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 2009

FINANCIAL HIGHLIGHTS

– Turnover was RMB303.7 million for the period under review, decreased by 55.7% as compared to the same period last year.

– Gross loss was RMB85.6 million for the period under review.

– Write-down of inventories amounted to RMB172.6 million for the period under review.

– Net loss attributable to the equity shareholders of the Company amounted to RMB119.7 million for the period under review. Basic loss per share was RMB7.07 cents for the period under review.

– The board of Directors does not recommend the payment of any interim dividend for the six months ended 30 June 2009.

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 2009, together with the comparative figures for the corresponding period in 2008. The Interim Results are unaudited, but have been reviewed by the company's auditors, KPMG (the "Auditors") in accordance with Hong Kong Standard 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 the review of Interim Results of the Group has been 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 2009

		Six months ended 30 June	
		2009	2008
	Note	***RMB'000***	*RMB'000*
Turnover		**303,705**	685,480
Cost of sales		**(389,263)**	(408,772)
Gross (loss)/profit		**(85,558)**	276,708
Other revenue	*4*	**3,670**	3,512
Other net loss	*5*	**(274)**	(5,685)
Selling and distribution expenses		**(2,717)**	(3,127)
Administrative expenses		**(58,110)**	(45,442)
(Loss)/profit from operations		**(142,989)**	225,966
Finance costs	*6(a)*	**(5,858)**	(1,326)
(Loss)/profit before taxation	*6*	**(148,847)**	224,640
Income tax	*7*	**29,100**	(41,356)
(Loss)/profit for the period attributable to equity shareholders of the Company		**(119,747)**	183,284
(Loss)/earnings per share *(RMB cents)*			
– Basic	*9*	**(7.07)**	11.71

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2009

	Six months ended 30 June	
	2009	2008
	RMB'000	*RMB'000*
(Loss)/profit for the period	**(119,747)**	183,284
Other comprehensive income for the period (after tax and reclassification adjustments):		
Exchange differences on translation of financial statements of overseas subsidiaries	**(3,362)**	(2,736)
Total comprehensive (loss)/income for the period	**(123,109)**	180,548

UNAUDITED CONSOLIDATED BALANCE SHEET
At 30 June 2009

	Note	30 June 2009 RMB'000	31 December 2008 RMB'000
Non-current assets			
Property, plant and equipment		**454,672**	394,665
Lease prepayments		**64,665**	47,508
Prepayments for acquisition of property, plant and equipment		**87,481**	114,987
Deferred tax assets		**56,317**	31,581
		663,135	588,741
Current assets			
Inventories		**333,762**	395,533
Trade and other receivables	*10*	**549,872**	493,785
Tax recoverable		**818**	1,878
Pledged deposits		**23,835**	25,071
Cash and bank deposits		**191,127**	270,402
		1,099,414	1,186,669
Current liabilities			
Short-term bank loans		**323,332**	214,580
Trade and other payables	*11*	**225,777**	252,433
Current tax payable		**3,530**	4,315
		552,639	471,328
Net current assets		**546,775**	715,341
Total assets less current liabilities		**1,209,910**	1,304,082
Non-current liabilities			
Municipal government loan		**3,115**	3,003
Deferred tax liabilities		**2,083**	7,232
Deferred income		**52,924**	30,333
		58,122	40,568
Net assets		**1,151,788**	1,263,514
Capital and reserves			
Paid-in/issued capital		**153,002**	152,189
Reserves		**998,786**	1,111,325
Total equity		**1,151,788**	1,263,514

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 2008 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2009 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 one new Hong Kong Financial Reporting Standard ("HKFRS"), a number of amendments to HKFRSs and new interpretations that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

– HKFRS 8, *Operating segments*

– HKAS 1 (revised 2007), *Presentation of financial statements*

– Improvements to HKFRSs (2008)

– Amendments to HKAS 27, *Consolidated and separate financial statements – cost of an investment in a subsidiary, jointly controlled entity or associate*

– Amendments to HKFRS 7, *Financial instruments: Disclosure – improving disclosures about financial instruments*

– HKAS 23 (revised 2007), *Borrowing costs*

– Amendments to HKFRS 2, *Share-based payment – vesting conditions and cancellations*

The amendments to HKAS 23 and HKFRS 2 have had no material impact on the Group's financial statements as the amendments and interpretations were consistent with policies already adopted by the Group. In addition, the amendments to HKFRS 7 do not contain any additional disclosure requirements specifically applicable to the interim financial information. The impact of the remainder of these developments on the interim financial information is as follows:

– HKFRS 8 requires segment disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. The adoption of HKFRS 8 has resulted in the presentation of segment information in a manner that is more consistent with internal reporting provided to the Group's most senior executive management (see note 3).

