The following is the full text of a report, prepared for the purpose of incorporation in this prospectus, received from the independent reporting accountants of the Company, KPMG, Certified Public Accountants, Hong Kong. As described under "Documents delivered to the Registrar of Companies in Hong Kong and available for public inspection" in appendix VIII to this prospectus, a copy of the following accountants' report is available for public inspection.

KPMG

8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

21 January 2008

The Board of Directors
Solargiga Energy Holdings Limited
BNP Paribas Capital (Asia Pacific) Limited

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information relating to Solar Technology Investment (Cayman) Corp. (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), including the combined income statements, the combined statements of changes in equity and the combined cash flow statements of the Group, for each of the years ended 31 December 2004, 2005 and 2006 and the six months ended 30 June 2007 (collectively the "Relevant Period") and the combined balance sheets of the Group as at 31 December 2004, 2005 and 2006 and 30 June 2007, together with explanatory notes thereto (the "Financial Information") for inclusion in the prospectus of Solargiga Energy Holdings Limited ("Solargiga") dated 21 January 2008 (the "Prospectus").

The Company was incorporated in the Cayman Islands on 15 December 2006 by the ultimate equity shareholders of the subsidiaries now comprising the Group (the "ultimate equity shareholders") for the purpose of acting as the holding company of these subsidiaries to effect the sale of the entire equity interests in these subsidiaries to Solargiga. Pursuant to the group reorganisation as detailed in the subsection headed "Reorganisation" in the section headed "History and Business Development" to the Prospectus (the "Reorganisation"), Solargiga acquired the entire equity interest in the Company on 26 June 2007 and became the holding company of the Group.

The statutory financial statements of Shanghai Jingji Electron Material Co. Ltd. ("Jingji") that are prepared in accordance with the relevant accounting rules and regulations in the People's Republic of China (the "PRC") were audited by Shanghai Shenxin Certified Public Accountants Co., Ltd., a firm of certified public accountants registered in the PRC, for the three years ended 31 December 2004, 2005 and 2006. The statutory financial statements of Jinzhou Youhua New Energy Co., Ltd. ("Youhua") that are prepared in accordance with the relevant accounting rules and regulations in the PRC were audited by Jin Zhou Jia Hua Accountant's Company Ltd., a firm of certified public accountants registered in the PRC, for the two years ended 31 December 2005 and 2006.

As at the date of this report, no audited financial statements have been prepared for the Company and one of its subsidiaries, Wealthy Rise International Limited, since the respective dates of their incorporation as they are newly incorporated and have not been involved in any business transactions, save for the acquisition of the entire equity interests in Youhua and Jingji by the Company on 11 May 2007 and 25 June 2007 respectively.

BASIS OF PREPARATION

The Financial Information has been prepared by the directors of the Company based on the audited financial statements or, where appropriate, unaudited management accounts of the companies now comprising the Group, on the basis set out in section A below, after making such adjustments as are appropriate. Adjustments have been made, for the purpose of this report, to restate the Financial Information to conform with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("SEHK").

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND REPORTING ACCOUNTANTS

The directors of the Company are responsible for the preparation and the true and fair presentation of the Financial Information in accordance with HKFRSs issued by the HKICPA. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Financial Information that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Our responsibility is to form an opinion on the Financial Information based on our audit.

BASIS OF OPINION

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have carried out appropriate audit procedures in respect of the Financial Information for the Relevant Period in accordance with Hong Kong Standards on Auditing issued by the HKICPA and have carried out such additional procedures as we considered necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the reporting accountant" issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the Financial Information is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Information. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the Financial Information, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the Financial Information in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Financial Information.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

We have not audited any financial statements of the companies now comprising the Group in respect of any period subsequent to 30 June 2007.

OPINION

In our opinion, for the purpose of this report, all adjustments considered necessary have been made and the Financial Information, on the basis of presentation set out in section A below, gives a true and fair view of the Group's profits and cash flows for the Relevant Period and of the Group's financial position as at 31 December 2004, 2005 and 2006 and 30 June 2007 and the Company's financial position as at 31 December 2006 and 30 June 2007.

COMPARATIVE FINANCIAL INFORMATION

For the purpose of this report, we have also reviewed the unaudited financial information of the Group including the combined income statement, combined statement of changes in equity and combined cash flow statement for the six months ended 30 June 2006, together with the notes thereto (the "30 June 2006 Corresponding Information"), for which the directors are responsible, in accordance with Statement of Auditing Standards 700 "Engagements to Review Interim Financial Reports" issued by the HKICPA. A review consists principally of making enquiries of Group management and applying analytical procedures to the 30 June 2006 Corresponding Information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the 30 June 2006 Corresponding Information.

On the basis of our review of the 30 June 2006 Corresponding Information, which does not constitute an audit, for the purpose of this report, we are not aware of any material modifications that should be made to the unaudited financial information presented for the six months ended 30 June 2006.

A. BASIS OF PRESENTATION

The Financial Information set out below has been prepared based on the principle of merger accounting in accordance with Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA, as if the transfer of the entire equity interests in the subsidiaries now comprising the Group to the Company had been completed as at the beginning of the Relevant Period because such acquisition should be regarded as a business combination of entities under common control as the Company and the subsidiaries now comprising the Group were all controlled by the same ultimate equity shareholders, before and after the above transfer, except for the acquisition of Youhua during the year ended 31 December 2006. The net assets of the combining companies are consolidated using the existing book values from the ultimate equity shareholders' perspective.

The Financial Information relating to the combined income statements, combined statements of changes in equity and combined cash flow statements of the Group as set out in section B include the results of operations of the companies comprising the Group for the Relevant Period (or where the companies were incorporated/acquired at a date later than 1 January 2004, for the period from the date of incorporation/acquisition to 30 June 2007). The combined balance sheets of the Group as at 31 December 2004, 2005 and 2006 and 30 June 2007 as set out in section B have been prepared to present the combined assets and liabilities of the Group as at those dates.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the Financial Information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised profits but only to the extent that there is no evidence of impairment.

During the year ended 31 December 2006, the Group initially acquired a 12.5% equity interest in Youhua on 12 January 2006 and acquired the remaining 87.5% equity interest in Youhua on 6 September 2006 (section C note 23). The purchase method of accounting is used to account for these acquisitions.

