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 ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2008

FINANCIAL OVERVIEW

– Turnover reached RMB1,492.9 million, up by 47.0% as compared to RMB1,015.5 million in 2007.

– Gross profit margin of 15.1%, down by 16.7 percentage points as compared to 31.8% in 2007.

– Write down of inventories of RMB220.2 million in 2008.

– Net profit attributable to the equity shareholders of the Company of RMB83.4 million, down by 71.5% as compared to RMB292.2 million in 2007.

– Basic earnings per share of RMB5.12 cents, down by 74.8% as compared to RMB20.33 cents in 2007.

– The Board of Directors of the Company recommends the payment of a final dividend of RMB1.5 cents (2007: RMB5.2 cents) per share for the year ended 31 December 2008.

Note: the above calculation of profit attributable to the equity shareholders and basic earnings per share included one-off non-operating items: Listing expenses of RMB11.6 million incurred in 2008 and gain on acquisition of the Acquired Group of RMB74.8 million generated in 2007.

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 2008 and the comparative figures which have been prepared on the basis described below.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008

	Note	**2008**	2007
		RMB'000	*RMB'000*
Turnover	*3*	**1,492,935**	1,015,538
Cost of sales		**(1,267,425)**	(692,412)
Gross profit		**225,510**	323,126
Other revenue	*4*	**11,107**	81,583
Other net loss	*5*	**(7,602)**	(8,442)
Selling and distribution expenses		**(6,843)**	(4,432)
Administrative expenses		**(101,512)**	(47,162)
Profit from operations		**120,660**	344,673
Finance costs		**(3,290)**	(7,578)
Profit before taxation	*6*	**117,370**	337,095
Income tax	*7*	**(33,991)**	(20,606)
Profit for the year		**83,379**	316,489
Attributable to:			
Equity shareholders of the Company		**83,379**	292,241
Minority interests		**–**	24,248
Profit for the year		**83,379**	316,489
Dividends payable to equity shareholders of the Company attributable to the year:			
Final dividend proposed after the balance sheet date	*8*	**25,361**	87,920
Earnings per share *(RMB cents)*			
– Basic	*9*	**5.12**	20.33

CONSOLIDATED BALANCE SHEET
At 31 December 2008

	Note	2008 RMB'000	2007 RMB'000
Non-current assets			
Property, plant and equipment		**394,665**	175,379
Lease prepayments		**47,508**	48,486
Prepayments for acquisition of property, plant and equipment		**114,987**	53,092
Deferred tax assets		**31,581**	922
		588,741	277,879
Current assets			
Inventories		**395,533**	137,832
Trade and other receivables	*10*	**493,785**	187,066
Tax recoverable		**1,878**	–
Pledged deposits		**25,071**	120
Cash and cash equivalents		**270,402**	348,978
		1,186,669	673,996
Current liabilities			
Short-term bank loans		**214,580**	127,000
Trade and other payables	*11*	**252,433**	144,068
Current tax payable		**4,315**	18,453
		471,328	289,521
Net current assets		**715,341**	384,475
Total assets less current liabilities		**1,304,082**	662,354
Non-current liabilities			
Municipal government loan		**3,003**	2,890
Deferred tax liabilities		**7,232**	–
Deferred income		**30,333**	26,747
		40,568	29,637
Net assets		**1,263,514**	632,717
Capital and reserves			
Paid-in/issued capital		**152,189**	279
Reserves		**1,111,325**	632,438
Total equity		**1,263,514**	632,717

NOTES TO FINANCIAL INFORMATION

1. STATUS OF THE COMPANY

(a) The Company

The Company was incorporated in the Cayman Islands on 7 March 2007 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and its principal place of business is Room 1402, Harbour Centre, 25 Harbour Road, Wanchai, Hong Kong. The Company was incorporated under the name of Solar Giga Holdings Ltd. By a resolution passed on 26 April 2007, the name of the Company was changed to Solargiga Energy Holdings Limited.

(b) Reorganisation

Pursuant to the reorganisation ("Reorganisation") of the Group to rationalise the Group's structure in preparation for the public listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited ("the Stock Exchange"), the Company became the holding company of the subsidiaries on 7 May 2007. The shares of the Company were listed on the Stock Exchange on 31 March 2008.

2. BASIS OF PREPARATION OF THE FINANCIAL INFORMATION

Except for Solar Technology Investment (Cayman) Corp. ("STIC") and its subsidiaries (hereinafter collectively referred to as the "Acquired Group"), which were acquired during the year ended 31 December 2007, other companies which took part in the Reorganisation and which are included in the financial statements were controlled by the same ultimate equity shareholder (referred to as "the controlling equity shareholder") before and after the Reorganisation. The control is not transitory and, consequently, there was a continuation of the risks and benefits to the controlling equity shareholder and, therefore, the Reorganisation is considered to be a business combination of entities under common control and Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") has been applied. The financial information have been prepared using the merger basis of accounting as if the Group had always been in existence, except for the acquisition of the Acquired Group. The net assets of the combining companies are combined using the existing book values from the controlling equity shareholder's perspective.

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Group's operations are regarded as a single business segment, being an entity engaged in the trading of, manufacturing of and provision of processing services for polysilicon and solar silicon monocrystalline ingots/wafers. In addition, the Group's turnover and operating profit are almost entirely derived from its operations in the PRC. Accordingly, no analysis by geographical segment has been presented.

