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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 RELATING TO PAYMENT OF THE DEPOSIT AND RESUMPTION OF TRADING**

The Board announced that on 4 September 2008, Wealthy Rise, a wholly-owned subsidiary of the Company, entered into the Supply Agreement with the Supplier pursuant to which Wealthy Rise will purchase and the Supplier will supply a predetermined quantity of polysilicon (which represents the minimum quantity to be purchased by Wealthy Rise during the term of the Supply Agreement) to Wealthy Rise at set prices from the date of the first shipment in 2010 for a continuous period of ten years thereafter. Wealthy Rise is required to pay to the Supplier the Deposit in the amount of US\$68 million on and subject to the terms of the Supply Agreement.

The Deposit payable to the Supplier will constitute an advance to an entity under Rule 13.13 of the Listing Rules and will exceed 8% under the assets ratio as defined under Rule 14.07(1) of the Listing Rules. Pursuant to Rule 13.13 of the Listing Rules, a general disclosure obligation arises where any of the relevant advance to an entity exceeds 8% under the assets ratio as defined under Rule 14.07(1) of the Listing Rules. Accordingly, the Company is under a general obligation to disclose the details of the Deposit pursuant to Rule 13.13 of the Listing Rules.

At the request of the Company, trading in the Shares on the Stock Exchange was suspended with effect from 9:30 a.m. on 5 September 2008 pending the release of this announcement. The Company has applied to the Stock Exchange for the resumption of trading in the Shares with effect from 9:30 a.m. on 12 September 2008.

## PRINCIPAL TERMS OF THE SUPPLY AGREEMENT

Date: 4 September 2008

Purchaser: Wealthy Rise, a wholly-owned subsidiary of the Company

Supplier: Hoku Materials, Inc.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Supplier and its ultimate beneficial owners are independent of the Company and its connected persons (as defined under the Listing Rules).

The Supplier and its beneficial owners do not have any prior or existing relationship (including business relationship) with the Company and/or its connected persons.

- Terms:
- (a) Pursuant to the Supply Agreement, Wealthy Rise will purchase and the Supplier will supply a predetermined quantity of polysilicon, a key material to the Group's products, to Wealthy Rise each year, with the first shipment in the first quarter of 2010 and the remainder over a ten-year period at set prices that will decline throughout the term of the Supply Agreement. The predetermined quantity of polysilicon to be purchased from the Supplier represents the minimum quantity to be purchased by Wealthy Rise each year.
  - (b) The term of the Supply Agreement is ten years from the date of the first shipment, which is planned to be prior to 31 March 2010.
  - (c) Under the Supply Agreement, up to approximately US\$455 million may be payable to the Supplier during the ten-year period, subject to the acceptance of product deliveries. The total contract value of the Supply Agreement is determined after arm's length negotiation with the Supplier with reference to the estimated quantity of polysilicon supply in 2010 and the unit price of polysilicon determined by the Company's management forecast on the price of polysilicon on the basis of the expected increase in the Group's production capacity and a discount to market price for the polysilicon materials throughout the term of the Supply Agreement.
  - (d) Wealthy Rise is required to pay the Supplier the Deposit in the amount of US\$68 million, representing approximately 14.95% of the total contract value of the Supply Agreement which the Directors consider is within the range of percentage of the deposit required to be paid by the Supplier's other customers and was arrived at after arm's length negotiation between Wealthy Rise and the Supplier. The Deposit is payable by Wealthy Rise as follows:
    - (i) Wealthy Rise is required to pay the Supplier a cash deposit of US\$22 million within 15 days of the execution of the Supply Agreement, as a prepayment for future product deliveries, unless the Company is required to obtain the approval of its shareholders pursuant to the

Listing Rules, in which case Wealthy Rise will have an additional 60 days to obtain such approval and pay the US\$22 million prepayment. If such shareholder approval is not obtained and the US\$22 million prepayment is not received within the applicable time period, then the Supplier may terminate the Supply Agreement and Wealthy Rise shall pay the Supplier a break-up fee in the amount of US\$1 million (the "Break-up Fee"). The Directors consider that the Break-up Fee represents a fair and genuine compensation to the Supplier for its time, expenses and the opportunity cost for not selling its product to other purchasers in the interim in the event that the said shareholders' approval is not obtained.