As at 30 June 2007, the Company had direct interests in the following subsidiaries, all of which are private companies and particulars of which are set out below:

Name of company	*Note*	Place and date of incorporation/ operation	Registered/ paid-in capital	Proportion of ownership interest held directly by the Company %	Principal activities	Legal form
上海晶技電子材料有限公司 Shanghai Jingji Electron Material Co., Ltd. ("Jingji")	*i*	The PRC 16 March 1998	Registered and paid-in capital of United States Dollars ("USD") 700,000	100	Processing and trading of polysilicon and monocrystalline silicon	Limited liability company
錦州佑華新能源有限公司 Jinzhou Youhua New Energy Co., Ltd. ("Youhua")	*ii*	The PRC 25 March 2005	Registered and paid-in capital of Renminbi ("RMB") 59,000,000	100	Manufacturing and processing of monocrystalline ingots	Limited liability company
Wealthy Rise International Limited		Hong Kong 21 June 2007	Authorised share capital of HKD10,000 of HKD1.00 each and issued share capital of HKD1	100	Dormant	Limited liability company

Notes:

(i) The statutory financial statements of this subsidiary were audited by Shanghai Shenxin Certified Public Accountants Co., Ltd. (上海申信會計師事務所), a firm of certified public accountants registered in the PRC.

(ii) The statutory financial statements of this subsidiary were audited by Jin Zhou Jia Hua Accountant's Company Ltd. (錦州嘉華會計師事務所), a firm of certified public accountants registered in the PRC.

The Group acquired a 12.5% equity interest in Youhua on 12 January 2006 and acquired the remaining 87.5% equity interest in Youhua on 6 September 2006. Youhua became a wholly-owned subsidiary of the Group on 6 September 2006.

B. FINANCIAL INFORMATION

1. Combined income statements

	section C Note	Years ended 31 December			Six months ended 30 June	
		2004	**2005**	**2006**	**2006**	**2007**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Turnover	*2*	52,630	141,237	262,912	99,021	220,935
Cost of sales		(41,607)	(114,402)	(187,264)	(78,742)	(149,582)
Gross profit		11,023	26,835	75,648	20,279	71,353
Other revenue	*3*	150	160	487	125	566
Other net (loss)/gain	*4*	(29)	(91)	(639)	28	(628)
Selling and distribution expenses		(297)	(430)	(1,126)	(298)	(953)
Administrative expenses		(2,850)	(4,254)	(9,378)	(2,775)	(10,027)
Profit from operations		7,997	22,220	64,992	17,359	60,311
Finance costs	*5(a)*	(150)	(91)	(154)	–	(223)
Profit before taxation	*5*	7,847	22,129	64,838	17,359	60,088
Income tax	*6*	(2,159)	(6,169)	(10,542)	(4,705)	(11,633)
Profit for the year/period		5,688	15,960	54,296	12,654	48,455
Earnings per share (RMB cents)						
– Basic	*8*	N/A	N/A	N/A	N/A	N/A

The accompanying notes form part of the Financial Information.

2. Combined balance sheets

	section C Note	31 December 2004 RMB'000	31 December 2005 RMB'000	31 December 2006 RMB'000	30 June 2007 RMB'000
Non-current assets					
Property, plant and equipment	11	6,650	7,370	23,894	25,127
Prepayments for acquisition of property, plant and equipment		–	–	613	224
Goodwill	12	–	–	3,539	3,539
		6,650	7,370	28,046	28,890
Current assets					
Inventories	13	15,154	36,385	46,303	60,094
Trade and other receivables	14	12,045	31,709	96,817	157,279
Cash and cash equivalents	15	5,946	3,211	35,922	68,479
		33,145	71,305	179,042	285,852
Current liabilities					
Interest-bearing borrowings	16	1,655	–	6,000	15,000
Trade and other payables	17	17,531	38,875	34,253	64,723
Current tax payable	18(a)	1,558	4,789	6,389	8,362
		20,744	43,664	46,642	88,085
Net current assets		12,401	27,641	132,400	197,767
Net assets		19,051	35,011	160,446	226,657
Capital and reserves					
Paid-in/issued capital	21	5,796	5,796	27,796	163,005
Reserves	22	13,255	29,215	132,650	63,652
Total equity		19,051	35,011	160,446	226,657

The accompanying notes form part of the Financial Information.

3. Combined statements of changes in equity

	section C Note	Paid-in/issued capital RMB'000 (Note 21(a))	Share premium RMB'000 (Note 22(a))	Capital reserve RMB'000 (Note 22(b))	Other reserve RMB'000 (Note 22(c))	Surplus reserve RMB'000 (Note 22(d))	Retained earnings RMB'000	Total RMB'000
At 1 January 2004		5,796	–	–	–	1,036	6,531	13,363
Profit for the year		–	–	–	–	–	5,688	5,688
Appropriations	22(d)	–	–	–	–	250	(250)	–
At 31 December 2004		5,796	–	–	–	1,286	11,969	19,051
At 1 January 2005		5,796	–	–	–	1,286	11,969	19,051
Profit for the year		–	–	–	–	–	15,960	15,960
Appropriations	22(d)	–	–	–	–	1,167	(1,167)	–
At 31 December 2005		5,796	–	–	–	2,453	26,762	35,011
At 1 January 2006		5,796	–	–	–	2,453	26,762	35,011
Acquisition of a subsidiary		22,000	–	–	49,139	–	–	71,139
Profit for the year		–	–	–	–	–	54,296	54,296
Appropriations	22(d)	–	–	–	–	8,554	(8,554)	–
At 31 December 2006		27,796	–	–	49,139	11,007	72,504	160,446
(Unaudited)								
At 1 January 2006		5,796	–	–	–	2,453	26,762	35,011
Profit for the period		–	–	–	–	–	12,654	12,654
At 30 June 2006		5,796	–	–	–	2,453	39,416	47,665
At 1 January 2007		27,796	–	–	49,139	11,007	72,504	160,446
Capitalisation of retained earnings	21(b)	37,000	–	–	–	–	(37,000)	–
Arising from the reorganisation	21(c)	82,936	50,171	–	(133,107)	–	–	–
Issue of new shares	21(d)	3,029	–	–	–	–	–	3,029
Allotment of shares	21(e)	12,244	–	2,483	–	–	–	14,727
Profit for the period		–	–	–	–	–	48,455	48,455
At 30 June 2007		163,005	50,171	2,483	(83,968)	11,007	83,959	226,657

The accompanying notes form part of the Financial Information.