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

3. TURNOVER

The principal activities of the Group are the trading of manufacturing of and provision of processing services for polysilicon and solar silicon monocrystalline ingots/wafers.

Turnover represents the sales value of goods supplied to customers less value added tax and trade discounts and income from the provision of processing services. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2008	2007
	RMB'000	*RMB'000*
Sales of polysilicon and solar silicon monocrystalline ingots/wafers	**1,379,674**	905,975
Processing service fees	**113,261**	109,563
	1,492,935	1,015,538

4. OTHER REVENUE

	2008	2007
	RMB'000	*RMB'000*
Gain on acquisition of subsidiaries	**–**	74,771
Government grants	**1,265**	3,437
Insurance claims received	**681**	1,109
Interest income from bank deposits	**3,982**	2,017
Rental income from operating leases	**1,296**	69
Income from sale of scrap materials	**3,463**	–
Others	**420**	180
	11,107	81,583

5. OTHER NET LOSS

	2008	2007
	RMB'000	*RMB'000*
Net foreign exchange loss	**(7,598)**	(8,443)
(Loss)/gain on disposals of property, plant and equipment	**(4)**	1
	(7,602)	(8,442)

6. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

		2008 *RMB'000*	2007 *RMB'000*
(a)	**Finance costs**		
	Interest on bank loans wholly repayable within five years	**6,093**	9,009
	Interest on municipal government loan	**215**	207
	Total interest expense on financial liabilities not at fair value through profit or loss	**6,308**	9,216
	Less: interest expenses capitalised into construction in progress*	**(3,018)**	(1,638)
		3,290	7,578
(b)	**Staff costs**		
	Contributions to retirement schemes	**4,788**	1,758
	Equity-settled share-based payment expenses	**24,428**	10,054
	Salaries, wages and other benefits	**40,695**	28,430
		69,911	40,242
(c)	**Other items**		
	Amortisation of lease prepayments	**978**	287
	Auditors' remuneration	**2,250**	1,567
	Depreciation	**20,724**	11,512
	Operating lease charges – property	**1,493**	1,122
	Research and development costs	**7,204**	1,310
	Write-off of trade receivables	**–**	107
	Write down of inventories	**220,235**	–

* *The borrowing costs have been capitalised at a rate of 5.85% to 6.23% (2007: 5.85% to 6.08%) per annum.*

7. INCOME TAX

(a) Income tax in the consolidated income statement represents:

	2008	2007
	RMB'000	*RMB'000*
Current tax – the PRC		
Provision for the year	**65,610**	24,128
Over-provision in respect of prior years	**–**	(8)
Tax refund on domestic equipment purchases	**(8,192)**	–
	57,418	24,120
Deferred tax		
Origination and reversal of temporary differences	**(23,427)**	(3,514)
	33,991	20,606

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 substantial losses for taxation purposes.

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.

Pursuant to the income tax rules and regulations of the PRC, the subsidiaries in the PRC are eligible for a 100% relief from PRC Enterprise Income Tax ("EIT") for two years from the first year they record assessable profits and, thereafter, they are subject to PRC EIT at 50% of the applicable income tax rate for the following three years.

The first year that 錦州新日硅材料有限公司 (Jinzhou Xinri Silicon Materials Co., Ltd.) ("Xinri") recorded assessable profits was 2001 and, therefore, Xinri was subject to a 50% tax exemption starting from 2003. As Xinri is engaged in an advanced technology business in the PRC, it has been granted an extension of the 50% tax exemption for a further three years. Accordingly, Xinri was subjected to a preferential tax rate of 13.5% for the year ended 31 December 2007. The extension of the 50% tax exemption was repealed when the new tax law became effective on 1 January 2008.

The first year that 錦州華昌硅材料有限公司 (Jinzhou Huachang Silicon Materials Co., Ltd.) ("Huachang"), 錦州華日硅材料有限公司 (Jinzhou Huari Silicon Materials Co., Ltd.) ("Huari") and 錦州佑華新能源有限公司 (Jinzhou Youhua New Energy Co., Ltd.) ("Youhua") recorded assessable profits was 2003, 2005 and 2005, respectively. Accordingly, Huachang, Huari and Youhua were subjected to a preferential tax rate of 13.5% for the year ended 31 December 2007.

The first year that 錦州陽光能源有限公司 (Jinzhou Yangguang Energy Co., Ltd.) ("Yangguang") recorded assessable profits was 2006. It was fully exempted from PRC EIT for the year ended 31 December 2007.

上海晶技電子材料有限公司 (Shanghai Jingji Electronic Material Co., Ltd.) ("Jingji") was subjected to a preferential tax rate of 27% for the year ended 31 December 2007.

On 1 January 2008, the Corporate Income Tax ("CIT") Law of the PRC ("New CIT Law") became effective. The PRC CIT rate has been adjusted to a standard rate of 25%. Foreign Investment Enterprises ("FIE"s) which have not fully utilised their five-year tax holiday (i.e. two-year exemption and subsequent three-year 50% reduction of the applicable tax rate) will be allowed to continue to receive the benefits of the tax holiday during the five-year grandfathering period. For those FIEs which have not yet begun their five-year tax holiday period, the tax holiday period will be deemed to have commenced from the effective date of the New CIT Law.