- As a result of the adoption of HKAS 1 (revised 2007), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expenses are presented in the consolidated income statement, if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. The new format for the consolidated statement of comprehensive income and the consolidated statement of changes in equity has been adopted in this interim financial information and corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

- The "Improvements to HKFRSs (2008)" comprise a number of minor and non-urgent amendments to a range of HKFRSs which the HKICPA has issued as an omnibus batch of amendments. None of these amendments has resulted in changes to the Group's accounting policies.

- The amendments to HKAS 27 have removed the requirement that dividends out of pre-acquisition profits should be recognised as a reduction in the carrying amount of the investment in the investee, rather than as income. As a result, as from 1 January 2009 all dividends receivable from subsidiaries, associates and jointly controlled entities, whether out of pre-or post-acquisition profits, will be recognised in the Company's profit or loss and the carrying amount of the investment in the investee will not be reduced unless that carrying amount is assessed to be impaired as a result of the investee declaring the dividend. In such cases, in addition to recognising dividend income in profit or loss, the company would recognise an impairment loss. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any dividends receivable in the current or future periods and previous periods have not been restated.

3. SEGMENT REPORTING

On first-time 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, there was no additional reportable segment identified for the Group.

The Group's operations are regarded as a single business segment, being an entity which engages in the trading of, manufacturing of and provision of processing services for polysilicon and solar silicon monocrystalline ingots and wafers. In addition, the Group's turnover and operating profit are almost entirely derived from its operations in the PRC. Accordingly, no segment analysis has been presented.

4. OTHER REVENUE

	Six months ended 30 June	
	2009	2008
	RMB'000	*RMB'000*
Government grants	**2,389**	203
Interest income from bank deposits	**952**	1,942
Others	**329**	1,367
	3,670	3,512

5. OTHER NET LOSS

	Six months ended 30 June	
	2009	2008
	RMB'000	*RMB'000*
Net foreign exchange gain/(loss)	**594**	(5,379)
(Loss)/gain on disposal of property, plant and equipment	**(869)**	34
Others	**1**	(340)
	(274)	(5,685)

6. (LOSS)/PROFIT BEFORE TAXATION

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

	Six months ended 30 June	
	2009	2008
	RMB'000	*RMB'000*
(a) Finance costs		
Interest on bank loans and other borrowings wholly repayable within five years	**7,393**	4,239
Interest on municipal government loan	**112**	105
Total interest expense on financial liabilities not at fair value through profit or loss	**7,505**	4,344
Less: interest expenses capitalised into construction in progress	**(1,647)**	(3,018)
	5,858	1,326
(b) Other items		
Amortisation of lease prepayments	**346**	564
Depreciation	**12,945**	8,474
Write-down of inventories	**172,648**	–
Bad debt written off	**2,277**	–
Impairment loss on prepayments	**8,362**	–
Provision for onerous contracts	**11,665**	–

7. INCOME TAX

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

	Six months ended 30 June	
	2009	2008
	RMB'000	*RMB'000*
Current tax – the PRC		
Provision for the period	**–**	29,697
Under-provision in respect of prior years	**786**	–
	786	29,697
Deferred tax		
Origination and reversal of temporary differences	**(29,886)**	11,659
	(29,100)	41,356

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 sustained losses for taxation purposes.

Pursuant to the applicable law 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.

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%. For 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 abovementioned withholding tax.

Based on the New CIT Law, the PRC subsidiaries of the Group were subjected to the following PRC CIT rates for the six months ended 30 June 2008 and 2009, respectively:

	2009	2008
Shanghai Jingi Electronic Materials Co., Ltd. ("Jingji")	**25%**	25%
Jinzhou Rixin Silicon Materials Co., Ltd. ("Rixin")	**25%**	25%
Jinzhou Huachang Silicon Materials Co., Ltd. ("Huachang")	**N/A**	25%
Jinzhou Huari Silicon Materials Co., Ltd. ("Huari")	**N/A**	12.5%
Jinzhou Youhua Silicon Materials Co., Ltd. ("Youhua Silicon")	**25%**	25%
Jinzhou Xinri Silicon Materials Co., Ltd. ("Xinri")	**N/A**	25%
Jinzhou Yangguang Energy Co., Ltd. ("Yangguang")	**13.77%**	12.5%
Jinzhou Youhua New Energy Co., Ltd ("Youhua")	**N/A**	12.5%

On 1 August 2008, the Group had 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 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.