4. Combined cash flow statements

	section C Note	Years ended 31 December 2004 RMB'000	2005 RMB'000	2006 RMB'000	Six months ended 30 June 2006 RMB'000 (unaudited)	2007 RMB'000
Operating activities						
Profit before taxation		7,847	22,129	64,838	17,359	62,571
Adjustments for:						
– Depreciation		751	815	1,486	463	1,365
– Impairment of property, plant and equipment		–	–	888	888	–
– (Gain)/loss on disposal of property, plant and equipment		–	–	(25)	–	17
– Finance costs		150	91	154	–	223
– Interest income from bank deposits		(15)	(22)	(204)	(59)	(274)
Operating profit before changes in working capital		8,733	23,013	67,137	18,651	63,902
(Increase)/ decrease in inventories		(12,712)	(21,231)	17,192	10,546	(13,791)
Increase in trade and other receivables		(2,664)	(19,664)	(37,635)	(16,743)	(48,218)
Increase/(decrease) in trade and other payables		12,481	21,344	(24,681)	17,984	30,470
Cash generated from operations		5,838	3,462	22,013	30,438	32,363
PRC Enterprise Income Tax paid		(601)	(2,938)	(8,942)	(3,230)	(9,660)
Net cash generated from operating activities		5,237	524	13,071	27,208	22,703
Investing activities						
Payment for the acquisition of property, plant and equipment		(380)	(1,535)	(3,014)	(107)	(2,306)
Proceeds from disposal of property, plant and equipment		–	–	400	–	80
Interest received		15	22	204	59	274
Acquisition of a subsidiary (net cash acquired)	23	–	–	22,204	–	–
Net cash (used in)/ generated from investing activities		(365)	(1,513)	19,794	(48)	(1,952)

		Years ended 31 December			Six months ended 30 June	
	section C Note	**2004** *RMB'000*	**2005** *RMB'000*	**2006** *RMB'000*	**2006** *RMB'000* (unaudited)	**2007** *RMB'000*
Financing activities						
Repayment of bank loans and other borrowings		–	(1,655)	–	–	(6,000)
Proceeds from bank loans and other borrowings		–	–	–	–	15,000
Capital contribution from the ultimate equity shareholders	*21(d)*	–	–	–	–	3,029
Interest paid		(150)	(91)	(154)	–	(223)
Net cash (used in)/ generated from financing activities		(150)	(1,746)	(154)	–	11,806
Net increase/(decrease) in cash and cash equivalents		4,722	(2,735)	32,711	27,160	32,557
Cash and cash equivalents at the beginning of the year/period		1,224	5,946	3,211	3,211	35,922
Cash and cash equivalents at the end of the year/period	*15*	5,946	3,211	35,922	30,371	68,479

Major non-cash transaction

During the year ended 31 December 2006, the Group initially acquired a 12.5% equity interest in Youhua on 12 January 2006 and acquired the remaining 87.5% equity interest in Youhua on 6 September 2006. The total cash consideration for these transactions which amounted to RMB66,752,000 was paid by the ultimate equity shareholders and treated as a non-cash capital contribution.

C. NOTES TO THE FINANCIAL INFORMATION

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The Financial Information has been prepared in accordance with HKFRSs, which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the HKICPA and accounting principles generally accepted in Hong Kong.

The Financial Information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the SEHK.

HKFRS 1, "First-time Adoption of Hong Kong Financial Reporting Standards", has been applied in preparing the Financial Information. The Financial Information is the first set of the Group's Financial Information prepared in accordance with HKFRSs. Reconciliations and a description of the effect of the transition from accounting principles generally accepted in the PRC ("PRC GAAP") to HKFRSs on the Group's total equity as at 1 January 2004 and 31 December 2006 and combined profit of the Group for the year ended 31 December 2006 are set out in note 30.

The accounting policies set out below have been applied consistently to all periods presented in the Financial Information.

(b) Basis of preparation of the Financial Information

The Financial Information comprises the Company and its subsidiaries (together referred to as the "Group").

The Financial Information is presented in RMB, rounded to the nearest thousand, which is the functional and reporting currency of the Group. It is prepared on the historical cost basis except as otherwise stated in the accounting policies as set out below.

The preparation of the Financial Information in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the Financial Information and estimates with a significant risk of material adjustment in the next year are discussed in note 29.

(c) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the Financial Information from the date that control commences until the date that control ceases.

(d) Goodwill

Goodwill represents the excess of the cost of a business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 1(h)(ii)).

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination is recognised immediately in profit or loss.

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(e) Property, plant and equipment

The following items of property, plant and equipment are stated in the balance sheets at cost less accumulated depreciation and impairment losses (see note 1(h)(ii)):

– buildings held for own use which are situated on leasehold land, where the fair value of the building could be measured separately from the fair value of the leasehold land at the inception of the lease (see note 1(g)); and

– other items of plant and equipment.

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write-off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

– Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion.

– Plant and machinery 10 years

– Other fixed assets 5 years

Both the useful life of an asset and its residual value, if any, are reviewed annually.

(f) Construction in progress

Construction in progress is stated at cost less impairment losses (see note 1(h)(ii)).

Cost comprises direct costs of construction. Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all the activities necessary to prepare the asset for its intended use are completed. No depreciation is provided in respect of construction in progress until it is substantially ready for its intended use.

(g) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

(h) Impairment of assets

(i) Impairment of trade and other receivables

For trade and other current receivables and other financial assets carried at cost or amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– construction in progress;

– pre-paid interests in leasehold land classified as being held under an operating lease; and

– goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash flows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(i) Inventories

Inventories are stated at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(j) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 1(h)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts.

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(l) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(m) Trade and other payables

Trade and other payables are initially recognised at fair value. Trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(n) Employee benefits

(i) Short term employee benefits

Salaries, annual bonuses and staff welfare costs are accrued in the period in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their fair values.

(ii) Contributions to defined contribution retirement plans

Contributions to local retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as an expense in profit or loss as incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

(iii) Share based payment

The fair value of shares allotted and issued to employees is recognised as an employee cost to the extent that it exceeds the subscription cost with a corresponding increase in capital reserve within equity. The fair value is measured at grant date using the price to earning multiples valuation method, taking into account the terms and conditions upon which shares were allotted and issued. Where the employees have to meet lock-up conditions before becoming unconditionally entitled to the shares, the total estimated fair value of the shares over the subscription cost is spread over the lock-up period, taking into account the probability that the shares will continue to be held by the employees.

During the lock-up period, the number of shares that is expected to continue to be held by the employees is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualified for recognition as an asset, with a corresponding adjustment to the capital reserve.

(o) Income tax

Income tax for the year represents current tax. Current tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

(p) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(q) Revenue recognition

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the Group and the revenue can be measured reliably.

(i) Sale of goods

Revenue from the sale of goods is recognised in profit or loss when the significant risks and rewards of ownership have been transferred to the buyer. Revenue excludes value added tax and is after deduction of any trade discounts.