- (ii) Wealthy Rise is required to pay an additional US\$46 million, as a prepayment for future product deliveries, in increments of US\$21 million, and US\$20 million on or before 20 December 2008 and 31 March 2009, respectively, with a final US\$5 million being payable when the Supplier completes aggregate shipments of a cumulative aggregate of twenty-five metric tons of polysilicon to Wealthy Rise.
- (iii) The Deposit is interest-free.
- (e) The Supplier will credit Wealthy Rise for the Deposit against products shipped in the 10-year period during the subsistence of the Supply Agreement, such that the Deposit will have been fully set off against the purchase price payable by Wealthy Rise for the polysilicon delivered by the Supplier during the 10-year period.
- (f) In the event that Wealthy Rise terminates the Supply Agreement, the Supplier is required to refund to Wealthy Rise the Deposit, less any part of the Deposit that has been applied to the purchase price of polysilicon delivered under the Supply Agreement. Wealthy Rise may terminate the Supply Agreement in the event of a material breach of the Supply Agreement on the part of the Supplier and the commencement of insolvency proceedings against the Supplier.
- (g) The Supplier will grant to Wealthy Rise a charge over its tangible and intangible assets relating to the Supplier's polysilicon business to secure the Supplier's obligation to repay the Deposit in the event that the Supplier does not fulfill its contractual obligations under the Supply Agreement. These assets may include, among others, real and intellectual property, facilities, equipment, cash and/or other capital assets associated with the Supplier's polysilicon business. Wealthy Rise's security interest will be subordinated to the Supplier's other third party lenders and will expire once the full value of the Deposit has been credited back to Wealthy Rise as a deduction on invoices for product shipments. Under the Supply Agreement, the Company will be entitled to refund of the Deposit in the event of any breach of the contractual obligations under the Supply Agreement on the part of the Supplier.

The terms of the Supply Agreement were arrived at after arm's length negotiations between Wealthy Rise and the Supplier. The Directors (including independent non-executive Directors) consider that the terms of the Supply Agreement and the payment of the Deposit are fair and reasonable and are in the interests of the Company and its shareholders as a whole.

## **INFORMATION OF THE GROUP**

The Group is one of the leading manufacturers of monocrystalline silicon ingots, measured in terms of production output and sales in the People's Republic of China. It is engaged in the manufacturing of monocrystalline silicon ingots and wafers and the recycling and processing of scrap polysilicon. Silicon ingots and wafers are used for the manufacturing of photovoltaic cells which are important component of the solar energy generation system.

## **INFORMATION OF THE SUPPLIER**

The Supplier is a wholly-owned subsidiary of Hoku Scientific, Inc. (NASDAQ: HOKU), a company listed on NASDAQ on 5 August 2005 and established to manufacture polysilicon from its plant currently under construction and sell polysilicon to the solar market and third party customers including companies which are engaged in the production of products such as wafer, solar industry silicon products and semi-conducting materials, PV cells and PV modules . The holding company of the Supplier, Hoku Scientific, Inc., is a diversified clean energy technologies company which is engaged in manufacturing, marketing and sale of polysilicon for the solar market from its plant currently under construction, developing proprietary fuel cell membranes and membrane electrode assemblies for stationary and automotive proton exchange membrane fuel cells. The Supplier and its ultimate beneficial owners are independent of the Company and its connected persons (as defined under the Listing Rules).