8. DIVIDENDS

(a) Dividends attributable to the period

The directors do not recommend the payment of any dividend in respect of the six months ended 30 June 2009 (six months ended 30 June 2008: Nil).

(b) Dividend attributable to the previous financial year

	Six months ended 30 June	
	2009	2008
	RMB'000	*RMB'000*
Final dividend in respect of the previous financial year		
– approved and paid during the period	**–**	88,258
– approved during the period	**25,361**	–
	25,361	88,258

9. (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss attributable to the ordinary equity shareholders of the Company of RMB119,747,000 (six months ended 30 June 2008: profit of RMB183,284,000) and the weighted average of 1,693,838,167 (six months ended 30 June 2008: 1,564,667,052) ordinary shares of the Company in issue during the period as calculated as set out in note 9(b). The weighted average number of shares for the current and prior periods has been adjusted for the capitalisation issue as if the capitalisation issue had been in existence throughout 2008 and the six months ended 30 June 2009.

(b) Weighted average number of ordinary shares

	Number of ordinary shares	
	2009	2008
Issued ordinary shares at 1 January	**1,690,766,500**	2,874,333
Effect of capitalisation issue	**–**	1,434,292,167
Effect of shares issued under the global offering	**–**	127,500,552
Effect of shares issued under the share option scheme	**3,071,667**	–
Weighted average number of ordinary shares	**1,693,838,167**	1,564,667,052

(c) Diluted earnings per share

There were no dilutive potential ordinary shares in issue during the six months ended 30 June 2008 and 2009.

10. TRADE AND OTHER RECEIVABLES

	At 30 June 2009 *RMB'000*	At 31 December 2008 *RMB'000*
Trade receivables	**131,873**	111,003
Other receivables, prepayments and deposits	**417,999**	382,782
	549,872	493,785

The amount of prepayments expected to be recovered or recognised as expense after more than one year is RMB121,560,000 (31 December 2008: RMB170,809,000).

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:

	At 30 June 2009 *RMB'000*	At 31 December 2008 *RMB'000*
Current	**106,235**	66,355
Less than 1 month past due	**1,758**	34,174
1 – 3 months past due	**566**	6,662
3 – 6 months past due	**19,048**	1,102
6 – 12 months past due	**2,828**	1,565
1 – 2 years past due	**1,438**	1,145
	131,873	111,003

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

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.

(b) Included in trade receivables are aggregate amounts due from related parties of RMB77,092,000 (31 December 2008: RMB40,463,000) as at 30 June 2009.

(c) Included in the other receivables, prepayments and deposits are prepayments for the purchase of raw materials from related parties of RMB7,484,000 (31 December 2008: RMB27,077,000) as at 30 June 2009.

(d) At 30 June 2009, the Directors considered that a long term purchase contract, under which the Group is committed to purchase polysilicon materials at a fixed cost from a supplier, had 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.

11. TRADE AND OTHER PAYABLES

	At 30 June 2009 *RMB'000*	At 31 December 2008 *RMB'000*
Trade payables *(note 11(a))*	**131,890**	143,223
Bills payable *(note 11(b))*	**11,386**	24,288
Dividend payable	**25,361**	–
Amount due to a director	**–**	150
Provision for onerous contract *(note 10(d))*	**11,665**	–
Other payables and accrued expenses *(note 11(c))*	**45,475**	84,772
	225,777	252,433

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

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

	At 30 June 2009 *RMB'000*	At 31 December 2008 *RMB'000*
Within 1 month	**48,506**	58,526
1 – 3 months	**20,933**	67,218
3 – 6 months	**29,914**	11,171
6 – 12 months	**30,940**	3,884
1 – 2 years	**1,597**	2,424
	131,890	143,223

Included in trade payables are amounts due to related parties of RMB28,843,000 at 30 June 2009 (31 December 2008: RMB63,448,000).

(b) The Group's bills payable of RMB11,386,000 (31 December 2008: RMB24,288,000) as at 30 June 2009 are secured by the Group's bank deposits of RMB20,100,000 (31 December 2008: RMB20,000,000). Included in the Group's bills payable are bills payable to related parties of RMB7,798,000 (31 December 2008: RMB15,000,000) as at 30 June 2009.