Further under the New CIT Law, from 1 January 2008 onwards, non-resident enterprises without an establishment or place of business in the PRC or which have an establishment or place of business but the relevant income is not effectively connected with the establishment or a place of business in the PRC, are subject to withholding tax at the rate of 5% or 10% on various types of passive income such as dividends derived from sources in the PRC. Distributions of pre-2008 earnings are exempted from the above-mentioned withholding tax.

Based on the New CIT Law, the PRC subsidiaries of the Group were subjected to the following PRC CIT rates for the year ended 31 December 2008:

Huachang	25%
Huari	12.5%
Jingji	25%
Jinzhou Rixin Silicon Material Co., Ltd.	25%
Xinri	25%
Yangguang	12.5%
Youhua	12.5%

On 1 August 2008, the Group obtained approval from the Jinzhou Municipal Bureau of Foreign Trade and Economic Cooperation, the Administration for Industry and Commerce and other relevant government bodies to merge Xinri, Huari, Huachang, Youhua and Yangguang ("the Merging Companies") into Yangguang.

In view of the different CIT rates applicable to the Merging Companies, on 13 May 2008, Yangguang obtained the written acceptance from Taihe District State Tax Bureau on the post-merger CIT treatment, that Yangguang should adopt an effective CIT rate after the merger of 13.77% for 2008 and 2009, 16.77% for 2010 and 25% thereafter according to the principles stated in Guo Shui Fa [1997] No. 71 ("Notice 71"). Based on Notice 71, the percentage of cost and expenses method of the Merging Companies incurred during the financial year preceding to the merger was applied to apportion each company's share of the post-merger taxable income of Yangguang. The apportioned post-merger taxable incomes are then taxed at the respective CIT rates of the Merging Companies.

Reconciliation between tax expense and accounting profit at the applicable tax rates:

	2008	2007
	RMB'000	*RMB'000*
Profit before taxation	**117,370**	337,095
Notional tax on profit before taxation calculated at 25% (2007: 27%)	**29,343**	91,016
Effect of non-deductible expenses	**8,594**	4,815
Effect of non-taxable income	**(76)**	(20,188)
Effect of tax concessions obtained	**(15,379)**	(57,340)
Effect of unused tax loss not recognised	**5,401**	–
Tax refund on domestic equipments purchases	**(8,192)**	–
Effect of different taxation rate used in other jurisdiction	**7,068**	2,311
Effect of withholding tax	**7,232**	–
Over-provision in respect of prior years	**–**	(8)
Actual tax expense	**33,991**	20,606

8. DIVIDENDS

(a) Dividends payables to equity shareholders of the Company attributable to the year

	2008	2007
	RMB'000	*RMB'000*
Final dividend proposed after the balance sheet date of RMB1.5 cents (HK$1.7 cents) (2007: RMB5.2 cents (HK$5.8 cents)) per share	**25,361**	87,920

The Board has recommended the payment of final dividend of RMB1.5 cents (HK$1.7 cents) per share (2007: RMB5.2 cents (HK$5.8 cents)) and propose to give shareholders the option of receiving part or all of the final dividend in form of new shares ("Scrip Dividend") in lieu of cash dividend. The Scrip Dividend proposal (the "Proposal") will be conditional on (i) the approval of the recommended final dividend at the forthcoming annual general meeting of the Company and (ii) the Stock Exchange granting a listing of and permission to deal in the shares to be issued pursuant to the Proposal. Subject to shareholders' approval at the forthcoming annual general meeting of the Company, the recommended final dividend will be paid to shareholders whose names appear on the register of members of the Company on 12 June 2009. The payment date of the final dividend will be announced in due course.

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(b) Dividend attributable to the previous financial year, approved and paid during the year

	2008	2007
	RMB'000	*RMB'000*
Final dividend in respect of the previous financial year, approved and paid during the year	**88,258**	113,658

In respect of the final dividend approved and paid for the year ended 31 December 2007, the difference of RMB338,000 between the final dividend proposed in the 2007 annual report and amount approved and paid during the year represents exchange difference.

9. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to the ordinary equity shareholders of the Company of RMB83,379,000 (2007: RMB292,241,000) and the weighted average of 1,627,540,199 (2007: 1,437,166,500) ordinary shares of the Company in issue during the year as calculated as set out in Note 9(b). The weighted average number of shares for the current and prior years has been adjusted for the capitalisation issue as if the capitalisation issue had been in existence throughout 2007 and 2008.

(b) Weighted average number of ordinary shares

	Number of ordinary shares	
	2008	2007
Issued ordinary shares at 1 January 2008	**2,874,333**	2,874,333
Effect of capitalisation issue	**1,434,292,167**	1,434,292,167
Effect of shares issued under the global offering	**190,373,699**	–
Weighted average number of ordinary shares	**1,627,540,199**	1,437,166,500

(c) Diluted earnings per share

There were no dilutive potential ordinary shares in issue during the years ended 31 December 2007 and 2008.