## **INDUSTRY PRACTICE**

Within the polysilicon and photovoltaic industry, the industry practice relating to the payment arrangement for the long-term supply of polysilicon has the following general features:

- (a) due to limited availability of polysilicon, polysilicon customers, including companies which are engaged in the production of products such as wafer, solar industry silicon products and semi-conducting materials, have entered into supply agreements with a term ranging from approximately three to ten years;
- (b) polysilicon customers are required to pay a significant upfront deposit as advance payment to suppliers;
- (c) the deposits payment are payable prior to the delivery dates for polysilicon deliveries with the first shipment or delivery of polysilicon around one to two years after the payment of the deposit;
- (d) the deposit payable by polysilicon customers form part payment of material costs and will be offset against future purchases of polysilicon;
- (e) the deposit payable by customers is generally interest-free;
- (f) the deposit payment is normally accounted as prepayments;

- (g) in general, the amount of prepayments represents approximately 10% to 20% of the total contract value of the supply contracts, subject to other factors such as the amount of polysilicon ordered, the length of the supply arrangement, the polysilicon supplier's standard terms and conditions and the negotiation between suppliers and customers;
- (h) the deposit may or may not be secured by collateral or other security provided by suppliers. If the deposit is secured by collateral, polysilicon customers will have recourse against the operating assets of polysilicon suppliers when such suppliers do not fulfill their contractual obligations under the supply agreements. Such security interest expires as soon as the full value of the deposit has been credited back to the customer as a deduction on invoices for product shipments;
- (i) some polysilicon users which are listed on other reputable stock exchanges have earmarked a portion of their listing proceeds in respect of the prepayment for purchase of polysilicon and the extent of the listing proceeds earmarked for the prepayment ranges from approximately 20% to 45% of the total proceeds; and
- (j) the deposit payment arrangement is generally required by suppliers for two major reasons: (i) suppliers which offer long-term guaranteed pricing is usually below the spot market price. In order to offer such low pricing, suppliers require a significant amount of deposit. (ii) The prepayment typically serves as security deposits to be held by suppliers to be off-set over time, which ensures the long-term customer commitment.

The Directors have conducted due diligence in respect of the above deposit payment arrangement by making interviews and enquiries with other polysilicon suppliers and customers and by reference to the annual reports of other customers which are listed on other reputable stock exchanges and other statistics in published articles and other written materials available on websites such as [www.marketwatch.com](http://www.marketwatch.com), [preview.factiva.com](http://preview.factiva.com), [www.enf.cn](http://www.enf.cn) and [www.sec.gov](http://www.sec.gov) and based on the results of the due diligence as mentioned above, the Directors are satisfied that the deposit payment arrangement is in line with industry practice.

## **REASONS FOR THE PAYMENT OF THE DEPOSIT**

Prior to the Company's listing on the main board of the Stock Exchange on 31 March 2008 (the "Listing"), the Group has made prepayments to its suppliers under the then existing supply contracts and the amounts of the prepayments were relatively less substantial. As disclosed in the prospectus of the Company dated 17 March 2008 (the "Prospectus"), the Group has been experienced tight working capital position prior to the Listing. As such, the Group did not enter into any long-term supply arrangement involving a substantial amount of upfront deposit to suppliers. In addition, it is also disclosed in the Prospectus that the Group will use its proceeds to enter into long-term supply contracts with suppliers which involve prepayment terms. As announced by the Company on 28 August 2008, the Group terminated the framework agreement (the "Framework Agreement") entered into between Jinzhou Yangguang Energy Co. Ltd. and Jinzhou New Century Quartz Glass Co., Ltd, which, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, is independent of the Company, its connected persons (as defined in the Listing Rules) and the Supplier and its beneficial owners and does not have any prior or existing relationship (including business relationship) with the Supplier, the Company or its subsidiaries (other than the Framework Agreement). The Framework Agreement was signed for the purpose of forming a joint venture company to produce polysilicon. As a result of the termination of the Framework Agreement, the Group has planned to enter into long-term

supply agreements for a stable source of polysilicon at lower price. As disclosed in the Prospectus and the interim results announcement of the Company dated 29 August 2008, it is the Group's strategy to diversify its source of polysilicon and order polysilicon in bulk instead of relying on existing suppliers.