(c) Included in the Group's other payables and accrued expenses are receipts in advance from a related party of RMB Nil (31 December 2008: RMB20,000,000) as at 30 June 2009.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Overview

In the first half of 2009, most industries were still in the haze of the global economic downturn. The prices of upstream raw materials and downstream products in the solar energy industry remained under pressure. However, the financial position of the Group has remained healthy. In addition, the Group has not only promptly and effectively adjusted its development strategies and product portfolio to cope with the market demands, but has also focused on enhancing research and development technologies and maintaining its market strengths. Therefore, the Group continues to be a leading manufacturer within the industry and has successfully addressed and minimized the impacts of the global financial crisis.

Market Overview

During the course of global economic development, demand for energy will continue to grow. According to the data from the "World Energy Outlook 2008" published by the International Energy Agency, the global demand for primary energy in 2030 is expected to grow by 45% over that of 2006. Fossil fuel reserves are limited and will be exhausted one day. With diminishing energy reserves, and excessive use of fossil fuels which has caused environmental pollution, the development of renewable energy is of utmost importance. In order to stabilise the supply of energy and to realise the sustainable development of energy and environment, governments of various countries and international organisations have been proactively promoting the development of renewable energy industries in recent years. According to the "World Energy Outlook 2008", renewable energy will overtake natural gas 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.

In respect to the photovoltaic industry, countries including Japan, Germany, Spain and Italy are currently the major end-markets. These countries have successfully promoted solar energy generation by implementing proactive policies, such as government grants, leading to the fast development of the photovoltaic manufacturing industry. United States, Greece, France, Australia and the Middle East have also become promising solar energy markets with substantial potential in the future. According to the information provided by the United States Energy Information Administration (美國能源總局), investments in the facilities of new energy have increased by more than double in recent years.

In recent years, in view of the rapid economic growth in the PRC, the demand for energy is increasing rapidly. In addition, with environmental protection policies aimed at aligning with international policies, the PRC government has been proactively promoting solar energy generation. Aside from approving three pilot projects for 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 255kW of power and the Dunhuang (敦煌) photovoltaic grid-connected power generation project in Gansu Province for 10MW of power earlier, relevant PRC government departments have also unveiled various plans which are favourable to the development of the solar energy industry. The Chinese Academy of Sciences announced the establishment of the "Solar Energy Action Programme" (太陽能行動計劃) in mid-

January 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. Furthermore, in March 2009, the Ministry of Finance and the Ministry of Housing and Urban Rural Development initiated the "China Solar Roof Plan" (太陽能屋頂計劃) to accelerate promotion and application of photovoltaic cells in the urban rural building sector. This plan includes facilitating photovoltaic building applications by organising and supporting the application of photovoltaic building demonstration projects in suitable areas, as well as providing RMB20 per watt subsidies for qualified application of photovoltaic building demonstration projects with an installed capacity of no less than 50kW.

The rapid growth of the solar energy industry in the prior years has resulted in shortages in the supply of polysilicon, leading to an upsurge in the price of polysilicon. However, since the fourth quarter of 2008, under the impact of the financial crisis, the development of the industry has slowed down due to the decreasing market demand with some manufacturers of solar energy products experiencing capital shortages. Prices of polysilicon continued to fall substantially as its market demand decreased. Nevertheless, such industrial adjustments brought by the financial crisis will speed up the pace for the cost of generating power via solar energy and that of traditional fossil fuel to reach grid parity as soon as possible, leading to a faster and healthy development of solar energy industry.

Operation review

The first half of 2009 has been another major milestone for the Group following its listing on the main board of the Stock Exchange of Hong Kong Limited ("Stock Exchange") in 2008. With the establishment of Jinzhou Jinmao Photovoltaic Technology Company Limited ("Jinzhou Jinmao") in Jinzhou, Liaoning Province, and the ongoing acquisition of Kinmac Solar Corporation ("Kinmac Solar"), a Taiwan enterprise, the Group has taken its first step towards vertical integration to the downstream business of photovoltaic modules and the terminal systems application market.

Expanding downstream business of solar energy

In the beginning of 2009, the PRC government announced that subsidies would be provided to the products of Building Integrated Photovoltaic ("BIPV"). In line with the implementation of the 10MW "China Solar Roof Plan" in Jinzhou, Liaoning Province, the Group entered into an agreement with the Jinzhou Municipal Government, the Group announced on 27 April 2009 whereby it has committed to set up Jinzhou Jinmao in Jinzhou, Liaoning Province with two independent third parties, including Kinmac Holdings Limited ("Kinmac"), which is wholly-owned by Kinmac Solar. The joint venture company will primarily be engaged in the production and sales of photovoltaic modules as well as the design and installation of photovoltaic systems. The amount of registered capital of the joint venture company is RMB40,000,000, of which RMB20,400,000 is to be contributed in cash to be funded by the internal resources of the Group. The joint venture company was formally established on 17 July 2009 and is currently 51% owned by the Group.