10. TRADE AND OTHER RECEIVABLES

	2008	2007
	RMB'000	*RMB'000*
Trade receivables *(Note 10(a))*	**111,003**	77,118
Other receivables, prepayments and deposits *(Note 10(b))*	**382,782**	109,233
Amount due from a related party	**–**	715
	493,785	187,066

The prepayments expected to be recovered or recognised as expenses after more than one year totalled RMB170,809,000 (2007: RMBNil).

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

(a) The ageing analysis of trade receivables as of the balance sheet date is as follows:

	2008	2007
	RMB'000	*RMB'000*
Within 1 month	**54,872**	41,861
1 – 3 months	**45,699**	18,977
3 – 6 months	**6,054**	13,753
6 – 12 months	**1,895**	826
1 – 2 years	**2,483**	1,701
	111,003	77,118

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

Included in trade receivables are aggregate amounts due from related parties of RMB40,463,000 (2007: RMB32,991,000) as at 31 December 2008.

(b) Included in other receivables, prepayments and deposits are prepayments for the purchase of raw materials from related parties of RMB27,077,000 (2007: RMB351,000) as at 31 December 2008.

(c) The ageing analysis of trade receivables that are past due but not impaired as of the balance sheet date:

	2008	2007
	RMB'000	*RMB'000*
Less than 1 month past due	**34,174**	9,826
1 – 3 months past due	**6,662**	2,413
3 – 6 months past due	**1,102**	1,236
6 – 12 months past due	**1,565**	1,571
1 – 2 years past due	**1,145**	454
	44,648	15,500

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

11. TRADE AND OTHER PAYABLES

	2008	2007
	RMB'000	*RMB'000*
Trade payables *(Note 11(a))*	**143,223**	38,367
Bills payable *(Note 11(b))*	**24,288**	–
Other payables and accrued expenses *(Note 11(c))*	**84,772**	105,701
Amount due to a director *(Note 11(d))*	**150**	–
	252,433	144,068

All of the trade and other payables (including amount due to a director) are expected to be settled within one year.

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

	2008	2007
	RMB'000	*RMB'000*
Within 1 month	**58,526**	24,627
1 – 3 months	**67,218**	9,584
3 – 6 months	**11,171**	1,858
6 – 12 months	**3,884**	1,164
1 – 2 years	**2,424**	1,134
	143,223	38,367

Included in trade payables are aggregate amounts due to related parties of RMB63,448,000 (2007: RMB26,762,000) as at 31 December 2008.

(b) The bills payable of RMB24,288,000 as at 31 December 2008 are secured by the bank deposits of RMB20,000,000. Included in bills payable are bills payable to related parties of RMB15,000,000 (2007: RMBNil) as at 31 December 2008.

(c) Included in the other payables and accrued expenses are receipts in advance from a related party of RMB20,000,000 (2007: RMBNil) as at 31 December 2008.

(d) The amount due to a director is unsecured, interest-free and repayable on demand.

MANAGEMENT DISCUSSION AND ANALYSIS

The Company successfully listed on the Main Board of the Stock Exchange on 31 March 2008. The proceeds raised from the listing have accelerated the expansion of production capacity and level of technology, providing a strong support for its development in the long run. It also laid a solid foundation for the Group to expand across the globe. Moreover, the Group was included as a constituent stock for the Morgan Stanley Capital International ("MSCI") Global Small Cap Index on 25 November 2008, further enhancing the Group's status on the international capital markets and recognising its achievement in the market.

Business Review

In 2008, capitalising on its leading research and development ("R&D") standard and its strengths in the market, the Group continued to be the leading manufacturer of monocrystalline silicon solar ingots and wafers in the PRC. During the fourth quarter of 2008, the operators of all industries faced enormous challenges with the downturn of global economies. The prices of upstream raw materials and downstream products in the solar energy industry were under pressure. Shortly after 31 December 2008, a continuous and more severe drop in the overall raw material and product pricing was observed. The Board, after discussion with the auditors of the Company in relation to the accounting treatment of diminution of value of inventories as at 31 December 2008, considered that such diminution would have a material adverse impact on the Group's full-year 2008 results and an early alert to investors is warranted by issuing the profit warning announcement dated 5 February 2009 in a timely manner. Nonetheless, the financial position of the Group has remained healthy. In addition, the Group has proactively addressed the impacts of the global financial tsunami by implementing stringent cost control measures, enhancing production efficiency, as well as adjusting its development strategies and product portfolio to cope with the market demands. The Group, therefore, is confident that the current difficulties may be overcome.

Market Overview

According to the data from the "World Energy Outlook 2008" published by the International Energy Agency, the demand for global primary energy in 2030 will grow by 45% over that of 2006. It was also expected that renewable energy would develop rapidly and would overtake natural gas soon after 2010 to become the second largest electricity fuel, next to coal. Non-hydroelectric renewable energies such as solar energy and wind energy are expected to achieve an average growth rate of 7.2% per year from 2006 to 2030, exceeding the average growth rate of any other energy globally.

The reserves of fossil energy are limited and will be exhausted one day. The existing energy reserves are decreasing, and the unreasonable and excessive use of fossil energy has caused serious pollution to the environment. In order to maintain sufficient energy supplies and to realise the sustainable development of energy and the environment, governments of various countries have been proactively promoting the development of renewable energy industries, in which solar energy is considered the preferred choice for clean energy due to its wide applications, easy installation and infinite nature. These factors have continuously contributed to the rapid growth of the solar energy industry worldwide.