The business relationship between Wealthy Rise and the Supplier commenced with an introductory email from Dr. Wei Chen (the special assistant to the President of the Group (Mr. Tan Wenhua who is also an executive Director) to Hoku Scientific, Inc. on 23 July 2008 and inquired about the possibility of a long-term polysilicon supply contract. A mutual confidentiality agreement was executed between the parties in August 2008, and contract discussions continued between the Supplier and Wealthy Rise. In early August 2008, Wealthy Rise conducted a due diligence visit to the Supplier's polysilicon production facility presently under construction in Pocatello, Idaho, the United States of America as the parties continued the contract negotiations and eventually, the parties concluded the Supply Agreement on 4 September 2008. The Group has chosen the Supplier because its expected production capacity of polysilicon and product quality meet the Group's production requirements for polysilicon. The Supplier has required the payment of the Deposit mainly because (a) the polysilicon materials are in short supply and (b) the Supplier is offering to the Group a long-term guaranteed pricing for the polysilicon that is substantially below the current market price. To secure the supply and such low pricing over an extended period of time, suppliers require a significant amount of upfront deposit which is consistent with the industry practice generally. To the best of the knowledge, information and belief, having been made all reasonable enquiries, the Supplier has adopted such contract mechanism generally to its customers (including Wealthy Rise). By entering into the Supply Agreement, the Company will be able to secure a substantial supply of polysilicon for the Group's production on a long-term basis, an arrangement of strategic importance to the Group's long-term development. The Deposit will be accounted as prepayment in the Company's consolidated balance sheet and classified as current or non-current asset depending on the length of period between the balance sheet date to the date of delivery. The Deposit is not accounted as a loan because (a) the Supply Agreement is concluded under normal trading terms; (b) the prepayment amount is only a relatively small proportion of the total purchase price under the Supply Agreement (approximately 14.95%); (c) no interest clause is included in the Supply Agreement and (d) the Deposit is intended for purchasing polysilicon and no cash repayment from the Supplier is contemplated. The Directors (including independent non-executive Directors) consider that the Supply Agreement is entered into on normal commercial terms and in the ordinary course of the business of the Group and the payment of the Deposit is fair and reasonable and are in the interests of the Company and its shareholders as a whole.

## **RISK FACTORS ASSOCIATED WITH THE PAYMENT OF THE DEPOSIT**

### **Default risk**

Pursuant to the Supply Agreement, Wealthy Rise will be required to pay a substantial amount of the Deposit before 31 March 2009 whereas the Supplier will supply polysilicon to Wealthy Rise with the first shipment in the first quarter of 2010. There is no assurance that the Supplier will meet its obligations to supply polysilicon to the Group. In the event of any default on the part of the Supplier, Wealthy Rise will be entitled to refund of the Deposit, less any part of the Deposit that has been applied to the purchase price of polysilicon delivered under the Supply Agreement.

## **Liquidation risk**

In the event of the insolvency or liquidation of the Supplier, the Group may not be able to recover the Deposit and would suffer losses if the Supplier fails to fulfil their delivery obligations under the Supply Agreement and Wealthy Rise's loss cannot be compensated by the collateral provided by the Supplier in accordance with the terms of the Supply Agreement. The risk of loss arising from liquidation of the Supplier is assessed prior to entering into the Supply Agreement and will be regularly monitored on a regular basis by the management of the Company.

## **Risk relating to uncertain future pricing trend of polysilicon**

Whilst the Directors understand that the polysilicon prices may go up or down in the future, the Directors also noted that the price offered by the suppliers on a long-term basis is substantially lower than the current market price. Taking into account of the long term prospects of alternative energy and solar energy, the Directors believe that the demand for the polysilicon will sustain in the foreseeable future. Accordingly, the Company intends to source 50% of the Group's requirement from the long-term suppliers and 50% to be purchased from the spot market. In addition to the Supply Agreement, the Group also entered into supply agreements with some of its existing suppliers and entered into discussion with prospective suppliers involving prepayment arrangement. The Directors believe that such procurement strategy will give the Group flexibility and stability in procurement of polysilicon.