The Group further announced on 12 June 2009 that it had entered into a memorandum of understanding with the shareholders of Kinmac to acquire Kinmac Solar. Kinmac Solar was established in Taiwan in 2004 and is principally engaged in the production of standard photovoltaic modules and the design and installation of solar panel modules as well as BIPV for Europe and Taiwan markets. Its BIPV module is a leading brand in Taiwan and has been supplied to various well-known manufacturers of photovoltaic modules and systems. BIPV modules are used in various photovoltaic building projects in Taiwan, including Liu Dui Hakka Museum in Pingtung, Taiwan (屏東六堆台灣客家文化園區), Solar City in Hualien (花蓮陽光電城(洄瀾之心)), 光電遊憩城 in Taipei (Fisherman's Wharf), World Games Main Stadium in Kaohsiung (高雄世運會主場館), etc. Kinmac Solar recorded a turnover of more than 1.4 billion New Taiwan Dollars in 2008, of which approximately 70% was from Europe and about 30% from Taiwan and other Asia regions. The management team of Kinmac Solar have over 10 years of practical experience and some of them are talented professionals from foreign-invested companies. The production line equipment of Kinmac Solar is purchased from large-scale manufacturers in Europe and Japan and its newly installed production lines are of automated design, thus enabling Kinmac Solar to produce module products for customers with more stable quality and higher efficiency. It is expected that after completion of the acquisition later this year, the Group will have approximately 99.37% interest in the existing issued share capital of Kinmac Solar, and as a result the Group and Kinmac Solar will have directly or indirectly, approximately 85% interest in Jinzhou Jinmao.

Capitalising on Kinmac Solar's extensive experience in the production of BIPV modules and installation systems and its market share and resources for the development of standard photovoltaic module products, together with the Group's leading position in the monocrystalline silicon solar ingot and wafer manufacturing industry, the Group is able to rapidly develop the downstream business of the photovoltaic industries in the PRC and overseas, capturing enormous market opportunities.

Enhancing capacity with additional facilities and increasing product variety

The Group was equipped with 197 monocrystalline silicon solar ingot pullers and 40 wiresaws as at 30 June 2009, with an aggregate annual capacity of 2,000 tonnes of monocrystalline silicon solar ingots and 56,000,000 pieces of monocrystalline silicon solar wafers.

In addition, the Group operates polysilicon reclaiming and upgrading facilities in Shanghai and Jinzhou. These reclaiming facilities enable the Group to gain production cost advantages on solar products. As at 30 June 2009, the polysilicon reclaiming and upgrading facilities had an aggregate annual designed throughput of 4,200 tonnes.

As well as expanding production capacity of monocrystalline solar ingots, the Group has also started to expand its product ranges with various features and functions, and developed wafers which can be used for the production of solar cells with higher conversion efficiency since 2008, in an effort to meet customers' demands. Capitalising on its advanced technological know-how, the Group will participate in the manufacture of multicrystalline silicon solar ingots and wafers with an aim of becoming one of the major manufacturers of multicrystalline silicon solar ingots and wafers. Currently, the installation and fine-tuning processes for the 4 multicrystalline silicon ingot casting furnaces have been completed, and the casting furnaces are expected to duly come into operation in the fourth quarter of 2009.

Enhancing R&D to strengthen production efficiency

In addition, the Group has continued to increase its investment in research and development, to work closely with strategic investors in different countries and regions for technology exchange and to enhance production efficiency through technological innovation focusing on improving product quality to cope with market demand. Moreover, with its vertically integrated production model, the Group has also continued to upgrade scrap polysilicon which could not be used directly in the production process, by utilising various unique and proprietary techniques and has 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.

Financial review

Turnover

For the six months ended 30 June 2009, the Group's turnover decreased to RMB303.705 million from RMB685.480 million for the corresponding period last year, representing a year-on-year decrease of 55.7%. The decrease was mainly due to a significant decline in the global market demand caused by shrinkage of credit after the financial crisis last year, resulting in a significant drop in the price of our products.