(ii) Services rendered

Revenue from services rendered is recognised in profit or loss as and when the services are performed or rendered.

(iii) Interest income

Interest income is recognised in profit or loss as it accrues using the effective interest method.

(iv) Government grants

Government grants are recognised in the balance sheets initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised in profit or loss over the useful life of the asset.

(v) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable.

(r) Translation of foreign currencies

Foreign currency transactions during the period are translated into RMB at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into RMB at the exchange rates ruling at the balance sheet dates. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into RMB at foreign exchange rates ruling at the dates the fair value was determined.

(s) Borrowing costs

Borrowing costs are expensed in profit or loss in the period in which they are incurred.

(t) Pre-operating expenses

Pre-operating expenses are charged to profit or loss as and when incurred.

(u) Related parties

For the purposes of the Financial Information, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals; or

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(v) Segment reporting

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.

2. TURNOVER

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

Turnover mainly 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 Relevant Period is as follows:

	Years ended 31 December			**Six months ended 30 June**	
	2004	**2005**	**2006**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Sales of polysilicon and monocrystalline silicon ingots/wafers	45,515	129,031	250,545	94,124	212,450
Processing services fees	7,115	12,206	12,367	4,897	8,485
	52,630	141,237	262,912	99,021	220,935

3. OTHER REVENUE

	Years ended 31 December			**Six months ended 30 June**	
	2004	**2005**	**2006**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Rental income from an operating sublease	128	134	126	66	69
Interest income from bank deposits	15	22	204	59	274
Government grants	–	–	154	–	223
Others	7	4	3	–	–
	150	160	487	125	566

4. OTHER NET (LOSS)/GAIN

	Years ended 31 December			Six months ended 30 June	
	2004	**2005**	**2006**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Net foreign exchange (loss)/ gain	(29)	(91)	(664)	28	(611)
Gain on disposal of property, plant and equipment	–	–	25	–	(17)
	(29)	(91)	(639)	28	(628)

5. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	Years ended 31 December			Six months ended 30 June	
	2004	**2005**	**2006**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
(a) Finance costs					
Interest on bank loans and other borrowings wholly repayable within five years	150	91	154	–	223
(b) Staff costs					
Contributions to retirement schemes	132	197	316	129	208
Equity-settled share-based payment expenses	–	–	–	–	2,483
Salaries, wages and other benefits	3,431	4,548	8,931	3,037	5,437
	3,563	4,745	9,247	3,166	8,128
(c) Other items					
Depreciation	751	815	1,486	463	1,365
Impairment of property, plant and equipment *(note 11(d))*	–	–	888	888	–
Operating lease charges: –property	320	318	355	78	97
Auditors' remuneration	5	5	7	3	6

6. INCOME TAX IN THE COMBINED INCOME STATEMENTS

(a) Income tax in the combined income statements represents:

	Years ended 31 December			Six months ended 30 June	
	2004	2005	2006	2006	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Current tax – the PRC					
Provision for the year/period	2,166	6,139	10,542	4,705	11,622
(Over)/under-provision in respect of prior years	(7)	30	–	–	11
	2,159	6,169	10,542	4,705	11,633

No provision for Hong Kong Profits Tax has been made as the Group did not have any assessable profits subject to Hong Kong Profits Tax during the Relevant Period.

Pursuant to the rules and regulations of the Cayman Islands, the Group is not subject to any income tax in the Cayman 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 for two years from the first year they record assessable profits and thereafter, they are subject to PRC Enterprise Income Tax at 50% of the applicable income tax rate for the following three years. The subsidiaries in the PRC are registered as production oriented enterprises in Shanghai and Jinzhou, Liaoning Province, both of which are coastal open areas of the PRC which enjoy a preferential PRC Enterprise Income Tax rate of 27% according to the income tax rules and regulations in the PRC.

The first year that Jingji recorded assessable profits was 1999. Accordingly, it was fully subject to the PRC Enterprise Income Tax rate of 27% for the years ended 31 December 2004, 2005 and 2006 and the six months ended 30 June 2006 and 2007.

The first year that Youhua recorded assessable profits was 2005. It was fully exempted from PRC Enterprise Income Tax for the year ended 31 December 2006 and subject to a preferential tax rate of 13.5% for the six months ended 30 June 2007.

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	Years ended 31 December			Six months ended 30 June	
	2004	2005	2006	2006	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Profit before taxation	7,847	22,129	64,838	17,359	60,088
Notional tax on profit before taxation calculated at 27%	2,119	5,975	17,506	4,687	16,224
Effect of non-deductible expenses	47	164	901	18	858
Effect of tax concessions obtained	–	–	(7,865)	–	(5,460)
(Over)/under-provision in prior year	(7)	30	–	–	11
Actual tax expense	2,159	6,169	10,542	4,705	11,633

(c) Corporate Income Tax Law of the PRC

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC ("new tax law") which will take effect on 1 January 2008. The PRC subsidiaries comprising the Group in the Financial Information are registered as production oriented enterprises in Shanghai and Jinzhou, Liaoning Province, both of which are coastal open areas of the PRC and hence enjoy a preferential income tax rate of 27% according to the income tax rules and regulations of the PRC. Starting from 1 January 2008, the standard PRC Enterprise Income Tax rate is 25%. State Council of the PRC passed the implementation guidance ("Implementation Guidance") on 26 December 2007, which set out the details of how the existing preferential income tax rate will be adjusted to the standard rate of 25%. According to the Implementation Guidance, the PRC subsidiaries of the Group, which are eligible for a 100% or 50% relief from PRC Enterprise Income Tax, will continue to enjoy the preferential income tax rate up to the end of the derating period, after which, the 25% standard rate applies. The enactment of the new tax law is not expected to have any financial effect on the amounts accrued in the balance sheets in respect of current tax payable.

Further under the new tax 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, will be subject to withholding tax at the rate of 20% on various types of passive income such as dividends derived from sources in the PRC. The Group has already commenced an assessment on the impact of the new tax law regarding the above mentioned withholding tax but is not yet in a position to state whether the new tax law would have a significant impact on the Group's results of operations and financial position.

7. DIVIDENDS

No dividend has been paid or declared by the Group during the Relevant Period.

8. EARNINGS PER SHARE

No earnings per share information is presented as its inclusion would be hypothetical due to the Reorganisation and the presentation of the results on a combined basis as set out in section A of this report.