In respect of the global photovoltaic ("PV") markets, countries including Japan, Germany, Spain and Italy are currently the major end-markets. These countries are promoting solar generation by implementing proactive policies, such as providing government grants, leading to the fast development of the PV manufacturing industry. The PRC and the United States, being the largest energy consuming countries in the world, together with Greece, France, Australia and the Middle East are promising solar energy markets with substantial potential in the future.

At present, the suppliers of polysilicon, a major raw material for the Group, are mainly from countries including Europe, the United States and Japan. In recent years, the rapid growth of the solar energy industry has resulted in a serious shortage of polysilicon supply due to insufficient output. With inadequate supply, the price of polysilicon has been increasing. With effect from the fourth quarter of 2008, as the financial tsunami triggered the economic slowdown, some manufacturers of solar energy products have experienced capital shortages, which resulted in a drop in demand for polysilicon and prices continued to fall substantially. In the long run, it is expected that the supply of the raw material, polysilicon, will only become stable upon the completion of the expansion plans of existing polysilicon manufacturers and the introduction of new manufacturers in Japan, Korea and the PRC. By then, the solar energy industry is expected to grow steadily and healthily.

Operations Review

Enhancing production capacity to address market demands

In recent years, with the increasing awareness of environmental protection, global warming has become a worldwide issue. Owing to the fact that fossil fuel will be exhausted one day, there is a huge market potential for renewable energy due to its unlimited and infinite nature. According to the "Research Report on the Development of the Photovoltaic Industry in China (2006–2007)" issued by China Renewable Energy Development Project Management Office in May 2008, the structure of global energy in the first half of the 21st century will undergo drastic changes. Renewable energy will gradually overtake fossil energy, at a replacement rate of approximately 5% in 2000 to approximately 10% in 2010, and will further increase to 40% in 2040. Among the many renewable energy sources, the prospect of the solar energy industry is the most promising.

To meet the high market demand for PV products, during the third quarter of 2008, the Group added 96 monocrystalline silicon ingot pullers and 16 wiresaws in the third quarter of 2008, and made further additions of 13 wiresaws by the end of the year. As at 31 December 2008, the Group had a total of 196 monocrystalline silicon ingot pullers and 37 wiresaws, increasing production output of monocrystalline silicon ingots by one-fold to 2,000 tonnes, while production of wafers substantially increased by 2.3 times to 56 million pieces, with a light energy conversion capability of approximately 200MW.

Enhancing R&D to strengthen production efficiency

The solar energy industry is developing rapidly. Although it is still in an infant stage, it is believed that market competition will intensify gradually as the number of new participants increases. In the long run, the solar energy industry should reach economies of scale and reduce the cost of generating power to a level that can compete with that of fossil energy even without the government subsidies in order to become an alternative energy source with economic benefits, and play a part in the energy market. Facing such dual competition, the Group, as a pioneer in the industry, strongly believes that increasing investment in R&D and strengthening of production efficiency are the key to success. In view of this, the Group has committed to enhancing its R&D capability, working closely with strategic investors in the PRC, Japan and Taiwan for technology exchange and cooperation; and enhancing production efficiency through technology innovation to improve product quality, so as to maintain its market position and to strengthen its overall competitiveness.

During the year under review, with its vertically integrated production model, the Group upgraded scrap polysilicon which could not be used directly in the production process by utilising various unique and proprietary techniques, and appropriately implemented the mixed use of such reclaimed polysilicon and high purity polysilicon in its production in order to further enhance production efficiency and lower costs. Furthermore, the Group strives to expand its product range. The R&D team has successfully introduced a 20-inch hot zone for the production of 156mm x 156mm wafers, and optimised the slicing technology to produce monocrystalline silicon wafers of 170μm of thickness. In addition, the 12-inch monocrystalline silicon ingot pullers were delivered to the factory in the first quarter of 2009, and the trial production will start in the second quarter of 2009.

Future prospects and strategies

In light of the global financial crisis, the solar energy industry is inevitably affected to a certain extent. The Group believes the industry outlook remains promising, given the dedicated efforts in promoting renewable energy by various governments worldwide. Among them, the European Union plans to reduce the emission of the greenhouse gas to a rate 20% lower than that of 1990 by 2020, and to increase the proportion of the renewable energy to 20% during the same period.

Besides, the United States government led by Barack Obama, the new president, has emphasised the promotion of environmental protection and renewable energy. The energy strategies put forward by the United States government include: (1) providing a subsidy of US$150 billion for the study of renewable energy and a tax concession initiative for related corporations in the next decade; (2) developing renewable energy and substantially reducing the reliance on crude oil; (3) planning to increase the power generated by renewable energy to 10% of the total power by 2012, and further increase to 25% thereof by 2025; (4) planning to reduce the emission of the greenhouse gas to below 80% of that in 1990. Apparently, the above policies are favourable to the PV industry. Under the drive of such policies, the growth potential of the United States market should not be underestimated.

Regarding the Japanese market, the Japanese government announced in the first quarter of 2009 that the subsidies for household solar energy generation systems were open for application with a budget up to 9 billion Yen. It also plans to have over 70% of newly built houses throughout the nation to be equipped with a solar energy generation system, so that the wattage of solar-generated energy will be increased by 10 times from that at present, with the goal of a further growth of 40 times by 2030. It also plans to reduce the emission of the greenhouse gas to a rate of between 60% and 80% of that in 1990 by 2050.