Cost of sales

For the six months ended 30 June 2009, cost of sales decreased by 4.8% to RMB389.263 million from RMB408.772 million for the corresponding period last year. As a percentage of total turnover, cost of sales increased from approximately 59.6% to 128.2%. The substantial increase in proportion cost was mainly due to the write-down of inventories by RMB172.648 million.

Gross loss

During the period under review, the Group recorded a gross loss of RMB85.558 million, which was mainly attributable to the write-down of inventories of RMB172.648 million (for the six months ended 30 June 2008: Nil) due to the continuous fall in the prices of raw materials and product selling prices caused by the global economic slowdown.

Selling and distribution expenses

Selling and distribution expenses mainly comprised packaging expenses, freight charges and insurance expenses. There was a decrease of 13.1%, from RMB3.127 million for the six months ended 30 June 2008 to RMB2.717 million for the period under review, accounting for 0.9% (for the six months ended 30 June 2008: 0.5%) of the Group's total turnover. The decrease in expenses was due to the diminishing demand and, in turn, a drop in sales volume.

Administrative expenses

Administrative expenses mainly comprised staff costs and bonuses. The administrative expenses for the first half of 2009 amounted to RMB58.11 million, increased year-on-year by 27.9% from RMB45.442 million for the same period last year, comprising mainly share-based payments related to employee shares awarded prior to the initial public offering amounting to RMB4.646 million (the first half of 2008: RMB8.5 million), expenses recognised during the period under review related to the grant of share options to employees in 2008 amounting to RMB16.049 million (the first half of 2008: Nil). Administrative expenses for the first half of 2008 also comprised listing expenses of RMB11.6 million. Excluding the above non-recurring expenses, the administrative expenses for the first half of 2009 amounted to RMB37.415 million, increased year-on-year by 47.6% from RMB25.342 million for the corresponding period last year, or 12.3% of the Group's turnover. The increase was mainly due to the increase in employees and senior management following the production capacity enhancement.

Finance costs

The Group's finance costs increased from RMB1.326 million for the six months ended 30 June 2008 to RMB5.858 million for the six months ended 30 June 2009. Finance costs represented mainly interest on bank loans and the municipal government loan. The reason for the increase in finance costs was due to the increased bank borrowings to meet working capital requirements.

Income tax

For the six months ended 30 June 2009, due to the recognition of deferred tax assets, net tax income amounting to RMB29.1 million was recorded. Income tax expenses were RMB41.356 million for the six months ended 30 June 2008.

Loss/profit attributable to the equity shareholders

During the period under review, the Group recorded a loss attributable to the equity shareholders of RMB119.747 million, which was mainly due to a decrease in gross profit triggered by the write-down of inventories by RMB172.648 million during the period. Profit attributable to the equity shareholders during the corresponding period last year was RMB183.284 million.

Inventory turnover days

The inventories of the Group comprised mainly raw materials, namely polysilicon, crucibles and other auxiliary raw materials. Owing to the expansion in production capacity as well as its good relationship with suppliers, the Group was able to increase its inventory of raw materials when there was a shortage of materials in the market. However, regarding the solar energy industry, with the impact of financial crisis, and coupled with a decrease in demand and shortage of funds in the market, there was a severe drop in demand for polysilicon and the situation was extended to affect the entire photovoltaic industry. The market led by supply swiftly changed to a market led by demand within an extremely short period. As such, inventory levels were unable to be adjusted immediately and, in turn increased the inventory turnover days increased to 171 days. The Group's optimal inventory levels should be around two months for polysilicon and one month for other auxiliary raw materials.

Trade receivable turnover days

The global market demand has significantly declined because of the shrinkage of credit since the financial crisis last year. Taking into account the actual condition as well as our long-term business relationship with customers, we increased the number of customers who can enjoy a longer credit period upon delivery in the first half of 2009. As a result, trade receivable turnover days have increased to 73 days.

Trade payable turnover days

Our good long-term relationship with suppliers enabled the Group to have a reasonable payment period throughout the period. As a result, the trade payable turnover days have increased to 64 days in the first half of 2009.

Liquidity and financial resources

The Group's principal sources of working capital include cash flows from operating activities, bank borrowings and the proceeds from the initial public offering. As at 30 June 2009, the Group's current ratio (current assets divided by current liabilities) was 1.99. Therefore, the Group's financial position remains healthy and it is well-positioned to overcome the adverse impacts from the economic downturn as well as to facilitate future development.