## **Impact on liquidity**

The amount of the Deposit amounts to US\$68 million, representing approximately 80% cash on hand as of 30 June 2008. That said, the Group intends to finance the payment of the Deposit as follows:

- (a) as to approximately US\$25.2 million, representing approximately 37% of the Deposit will be financed by the Group's customers' deposits (the "Customers' Deposits"). The Group has entered and intends to enter into long-term sale agreements with its customers who will be required to pay a significant amount of upfront deposit to the Group for the purchase of the Group's ingots and wafers. The Group's strategy is to enter into long-term sales agreements with the Group's customers after signing long-term polysilicon purchase agreements with suppliers in order to achieve back-to-back payment arrangements in respect of the payment of deposit to suppliers and the receipt of deposit from customers. As there is a timing difference between the payment of suppliers' deposits and receipt of customers' deposits, the Group will first finance part of the Deposit by the means set out in paragraphs (b) and (c) below;
- (b) as to approximately US\$18 million, representing approximately 27% of the Deposit will be financed by utilizing the listing proceeds which in turn represents approximately 83% of the listing proceeds earmarked for the prepayment of polysilicon; and
- (c) as to approximately US\$24.8 million, representing approximately 36% of the Deposit will be financed by cash on hand and cash generated from the Group's operation and other funding alternatives. The Company is considering other funding alternatives by way of bank borrowing, debt and/or equity financing.

As such, the Company does not consider that the Company's financial/working capital position and daily business operation will be adversely affected by such cashflow. However, if the Group fails to collect the Customers' Deposits and the cash generated from the Group's operation in a timely manner or could not raise further funding as described in paragraph (c) above, we may not be able to meet the payment schedule for the payment of the Deposit and our operation may be adversely affected.

### **Risk relating to over-stocking**

The polysilicon materials to be purchased from the Supplier will not represent a substantial portion of the Group's production requirement based on the Group's current production plan. Moreover, the Group maintains stringent control over the purchase of polysilicon from other suppliers in order to reduce the risks of over-stocking. The Group's purchasing team will, based on the annual sales forecast, the current stock level and the orders on hand, oversee the amount of polysilicon to be purchased.

### **LISTING RULES IMPLICATIONS**

The Deposit payable to the Supplier will constitute an advance to an entity under Rule 13.13 of the Listing Rules and will exceed 8% under the assets ratio as defined under Rule 14.07(1) of the Listing Rules. Pursuant to Rule 13.13 of the Listing Rules, a general disclosure obligation arises where any of the relevant advance to an entity exceeds 8% under the assets ratio as defined under Rule 14.07(1) of the Listing Rules. Accordingly, the Company is under a general obligation to disclose the details of the Deposit pursuant to Rule 13.13 of the Listing Rules.

### **RESUMPTION OF TRADING**

At the request of the Company, trading in the Shares on the Stock Exchange was suspended with effect from 9:30 a.m. on 5 September 2008 pending the release of this announcement. The Company has applied to the Stock Exchange for the resumption of trading in the Shares with effect from 9:30 a.m. on 12 September 2008.

### **DEFINITIONS**

“Board”	the board of Directors
“Company”	Solargiga Energy Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the main board of the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Deposit”	an amount of US\$68 million payable by Wealthy Rise to the Supplier on and subject to the terms of the Supply Agreement
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People's Republic of China

“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Shares”	shares of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplier”	Hoku Materials, Inc., a wholly-owned subsidiary of Hoku Scientific, Inc. (NASDAQ: HOKU), a company listed on NASDAQ and established to manufacture and sell polysilicon
“Supply Agreement”	the supply agreement dated 4 September 2008 between Wealthy Rise and the Supplier in respect of the sale and purchase of polysilicon
“US\$”	United States dollar
“Wealthy Rise”	Wealthy Rise International Limited (鉅升國際有限公司), a company incorporated in Hong Kong with limited liability on 21 June 2007, is an indirect wholly-owned subsidiary of the Company

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

Hong Kong, 11 September 2008

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