In view of the rapid economic growth in the PRC, the number of industrial and infrastructure projects keeps increasing, driving the demands for energy. In addition, as the environmental protection policies in the PRC aim at aligning with the international ones, it has created tremendous opportunities for the solar energy industry. The PRC government has earlier approved three pilot projects of solar energy power stations, namely the Chongming Island (崇明島) project in Shanghai for 1MW of power, the Ordos (鄂爾多斯) project in the Inner Mongolia for 255,000W of power and the Dunhuang (敦煌) PV grid-connected power generation project in Gansu Province for 10MW of power. The Chinese Academy of Sciences announced the establishment of the "Solar Energy Action Programme" in mid-January in 2009, in which the whole academy will join hands with experts from the relevant science and research areas nationwide in an effort to make solar energy a mature alternative energy by 2025, a widely used energy source by 2035 and a major energy source in the PRC by 2050. All the above have clearly demonstrated the determination of the PRC government to promote the solar energy industry.

As one of the leaders in the solar energy industry in the PRC, the Group will capitalise upon market opportunities and continue its existing effective development strategies, so as to enhance its competitive advantages and operational efficiency, expand its market share and strengthen its market position, with a view of preparing for the rapid growth of solar energy products. The Group plans to achieve gradually its goal of striving to be the largest manufacturer of monocrystalline solar ingots and wafers worldwide and one of the major manufacturers of multicrystalline silicon solar ingots and wafers, by adopting the following measures:

Proactively enhancing production capacity and expanding product range

To cope with the need for future development, the Group will complete the construction of a new production plant which can accommodate 200 monocrystalline silicon ingot pullers and 43 wiresaws. The installation of monocrystalline silicon ingot pullers is expected to commence in the fourth quarter of 2009 and their commercial production will start upon the completion of installation and testing by the end of the fourth quarter of 2009. Wiresaws will be delivered in batches to the plant and the installation and production will start from the end of the second quarter of 2009 and full production is expected to commence in the fourth quarter of 2009. According to such plan, in 2009, the numbers of monocrystalline silicon ingot pullers and wiresaws will be increased to 400 and 80 respectively, the annual production capacity of silicon ingots and wafers will rise to 4,000 tonnes and 150 million pieces respectively, with the annual solar energy conversion capability increased to 400MW.

The Group plans to expand its product range according to requirements of existing customers. Capitalising on its advanced technologies, the Group has participated in the manufacture of multicrystalline silicon solar ingots and wafers, achieving the target of becoming one of the major manufacturers of multicrystalline silicon solar ingots and wafers. Currently, there are four multicrystalline silicon ingot pullers under installation and fine-tuning, which will duly come into operation once the testing is completed.

The capital required for such expansion of production capacity will be satisified by the proceeds from listing, internal resources and/or other sources of long term financing. On the other hand, to comply with the policies of the PRC government for the promotion of solar energy industry, the Group will accelerate its pace of development in the PRC market. Aside from consolidating its existing customers from both the PRC and abroad, the Group is actively expanding its sales network to further increase its market share of the solar energy industry.

Enhancing the R&D investment to strengthen its leading position

The Group's ability to take a leading position in the industry of manufacturing monocrystalline solar ingots is attributable to its high level of R&D capability. In the future, the Group will continue to optimise its ability of reclaiming and improving ingot crystallisation, wafer slicing and polysilicon. The Group will enhance the production efficiency and reduce the operating costs through the introduction of the latest technologies. At the same time, the Group will continue to upgrade the slicing technology and to study and develop the production of thinner and larger wafers. The target is set to produce monocrystalline wafers of 150μm of thickness. The Group will also fulfil customers specific requirements by developing 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 modules of higher wattage output. Besides, 40 monocrystalline silicon ingot pullers with magnetic field will be delivered by the end of the fourth quarter of 2009 and production will commence upon installation and fine-tuning.

The Group will also continue to reinforce the cooperation with academic institutions. The research centre jointly established with Dalian University of Technology will be completed in the third quarter of 2009 and will possess world-class technology levels. It will facilitate the nurturity of R&D technicians and the development of new products and technologies.

Exploring diversified channels to stabilise the supply of raw materials

During the fourth quarter of 2008, the price of polysilicon raw materials decreased along with a drop in demand resulting from global economic slowdown. However, management believes that securing the price and supply of raw materials is beneficial to the long-term development of the Group. Therefore, apart from its strategic investment partners, the Group will actively seek new suppliers for quality raw materials, and to enter into medium to long term supply agreements with them when the timing is right, in order to satisfy part of the production capacity.

On the other hand, the Group continues to blend in more lower-grade polysilicon leftovers in the production of silicon ingots and wafers, so as to study the feasibility of using metallurgical silicon in the production of monocrystalline solar ingots, in an attempt to diversify the sources for materials and reducing the risks of unstable supply and price fluctuation of raw materials.