9. DIRECTORS' REMUNERATION

The individual amounts of remuneration payable to executive directors of the companies comprising the Group during the Relevant Period are as follows:

	Year ended 31 December 2004				
	Fees	**Basic salaries, allowances and benefits in kind**	**Bonus**	**Retirement scheme contributions**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive director					
Chuang Jen Wen	–	197	20	–	217

	Year ended 31 December 2005				
	Fees	Basic Salaries, allowances and benefits in kind	Bonus	Retirement scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive director					
Chuang Jen Wen	–	237	12	–	249

	Year ended 31 December 2006				
	Fees	Basic salaries, allowances and benefits in kind	Bonus	Retirement scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors					
Chen Wei	–	40	–	–	40
Lu Li	–	17	–	1	18
Chuang Jen Wen	–	263	94	–	357
Total	–	320	94	1	415

	Six months ended 30 June 2006 (unaudited)				
	Fees	Basic salaries, allowances and benefits in kind	Bonus	Retirement scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive director					
Chuang Jen Wen	–	131	47	–	178

	Six months ended 30 June 2007				
	Fees	**Basic salaries, allowances and benefits in kind**	**Bonus**	**Retirement scheme contributions**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors					
Chen Wei	–	60	–	–	60
Lu Li	–	20	–	1	21
Hsu You Yuan	–	161	–	11	172
Wang Chun Wei	–	116	–	8	124
Chuang Jen Wen	–	298	–	12	310
Total	–	655	–	32	687

No director of the companies comprising the Group has waived or agreed to waive any remuneration during the Relevant Period. No remuneration was paid to independent non-executive directors during the Relevant Period.

10. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, one is a director for each of the years ended 31 December 2004, 2005, and 2006 and the six months ended 30 June 2006 and three are directors for the six months ended 30 June 2007, whose emoluments are disclosed in note 9. The aggregate of the emoluments in respect of the remaining individuals are as follows:

	Years ended 31 December			Six months ended 30 June	
	2004	**2005**	**2006**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Basic salaries, allowances and benefits in kind	358	458	659	329	207
Retirement scheme contributions	52	67	121	61	47
	410	525	780	390	254

The emoluments of the remaining four individuals for the years ended 31 December 2004, 2005, 2006 and the six months ended 30 June 2006 and two individuals for the six months ended 30 June 2007 with the highest emoluments are within the band RMB Nil to RMB1,000,000.

During the Relevant Period, no emoluments have been paid by the Group to the directors, senior executives or any of the five highest individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

11. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress	Buildings	Plant, machinery and equipment	Motor vehicles	Furniture and fittings	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost:						
At 1 January 2004	290	3,304	5,139	616	133	9,482
Additions	–	–	85	296	–	381
Transfer	(290)	290	–	–	–	–
At 31 December 2004	–	3,594	5,224	912	133	9,863
Accumulated depreciation:						
At 1 January 2004	–	699	1,451	253	59	2,462
Charge for the year	–	157	465	111	18	751
At 31 December 2004	–	856	1,916	364	77	3,213
Net book value:						
At 31 December 2004	–	2,738	3,308	548	56	6,650
Cost:						
At 1 January 2005	–	3,594	5,224	912	133	9,863
Additions	–	–	1,375	150	10	1,535
At 31 December 2005	–	3,594	6,599	1,062	143	11,398
Accumulated depreciation:						
At 1 January 2005	–	856	1,916	364	77	3,213
Charge for the year	–	162	485	155	13	815
At 31 December 2005	–	1,018	2,401	519	90	4,028
Net book value:						
At 31 December 2005	–	2,576	4,198	543	53	7,370

	Construction in progress	Buildings	Plant, machinery and equipment	Motor vehicles	Furniture and fittings	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost:						
At 1 January 2006	–	3,594	6,599	1,062	143	11,398
Additions						
– Acquisition through business combination *(note 23)*	16	1,298	16,261	301	56	17,932
– others	113	–	1,665	284	339	2,401
Transfer	(129)	129	–	–	–	–
Disposals	–	–	(214)	(301)	–	(515)
At 31 December 2006	–	5,021	24,311	1,346	538	31,216
Accumulated depreciation and impairment:						
At 1 January 2006	–	1,018	2,401	519	90	4,028
Acquisition through business combination *(note 23)*	–	51	979	27	3	1,060
Charge for the year	–	198	1,115	132	41	1,486
Impairment loss *(note 11(d))*	–	–	888	–	–	888
Written back on disposals	–	–	(99)	(41)	–	(140)
At 31 December 2006	–	1,267	5,284	637	134	7,322
Net book value:						
At 31 December 2006	–	3,754	19,027	709	404	23,894
Cost:						
At 1 January 2007	–	5,021	24,311	1,346	538	31,216
Additions	898	644	262	728	163	2,695
Transfer	(200)	200	–	–	–	–
Disposal	–	–	(157)	–	–	(157)
At 30 June 2007	698	5,865	24,416	2,074	701	33,754
Accumulated depreciation and impairment:						
At 1 January 2007	–	1,267	5,284	637	134	7,322
Charge for the period	–	125	1,067	128	45	1,365
Written back on disposal	–	–	(60)	–	–	(60)
At 30 June 2007	–	1,392	6,291	765	179	8,627
Net book value:						
At 30 June 2007	698	4,473	18,125	1,309	522	25,127

(a) All of the Group's property, plant and equipment is located in the PRC.

(b) Certain machinery and equipment is pledged against a bank loan granted to the Group as disclosed in note 16(a).

(c) The Group has yet to obtain property ownership certificates of certain buildings with an aggregate net book value of RMB2,738,000, RMB2,576,000, RMB2,414,000 and RMB3,176,000 as at 31 December 2004, 2005 and 2006 and 30 June 2007 respectively. Notwithstanding this, the directors are of the opinion that the Group owned the beneficial title to these buildings as at 31 December 2004, 2005 and 2006 and 30 June 2007.

(d) During the year ended 31 December 2006, certain equipment was idle and the Group had planned to scrap such equipment. As a result, the Group assessed the recoverable amounts of the equipment. Based on this assessment, the carrying amount of the equipment was written down by RMB888,000 (included in "Administrative expenses"). The estimates of the recoverable amount were based on the equipment's fair value less costs to sell, determined by reference to the recent observable market prices for similar assets within the same industry.