The Group had net borrowings of RMB135.32 million as at 30 June 2009 with cash and bank deposits of RMB191.127 million and outstanding borrowings of RMB326.447 million, comprising short-term bank loans of RMB323.332 million and a long-term municipal government loan of RMB3.115 million without asset pledge. Therefore, the Group's net debt to equity ratio as at 30 June 2009, expressed as a percentage of net borrowings of RMB135.32 million and shareholders' equity of RMB1,151.788 million, from –4.2% as at 31 December 2008 increased to 11.7%. The negative sign shown for the end of 2008 represents a net cash position at that time.

The Group's net cash outflow from operating activities for the period under review amounted to RMB135.881 million which was primarily due to the increase in raw material inventories and advance payment for the purchase of raw materials, in view of business expansion and the need for polysilicon.

The Group's net cash outflow from investing activities for the period under review amounting to RMB132.176 million was mainly capital expenditure for increasing production capacity.

The Group's net cash inflow generated from financing activities for the period under review amounting to RMB118.644 million which mainly comprised additional bank loans of RMB108.752 million.

Contingent liabilities

At 30 June 2009, there were no material contingent liabilities.

Foreign currency risk

Renminbi is the functional currency of the operations of the Group and the Group is exposed to foreign currency risk primarily through sales and purchases that are denominated in foreign currencies other than Renminbi, which are primarily United States Dollars and Japanese Yen. The Directors do not expect any significant impact from exchange rate movements since the Group uses foreign currencies collected from customers to settle the payment in foreign currencies to suppliers. In addition, the Directors ensure that the net exposure is kept to an acceptable level by buying or selling United States Dollars and Japanese Yen at spot rates when necessary to solve short-term imbalances.

Human resources

As at 30 June 2009, the Group had 1,168 employees. The remuneration package of the existing employees includes basic salary, discretionary bonus, share-based payment and social security contribution. Employee benefit expenses included in administrative expenses increased to RMB28.8 million as at 30 June 2009 from RMB20.5 million as at 30 June 2008, which represented an increase of 40%, resulting from the expansion of the workforce and the strong and experienced management team to cope with the multiple increase in production scale.

Future prospects and strategies

The rapidly developing solar energy industry is inevitably affected by the global economic downturn. However, in light of the non-renewable nature of traditional fossil fuels and the concerns over energy safety, optimising energy structure and reducing the emission of greenhouse gases, promotion of solar energy industry development has become a worldwide trend. Therefore, the Group believes that the industry outlook for solar energy remains promising.

Various countries and organisations in the world are proactively promoting the development of the solar energy industry, among which, the European Union plans to significantly reduce the emission of the greenhouse gases by 2020 and to increase the proportion of renewable energy. The United States government has formulated a set of energy strategies which emphasise the promotion of environmental protection and renewable energy. In Asia, the Japanese government announced in the first quarter of 2009 that subsidies for household solar energy generation systems were open for application with a budget of up to 9 billion Japanese Yen. It also plans to reduce the emission of greenhouse gases to a rate of between 60% and 80% of that in 1990 by 2050. The PRC government has spared no effort to promote renewable energy. At the end of March 2009, the Ministry of Finance and the Ministry of Housing and Urban Rural Development jointly issued "Opinions on Accelerating the Construction of Solar Photovoltaic Applications (關於加快推進太陽能光電建築應用實施意見)", which expressly states that it will support the application of photovoltaic building demonstration projects. In the meantime, the Ministry of Finance has also outlined the extent and amount of fund subsidies provided for the application of photovoltaic building projects. From 2009 onwards, RMB20/W subsidies will in principle be granted for power generation systems with a roof installed capacity of more than 50kW. In July 2009, the Ministry of Finance, Ministry of Science and Technology, National Energy Board jointly announced "Notice on Golden Sun on the implementation of demonstration projects (關於實施金太陽示範工程的通知)". It is planned that financial assistance will be given to support photovoltaic power generation demonstration projects of no less than 500MW in the next two to three years. Regarding photovoltaic power generation projects, the amount of subsidy will be equal to 50% of the aggregate investment in a photovoltaic power generation system and its ancillary electricity transmission and distribution engine. As for the stand alone photovoltaic power generation systems in rural areas, the amount of subsidy will be up to 70% of the relevant aggregate investments. All the above initiatives have clearly demonstrated the determination of various countries' governments as well as the PRC government to promote the solar energy industry.