The slowdown of the global economies has caused a drop in the demand for energy in the market, and a decline in the price of crude oil has lowered the urge for the development of the new energy industry. However, management believes the unfavourable market to be a short-term periodic phenomenon which provides the industry with an opportunity of consolidation and is beneficial to the medium to long term development of the solar energy industry. Looking forward, the Group will adopt a prudent strategy for development, which will be adjusted in accordance with market changes. Leveraging on its solid foundation of business operations and financial position, the Group will be able to grasp the market opportunities while progressing forward, providing the best return for the shareholders.

Financial Review

Turnover

The Group's turnover increased year-on-year by 47.0%, from RMB1,015.5 million in 2007 to RMB1,492.9 million in 2008. The increase was mainly driven by the new production capacity which commenced operation in 2008 as well as the continuing increase trend in the market prices of which solar products in the first nine months of 2008.

1. Sales of monocrystalline silicon ingots and wafers increased by 42.1% from RMB864.7 million to RMB1,229.0 million. This is attributable to both increases in sales volume and average selling prices in the first nine months of 2008. The volume of ingots sold decreased from 150,837 kg in 2007 to 105,124 kg in 2008, while volume of wafers sold increased from 14.6 million pieces to 21.9 million pieces.

2. Revenue from processing service fees increased from RMB109.6 million to RMB113.3 million. The volume of ingots processed decreased from 424,920 kg in 2007 to 225,886 kg in 2008 while the volume of wafers processed decreased from 1,239,896 pieces in 2007 to 1,326,888 pieces in 2008.

3. Sales of upgrading polysilicon increased by 285.5% from RMB41.2 million to RMB150.6 million. The Group purchases scrap polysilicon and resells to third parties after upgrading thereof.

In terms of geographical contribution, sales were mainly generated from the PRC, increased considerably by 199.6% to RMB1,116.5 million and accounted for 74.8% of the Group's turnover. The increase is mainly attributable to the switching of sales strategy by selling more products and providing more processing services to high quality customers in the PRC in order to capitalise on the benefit from the appreciation of RMB as well as to reduce the impact on the change of the export tax refund policies imposed on the export of ingots and wafers. The remaining sales were generated from Taiwan (12.9%), Japan (9.9%), Europe (1.4%), North America (0.8%) and others (0.2%).

Cost of sales

Cost of sales increased by 83.0%, from RMB692.4 million to RMB1,267.4 million. During the year and before the impact from the global financial crisis, the polysilicon price was in a continuous increasing trend. The increase in cost of sales was thus in line with the increase in turnover and reflected the increase in polysilicon price. After the adverse impact hit the solar energy industry, raw material prices declined gradually, and therefore, led to the write down of inventories of RMB220.2 million (2007: Nil) in 2008, which in turn increased the cost of sales for the year under review.

Gross profit and gross profit margin

The gross profit of the Group decreased by RMB97.6 million, or 30.2%, from RMB323.1 million for 2007 to RMB225.5 million for 2008, mainly attributable to the write down of inventories of RMB220.2 million (2007: Nil) due to the continuous fall in raw material prices and product selling prices caused by the global economic slowdown. Excluding this individually significant impact, the gross profit of the Group in 2008 would have been RMB445.7 million, increased by RMB122.6 million or 37.9% as compared to 2007.

The gross profit margin declined by 16.7 percentage points from 31.8% in 2007 to 15.1% for 2008. Excluding the impact from the write down of inventories, the gross profit margin of the Group in 2008 would have been 29.9%, a decline of 1.9 percentage points as compared to 2007.

Other revenue

Other revenue during the year under review mainly comprised of interest income from bank deposits, income from sale of scrap materials and government grants.

Other net loss

Other net loss mainly comprised net foreign exchange loss amounting to RMB7.6 million (2007: RMB8.4 million). The loss mainly arose from the appreciation of RMB, the reporting currency, during the period between the transaction date and the settlement date.

Selling and distribution expenses

Selling and distribution expenses mainly comprised packaging expenses, freight charges and insurance expenses. There was an increase of 54.4%, from RMB4,432,000 for 2007 to RMB6,843,000 for 2008, accounting for less than 0.5% of the Group's total turnover. It was in line with the increase in turnover.

Administrative expenses

Administrative expenses comprised one-off listing expenses of RMB11.6 million (2007: Nil), equity-settled share-based payment expenses of RMB24.4 million (2007: RMB10.1 million) as well as salaries, wages and bonuses. In line with the business expansion, they increased by 115.0% from RMB47.2 million for 2007 to RMB101.5 million for 2008 and accounted for 6.8% (2007: 4.6%) of the Group's turnover.

Finance costs

The Group's finance costs decreased by RMB4.3 million, or 56.6%, from RMB7.6 million for 2007 to RMB3.3 million for 2008. Finance costs represented mainly interest on bank loans and other borrowings wholly repayable within five years and interest on the municipal government loan. The reason for the decrease in finance costs was due to repayment of bank borrowings with part of the proceeds from the initial public offering during the year.

Income tax

Income tax increased by RMB13.4 million or 65.0% from RMB20.6 million for 2007 to RMB34.0 million in 2008. This is mainly due to the increase in the effective tax rate of a major PRC subsidiary of the Group from 0% in 2007 to 13.77% in 2008 in accordance with the tax holiday policy granted thereto.