12. GOODWILL

	31 December			30 June
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cost and carrying amount:				
At 1 January	–	–	–	3,539
Acquisition through business combination *(note 23)*	–	–	3,539	–
At 31 December/30 June	–	–	3,539	3,539

Impairment test for cash-generating units containing goodwill

Goodwill is allocated to the Group's cash-generating units ("CGU") identified according to country of operation and business segment as follows:

	31 December 2006	**30 June 2007**
	RMB'000	*RMB'000*
Manufacturing and processing of monocrystalline silicon – the PRC	3,539	3,539

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

Key assumptions used for value-in-use calculation are as follows:

	31 December 2006	**30 June 2007**
	%	*%*
– Gross margin	34%	38%
– Growth rate	10%	10%
– Discount rate	15%	15%

Management determined the budgeted gross margin based on past performance and its expectation for market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the relevant segment.

13. INVENTORIES

(a) Inventories in the combined balance sheets comprise:

	31 December			30 June
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	7,224	34,769	41,660	44,629
Work-in-progress	488	302	1,430	2,408
Finished goods	7,442	1,314	3,213	13,057
	15,154	36,385	46,303	60,094

(b) The analysis of the amount of inventories recognised as an expense is as follows:

	31 December			30 June
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Carrying amount of inventories sold	41,607	114,402	187,264	149,582

14. TRADE AND OTHER RECEIVABLES

	31 December			30 June
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables *(note (a))*	10,377	30,017	72,851	123,475
Other receivables, prepayments and deposits *(note (b))*	1,668	1,692	23,966	33,804
	12,045	31,709	96,817	157,279

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

Included in trade and other receivables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	31 December			30 June
	2004	**2005**	**2006**	**2007**
	'000	*'000*	*'000*	*'000*
United States dollars	USD364	USD506	USD7,440	USD5,407

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

	31 December			30 June
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 month	5,658	23,947	37,199	38,890
1 – 3 months	3,578	2,844	27,577	28,090
3 – 6 months	1,112	3,226	4,352	40,253
6 – 12 months	29	–	3,580	16,200
1 – 2 years	–	–	143	42
	10,377	30,017	72,851	123,475

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

Included in trade receivables are aggregate amounts due from related companies of RMB832,000, RMB1,769,000, RMB54,301,000 and RMB109,895,000 as at 31 December 2004, 2005 and 2006 and 30 June 2007 respectively.

(b) Included in other receivables, prepayments and deposits are prepayments for the purchase of raw materials from related companies of RMB Nil, RMB Nil, RMB500,000 and RMB Nil as at 31 December 2004, 2005 and 2006 and 30 June 2007 respectively.

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

	31 December			30 June
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Less than 1 month past due	785	1,139	535	343
1 to 3 months past due	1,065	1,532	11,368	9,412
3 to 6 months past due	140	458	24	40,790
6 to 12 months past due	31	2	3,723	14,904
	2,021	3,131	15,650	65,449

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 are still considered fully recoverable. The Group does not hold any collateral over these balances.

15. CASH AND CASH EQUIVALENTS

	31 December			30 June
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash at bank and in hand	5,946	3,211	35,922	68,479

Included in cash and cash equivalents are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	31 December						30 June	
	2004		2005		2006		2007	
		'000		*'000*		*'000*		*'000*
New Taiwan dollars	NTD	–	NTD	–	NTD	–	NTD	1,289
United States dollars	USD	–	USD	1	USD	1,105	USD	3,434

In addition, cash and cash equivalents of RMB5,946,000, RMB3,205,000, RMB27,297,000 and RMB41,816,000 at 31 December 2004, 2005 and 2006 and 30 June 2007 are denominated in RMB. RMB is not a freely convertible currency and the remittance of funds out of the PRC is subject to exchange restrictions imposed by the PRC government.

16. INTEREST-BEARING BORROWINGS

The analysis of the carrying amount of interest-bearing borrowings is as follows:

	31 December			30 June
	2004	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Short-term bank loans				
– unsecured	–	–	–	15,000
– secured *(note (a))*	–	–	6,000	–
Loan from a fellow subsidiary *(note (b))*	1,655	–	–	–
	1,655	–	6,000	15,000

Included in interest-bearing borrowings are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	31 December						30 June	
	2004		2005		2006		2007	
		'000		*'000*		*'000*		*'000*
United States dollars	USD	200	USD	–	USD	–	USD	–

(a) At each balance sheet date, the short-term bank loan was repayable within one year and was collateralised and guaranteed as follows:

	31 December			30 June
	2004	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Jointly secured by assets and guaranteed by related parties *(note 24(e))*	–	–	6,000	–

The carrying value of assets secured against the bank loan as at each balance sheet date is analysed as follows:

	31 December			30 June
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Machinery and equipment	–	–	8,656	–

(b) Loan from a fellow subsidiary was unsecured, interest bearing at a fixed rate of 9.08% per annum and with a term of five years from 3 February 2000 to 3 February 2005. The loan was fully repaid during the year ended 31 December 2005.

17. TRADE AND OTHER PAYABLES

	31 December			30 June
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables *(note (a))*	12,103	25,833	24,352	50,285
Other payables and accrued expenses	5,428	13,042	9,901	14,438
	17,531	38,875	34,253	64,723

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

Included in trade and other payables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	31 December						30 June	
		2004		**2005**		**2006**		**2007**
		'000		*'000*		*'000*		*'000*
United States dollars	USD	867	USD	2,665	USD	2,566	USD	6,707
Euros	EUR	–	EUR	–	EUR	12	EUR	–

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

	31 December			30 June
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 month	2,629	5,095	5,595	22,804
1 – 3 months	9,474	20,738	18,757	27,101
3 – 6 months	–	–	–	380
	12,103	25,833	24,352	50,285

Included in trade payables are amounts due to related companies of RMB4,035,000, RMB15,486,000, RMB20,488,000 and RMB36,575,000 at 31 December 2004, 2005 and 2006 and 30 June 2007 respectively.

18. INCOME TAX IN THE COMBINED BALANCE SHEETS

(a) Current taxation in the combined balance sheets represents:

	31 December			30 June
	2004	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Provision for PRC Enterprise Income Tax for the year/period	2,166	6,139	10,542	11,622
Provisional PRC Enterprise Income Tax paid	(608)	(1,350)	(4,153)	(3,260)
PRC Enterprise Income Tax payable	1,558	4,789	6,389	8,362

(b) No deferred taxation has been recognised in the combined balance sheets at each balance sheet date as the Group does not have any significant temporary differences.

19. RETIREMENT BENEFIT SCHEMES

Employees of the Group's PRC subsidiaries are required to participate in defined contribution retirement benefit schemes administered and operated by the respective local municipal governments. The Group's PRC subsidiaries are required to make contributions to the schemes at 22.5%, 22.5%, 20-22.5% and 20-22% of the employees' salaries for the years ended 31 December 2004, 2005 and 2006 and the six months ended 30 June 2007 respectively to fund the retirement benefits of the employees.

