economic & Technology Development Zone Administration Committee pursuant to the state policy of "Golden Sun Programme". Such acquisition is in line with the state policy to position the silicon material photovoltaic industry of Xining Economic & Technology Development Zone as the new strategic target for the new industries of Qinghai Province.

In addition, the Group will continue to strengthen the development of the downstream solar energy system sector, leveraging on the geographical location and market strength of Qinghai Chenguang to tap into the local market of downstream products. Apart from developing relevant downstream products through Jinzhou Jinmao Photovoltaic Technology Company Limited, a subsidiary of the Group, to produce module products of greater reliability and quality for customers, the Group also strives to explore new market channels and create synergies by developing the downstream end-user market of the Qinghai Xining district. Leveraging on its leading position in the solar energy business, the downstream products of the Group may soon obtain market recognition, making stable and significant contribution to the Group's turnover and market share. The Group will also proactively seek for cooperation with well-known clients in the industry and well-established international enterprises for further development to maintain the continuous and steady growth of its business.

Exploring overseas markets and establishing diversified source of revenue

The Group is committed to becoming the world's biggest manufacturer of monocrystalline silicon ingots and wafers and a major manufacturer of multicrystalline silicon products. In order to further capitalise on the immense opportunities arising in the global market and enhance the Group's presence, the Group will further deepen the exploration of overseas markets, especially the markets of North America and Japan which demonstrate tremendous market potential. The long-term target is to gradually increase the proportion of overseas market sales to make up 50% of the Group's total sales, diversifying our source of revenue.

Looking forward, the Group will adopt a proactive development strategy, that ensures risk diversification and maintains a win-win scenario for jointed-parties under strategic partnership, integrating existing resources while further consolidating the business of monocrystalline and multicrystalline silicon solar ingots and wafers, as well as speeding up the exploration of the downstream supply chain of the photovoltaic industry. The Group will strive to develop overseas markets and proactively seek new business growth points. We will also work towards promoting the utilisation of solar energy in power generation at a cost comparable to that of fossil fuels, contributing to the Earth's conservation and the maintenance of a lasting green living environment.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Corporate Governance

The Company reviews and enhances its corporate governance practices continuously and is committed to a high standard of corporate governance. During the six months ended 30 June 2010, the Company has complied with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules. For details of the corporate governance of the Company, please refer to the Corporate Governance Report as set out in the annual report of the Company for the year ended 31 December 2009.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions as set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by the Directors. Specific enquiries have been made by the Company to confirm that all Directors have been complied with the Model Code for the six months ended 30 June 2010.

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

There was no purchase, sale or redemption by the Company or any of its subsidiaries, of the Company's listed securities during the six months ended 30 June 2010.

Audit Committee

The Audit Committee of the Company, comprising four independent non-executive Directors and one non-executive Director, has reviewed the accounting principles and practices adopted by the Group and such matters as internal controls and financial reporting with the management of the Company, including the review of the interim results for the six months ended 30 June 2010.

PUBLICATION OF FINANCIAL INFORMATION

The interim report for the six months ended 30 June 2010 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, 24 August 2010

As at the date of this announcement, Mr. Tan Wenhua, Mr. Hsu You Yuan and Ms. Zhang Liming are executive Directors of the Company, Mr. Chiao Ping Hai and Mr. Chong Kin Ngai are non-executive Directors of the Company and Mr. Wong Wing Kuen, Albert, Ms. Fu Shuangye, Dr. Lin Wen and Mr. Zhang Chun are independent non-executive Directors of the Company.