Net profit attributable to the equity shareholders

The Group recorded a net profit attributable to the equity shareholders of the Company of RMB83.4 million for the year ended 31 December 2008, a decrease of 71.5% as compared to RMB292.2 million in 2007. The calculation took into account one-off non-operating items of listing expenses of RMB11.6 million incurred in 2008 and gain on acquisition of the Acquired Group of RMB74.8 million generated in 2007. If the calculation excluded the aforesaid one-off non-operating items, the Group's net profit attributable to the equity shareholders of the Company would have been RMB95.0 million for the year ended 31 December 2008, a decrease of 56.3% as compared to RMB217.4 million in 2007.

Inventory turnover days

The inventories of the Group mainly comprised of raw materials (namely polysilicon, crucibles and other auxiliary raw materials) and finished goods. The increase in inventories was mainly due to the expansion in the production capacity of the Group. Included in the balance of the inventories as at 31 December 2008 was a write down of inventories of RMB220,235,000 (2007: Nil). This is mainly due to the continuous fall in raw material prices and product selling prices caused by the global economic slowdown. The inventory turnover days as at 31 December 2008 totalled 77 days (2007: 77 days). The Directors consider the Group's optimal inventory level should be around three months for polysilicon and one month for other auxiliary raw materials to meet the Group's production requirements.

Trade receivable turnover days

The trade receivable turnover days as at 31 December 2008 totalled 23 days (2007: 31 days).

The Directors considered such turnover days was at low level and was within the credit periods the Group grants to its customers. The Group normally allows a credit period of 30 to 90 days to its customers.

Trade payable turnover days

The trade payable turnover days as at 31 December 2008 was 26 days (2007: 24 days).

Liquidity and financial resources

The Group's principal sources of working capital included cash flow from operating activities, bank and other borrowings and the proceeds from the initial public offering. As at 31 December 2008, the Group's current ratio (current assets divided by current liabilities) was 2.52 (2007: 2.33) and it was in a net cash position. The Group's financial position remains healthy and it is well-positioned to overcome the possible adverse impacts from the global economic slowdown as well as to facilitate future development.

As at 31 December 2008, the Group was in a net cash position of RMB52,819,000 (2007: RMB219,088,000) which represented cash and cash equivalents of RMB270,402,000 (2007: RMB348,978,000), short-term bank loans of RMB214,580,000 (2007: RMB127,000,000) and a long-term municipal government loan of RMB3,003,000 (2007: RMB2,890,000). The Group's net debt to equity ratio (net debt divided by shareholders' equity) increased from –34.6% as at 31 December 2007 to –4.2% as at 31 December 2008, the minus signs represented the net cash position at the respective year end dates.

Contingent liabilities

As at 31 December 2008, there was no material contingent liability.

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 are primarily United States Dollars and Hong Kong Dollars. The Directors do not expect any significant impact from movements in exchange rates since the Group uses the foreign currencies collected 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 United States Dollars at spot rates where necessary to address short-term imbalances.

Human resources

As at 31 December 2008, the Group had 1,186 (2007: 783) employees. Employee benefit expenses increased to RMB69,911,000 in 2008 from RMB40,242,000 in 2007, which represented an increase of 73.7%. The remuneration of the existing employees is basic salaries, discretionary bonuses, share-based payments and social security contributions. Pay levels of the employees are commensurate with their responsibilities, performance and contribution.

AUDIT COMMITTEE

The Company's Audit Committee has reviewed the accounting principles and practices adopted by the Group and the Group's consolidated financial statements for the year ended 31 December 2008.

FINAL DIVIDEND

The Board has recommended the payment of final dividend of RMB1.5 cents (HK$1.7 cents) per share (2007: RMB5.2 cents (HK$5.8 cents)) and propose to give shareholders the option of receiving part or all of the final dividend in form of new shares ("Scrip Dividend") in lieu of cash dividend. The Scrip Dividend proposal (the "Proposal") will be conditional on (i) the approval of the recommended final dividend at the forthcoming annual general meeting of the Company and (ii) the Stock Exchange granting a listing of and permission to deal in the shares to be issued pursuant to the Proposal. Subject to shareholders' approval at the forthcoming annual general meeting of the Company, the recommended final dividend will be paid to shareholders whose names appear on the register of members of the Company on 12 June 2009. The payment date of the final dividend will be announced in due course.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 6 June 2009 to 12 June 2009, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend and 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 no later than 4:30 p.m. on 5 June 2009.

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 by Directors of Listed Issuers ("Model Code") set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") as its own code of conducts regarding Directors' securities transactions. Having made specific enquiries to all Directors, all Directors confirmed that they have complied with the requirements set out under the Model Code throughout the year ended 31 December 2008.

CORPORATE GOVERNANCE PRACTICES

Throughout the year ended 31 December 2008, the Company fully complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules, and where appropriate, adopted the recommended best practices. Detailed corporate governance practices will be stated in the Company's annual report for the year ended 31 December 2008.

Despite the removal of the requirement for a qualified accountant in the Listing Rules which came into effect on 1 January 2009, the Group continues to maintain the post of a qualified accountant to oversee its financial reporting and other accounting-related issues in accordance with the relevant laws, rules and regulations.

PUBLICATION OF FINANCIAL INFORMATION

The 2008 annual report containing more 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 will be held on 12 June 2009. 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
Hsu You Yuan
Executive Director

Hong Kong, 20 March 2009

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.