The Group is required to participate in defined contribution retirement benefit schemes administered and operated by Bureau of Labour Insurance of Taiwan for employees employed in Taiwan. Under the scheme the employer is required to make contributions to the plan at 6% of the employees' relevant income. Contributions to the plan vest immediately.

The Group also operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordiance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the plan vest immediately.

The Group has no other material obligation for the payment of retirement benefits associated with the schemes beyond the annual contributions described above.

20. EQUITY COMPENSATION BENEFITS

For the purpose of providing compensation to certain senior management and employees (the "Relevant Employees") of the Group and those who have past contribution to the Group (the "Other Relevant Officers") for their past contribution to the development of the Group and/or as an incentive for their future performance, pursuant to the board resolutions of the Company passed on 24 June 2007, the Company allotted and issued, an aggregate of 126,114,814 shares of HK$0.1 each for an aggregate subscription price of HK$12,611,481 (equivalent to RMB12,244,000) to the Relevant Employees and the Other Relevant Officers. Relevant Employees have agreed with Hsu You Yuan, Tan Wenhua and Chiao Ping-hai (the "Relevant Directors"), and the Relevant Directors have undertaken with one another, that the Relevant Directors are entitled to buy back such shares from the Relevant Employees at subscription cost if the Relevant Employees cease to be employed for reasons other than becoming incapacitated by work-inflicted injury which would prevent them from performing their duties, or dying before the end of the relevant lock-up period (the "Return Condition").

Out of the total allotted and issued shares of 126,114,814 shares, 116,961,911 shares issued to the Relevant Employees are subject to the Return Condition. Accordingly, at the end of each financial period, the Group is required to estimate the number of shares which will continue to be held by the original Relevant Employees at the end of the relevant lock-up period and recognise the value of such shares over the subscription cost as an employee expense on a straight-line basis over the relevant lock-up period. Employee expenses as a result of the allotment of such shares subject to Return Condition to the Relevant Employees will be approximately RMB12.5 million, RMB17.0 million, RMB9.0 million, RMB4.8 million and RMB1.9 million for each of the financial years ending 31 December 2007, 2008, 2009, 2010 and 2011, respectively, assuming there is no termination of the Relevant Employees' employment before the end of the relevant vesting period.

In respect of those shares which are not subject to the Return Condition, the value of such shares over the subscription cost recognised as an employee expense for the six months ended 30 June 2007. An amount of RMB2,483,000 (note 5(b)) has been recognised in the profit or loss for the six months ended 30 June 2007.

On 26 June 2007, Solargiga acquired the entire interest of the Group. As shareholders of the Group, the Relevant Employees and the Other Relevant Officers are entitled to subscribe for 114,973 shares of HK$0.1 each of Solargiga for an aggregate consideration of HK$12,611,481 (equivalent to RMB12,244,000). The Return Condition remains applicable to those Relevant Employees to the effect that if the Relevant Employees cease to be employed for reasons other than becoming incapacitated by work-inflicted injury which would prevent them from performing their duties or dying before the end of the relevant lock-up period, the Relevant Directors are entitled to buy back those shares which remain subject to the lock-up period from the Relevant Employees, provided that in the event that a Relevant Employee ceases to be employed within one year after the Listing Date, the Relevant Directors shall not be entitled to buy back the relevant shares until the first anniversary of the Listing Date.

(a) The terms and conditions of the shares granted to the Relevant Employees are as follows:

Date of grant	**Number of Solargiga's share subscribed for**	**Lock-up conditions**
24 June 2007	26,657	1 December 2008
24 June 2007	26,657	1 December 2009
24 June 2007	26,657	1 December 2010
24 June 2007	26,658	1 December 2011

(b) Fair value of shares and assumptions

The fair value of services received in return for shares allotted and issued is measured by reference to the fair value of shares granted. The estimate of the fair values of the shares granted during the six months period ended 30 June 2007 are measured at the grant date using the price to earnings multiples valuation method. The valuation is derived from applying (i) an expected price to earnings multiple of a group of listed companies operating in comparable business, adjusted for the uniqueness of the subject being valued and (ii) the net profit, excluding non-operating income and expenses, of the Group with appropriate adjustments.

Fair value of shares and assumptions

Fair value at measurement date	RMB57.50 million
Expected price to earnings multiple	22.3 times

The price to earnings multiple is determined with reference to comparable listed companies, after discounting for marketability to reflect illiquidity in nature at the grant date.

Shares were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share grants.

21. PAID-IN/ISSUED CAPITAL

(a) For the purpose of this report, paid-in capital at 31 December 2004, 2005 and 2006 represents the aggregate amount of the paid-in capital of the companies comprising the Group as at the respective dates.

On 6 September 2006, the Group obtained control in Youhua and increased the total paid-in capital of the Group by RMB22,000,000.

The issued capital in the Group's combined balance sheet as at 30 June 2007 represents the issued capital of the Company comprising 1,678,954,944 shares of HK$0.1 each (equivalent to RMB163,005,000).

(b) By a resolution passed at a meeting of the board of directors of Youhua on 15 May 2007, Youhua's registered capital was increased from RMB22,000,000 to RMB59,000,000 by capitalising retained earnings of RMB37,000,000. Accordingly, the nominal value of the paid-in capital of Youhua increased by RMB37,000,000 during the six months ended 30 June 2007.

(c) Pursuant to a written resolution of the Company passed on 6 February 2007, the Company acquired Youhua and Jingji by issuing 1,521,640,129 shares of HK$0.1 each (equivalent to RMB147,732,000) and became the holding company of Youhua and Jingji on 11 May 2007 and 25 June 2007 respectively. The difference between the nominal value of the shares of the Company issued and the net assets of Youhua and Jingji acquired of RMB50,171,000 was credited to the share premium account.

(d) By a resolution passed at a meeting of the board of directors of the Company on 6 February 2007, the Company issued of 31,200,000 shares of HK$0.1 each (equivalent to RMB3,029,000) to the ultimate equity shareholders of the Group.

(e) By a resolution passed at a meeting of the board of directors of the Company on 24 June 2007, the Company allotted and issued of 126,114,814 shares of HK$0.1 each (equivalent to RMB12,244,000) to certain employees of the Group.

22. RESERVES

The nature and purpose of reserves are set out below:

(a) Share premium

The application of the share premium account is governed by the Companies Law of the Cayman Islands.