Being a leader in the solar energy photovoltaic industry in Northeast China, the Group expects that financial assistance policies for the solar energy industry initiated in each region will have a positive impact on the long-term development of the Group. The Group will continue to focus on enhancing its competitive advantages and operational efficiency, expanding its market share and strengthening its market position, so as to be well-positioned to capture market opportunities. The Group will stride forward to its goal of being the largest manufacturer of monocrystalline silicon solar ingots and wafers in the world and one of the major manufacturers of multicrystalline silicon solar ingots and wafers, as well as, promoting the usage of solar energy and achieving a sustainable living environment by proactively developing downstream business, entering the photovoltaic modules and terminal system market through the following major development strategies:

Enhancing production capacity and increasing product variety

The Group will gradually complete the construction of a new production plant which can accommodate 200 monocrystalline silicon ingot pullers and 40 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 third quarter of 2009 and full production is expected to commence in the fourth quarter of 2009. According to the plan, at the end of 2009, the total numbers of monocrystalline silicon ingot pullers and wiresaws will increase to 400 and 80 respectively, the annual production capacity of silicon ingots and wafers will then rise to 4,000 tonnes and 150 million pieces respectively, with the annual solar energy conversion capability increased to 400MW. In the meantime, the Group will allocate resources to the manufacturing of multicrystalline silicon solar ingots and wafers and enhance technology level, so as to achieve the target of becoming a major manufacturer of multicrystalline silicon solar ingots and wafers.

Enhancing the R&D investment to strengthen its competitiveness

The Group's ability to obtain a leading position in the industry of manufacturing monocrystalline solar ingots is attributable to its high research and development capability which is one of the keys to the Group's success. In the future, the Group will put more efforts in this aspect to continue to optimise its ability of improving ingot crystallisation, wafer slicing and reclaiming and upgrading of polysilicon. The Group will enhance production efficiency and reduce operating costs through an exchange of technologies and the introduction of the latest technologies. The Group will also strengthen the co-operation with academic institutions. The Group will collaborate with Dalian University of Technology to nurture research and development technicians and developing new products and technology. The Group will continue to upgrade the slicing technology and the set target is to produce monocrystalline wafers of 150μm of thickness in a short period of time. 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.

Developing downstream business to create synergies

In April 2009, the Group established Jinzhou Jinmao which engages in the production and sale of photovoltaic modules, and in June 2009 entered into a memorandum of understanding with the shareholders of Kinmac to acquire of shares of Kinmac Solar from Kinmac Solar's shareholders, demonstrating our determination to develop our downstream business. The Group will further develop the downstream business in the future by making use of existing market channels and resources of photovoltaic module products possessed by Kinmac Solar to quickly expand the downstream business market of photovoltaic industries in the PRC and abroad, and to provide our customers with quality module products with higher stability and efficiency. The brand of "Solargiga" will be used for ingots, wafers and end-system in markets whereas "Kinmac Solar" brand will be for the modules market to maximise the synergistic effect.

As the Group's first step in expansion of our business chain, the foundation of a 300kW photovoltaic demonstration project, which is being undertaken by the Group, was laid in Binhai New District, Jinzhou. The project comprises various kinds of photovoltaic modules, including terrestrial photovoltaic power generation systems, BIPV systems, solar roof systems and solar road lighting. The aggregate investment of the project is approximately RMB11 million and it is expected to be completed by the end of September 2009 when power generation will commence.

Since the fourth quarter of 2008, economic activities decreased due to the impact of financial crisis, which has caused a drop in the demand for energy in the market and a decline in the price of crude oil, thus lowering the urge for the development of the new energy industry. However, our management is of the view that the development of renewable energy will gradually speed up following the recovery of the economy. Looking forward, the Group will make use of the existing business structure to further expand its product varieties in the supply chain of the photovoltaic industry. In addition, the Group will continue to adopt a prudent development strategy, which will be adjusted in accordance with market changes. Leveraging on its solid foundation of business operations and financial position, the Group is capable of improving its competitive strength and operating efficiency and expanding its market share while continuously seeking opportunities for business development, striving to bring the best return to its shareholders.

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 2009, 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 2008.

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 standard for securities transactions entered into by Directors. The Company has made specific enquiries of all the Directors and all the Directors have confirmed that they have complied with the required standards as set out in the Model Code and its code of conduct regarding Directors securities transactions for the six months ended 30 June 2009.

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 2009.

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 2009.

PUBLICATION OF FINANCIAL INFORMATION

The interim report for the six months ended 30 June 2009 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, 20 August 2009

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 Mr. Wong Wing Kuen, Albert, Ms. Fu Shuangye, Dr. Lin Wen and Mr. Zhang Chun are independent non-executive Directors.