(b) Capital reserve

Capital reserve relates to the equity-settled share-based payment expenses (note 5(b)), which is resulted from allotment and issue of employee shares, details of which are specified in note 20.

(c) Other reserve

During the year ended 31 December 2006, the ultimate equity shareholders acquired the entire equity interest in Youhua. The difference between the consideration paid by the ultimate equity shareholders to acquire the entire equity interest in Youhua over the nominal value of Youhua's paid-in capital and a 12.5% share of the changes in Youhua's total equity during the period from 12 January 2006 to 5 September 2006 were credited to other reserve.

Pursuant to a written resolution of the Company passed on 6 February 2007, the Company obtained the entire equity interests in Youhua and Jingji and became the holding company of Youhua and Jingji on 11 May 2007 and 25 June 2007 respectively. The difference between the nominal value of issued share capital and the share premium of the Company over the nominal value of the paid-in capital of Youhua and Jingji amounting to RMB133,107,000 was debited to other reserve.

(d) Surplus reserve

The surplus reserve consists of:

(i) General reserve fund

Transfers from retained earnings to the general reserve fund were made in accordance with the articles of association of the Company's subsidiaries and were approved by the respective boards of directors.

For the entity concerned, the general reserve fund can be used to cover previous years' losses, if any, and may be converted into capital in proportion to the equity holders' existing equity holdings, provided that the balance after such conversion is not less than 25% of the registered capital.

(ii) Enterprise expansion fund

Transfers from retained earnings to the enterprise expansion fund were made in accordance with the articles of association of the Company's subsidiaries and were approved by the respective boards of directors.

For the entity concerned, the enterprise expansion fund can be used for business development purposes and for working capital purposes. This fund is non-distributable other than upon liquidation. Transfers to this fund must be made before the distribution of dividends to the equity shareholders.

(e) Distributability of reserves

As at 30 June 2007, the aggregate amount of reserves available for distribution to equity shareholders of the Company was RMB78,468,000 (at 31 December 2006: Nil).

On the basis set out in section A, the aggregate amounts of distributable reserves at 31 December 2004, 2005 and 2006 of the companies comprising the Group were RMB11,969,000, RMB26,762,000, RMB120,843,000 respectively.

(f) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total bank borrowing as shown in the combined balance sheets less cash and bank deposits. Total capital is calculated as shareholders' funds (i.e. total equity attributable to equity shareholders of the Company), as shown in the combined balance sheets, minus net cash.

During the Relevant Period, the Group's strategy was to maintain a gearing ratio below 40%. The gearing ratios as at 31 December 2004, 2005, 2006 and 30 June 2007 were as follows:

	31 December			30 June
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Total bank and other borrowings	1,655	–	6,000	15,000
Less: Cash and bank deposits	(5,946)	(3,211)	(35,922)	(68,479)
Net cash	(4,291)	(3,211)	(29,922)	(53,479)
Shareholders' funds	19,051	35,011	160,446	226,657
Total capital	14,760	31,800	130,524	173,178
Gearing ratio	(29.07%)	(10.10%)	(22.92%)	(30.88%)

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

23. BUSINESS COMBINATION – ACQUISITION OF YOUHUA

During the year ended 31 December 2006, the Group initially acquired a 12.5% equity interest in Youhua on 12 January 2006 and acquired the remaining 87.5% equity interest in Youhua on 6 September 2006. The fair value of Youhua's net assets at the date that the Group obtained control in Youhua on 6 September 2006 was RMB67,600,000.

The acquired subsidiary contributed aggregate revenue of RMB54,235,000 and aggregate net profit of RMB28,022,000 during the period from 6 September 2006 to 31 December 2006. The unaudited pro forma aggregate revenue and net profit of the acquired subsidiary as if the acquisition for the business combination effected during the year ended 31 December 2006 had been at the beginning of that year are RMB133,037,000 and RMB69,919,000 respectively.

The acquisition has the following effect on the Group's assets and liabilities on 6 September 2006:

	Note	Carrying amount RMB'000	Fair value adjustment RMB'000	Fair value RMB'000
Property, plant and equipment	11	16,872	–	16,872
Inventories		24,847	2,912	27,759
Trade and other receivables		27,403	–	27,403
Cash and cash equivalents		22,204	–	22,204
Short-term bank loan		(6,000)	–	(6,000)
Trade and other payables		(20,638)	–	(20,638)
Net assets acquired		64,688	2,912	67,600
Share of the changes in Youhua's total equity	23(a)			(4,387)
Cash consideration paid by the ultimate equity shareholders				(66,752)
Goodwill on acquisition	12, 23(b)			(3,539)
Analysis of the net cash inflow of cash and cash equivalents in respect of the acquisition of Youhua				
Cash and cash equivalents acquired				22,204

(a) The amount represents the attributable share of the changes in Youhua's total equity after the date of acquisition of a 12.5% equity interest in Youhua up to the date the Group obtained control of Youhua.

(b) The goodwill recognised on the acquisition is attributable mainly to the skills and technical talent of the acquired business' work force and the synergies expected to be achieved from integrating Youhua into the Group's existing manufacturing and processing of polysilicon and monocrystalline silicon business.

24. RELATED PARTY TRANSACTIONS

During the Relevant Period, transactions with the following parties are considered as related party transactions:

Name of party	Relationship
譚文華 Tan Wen Hua	Key management of Youhua
合晶科技股份有限公司 (Wafer Works Corp. Group)	Equity shareholder of the Group
漢磊國際有限公司 (Helitek International Company Limited ("Helitek"))	Subsidiary of Wafer Works Corp. Group
錦州昌華碳素制品有限公司 (Jinzhou Changhua Carbon Products Company Limited ("Changhua"))	Significantly influenced by Tan Wen Hua
錦州華昌硅材料有限公司 (Jinzhou Huachang Silicon Material Company Limited ("Huachang"))	Controlled by Tan Wen Hua
錦州華榮物業管理有限公司 (Jinzhou Huarong Property Management Company Limited ("Huarong"))	Controlled by Tan Wen Hua
錦州華新硅材料經營部 (Jinzhou Huaxin Silicon Material Business ("Huaxin"))	Controlled by Tan Wen Hua
錦州輝華碳素制品有限公司 (Jinzhou Huihua Carbon Products Company Limited ("Huihua"))	Controlled by Tan Wen Hua
錦州佑鑫電子材料有限公司 (Jinzhou Youxin Electron Material Company Limited ("Youxin"))	Controlled by the spouse of Tan Wen Hua
錦州陽光能源有限公司 (Jinzhou Yangguang Energy Company Limited ("Yangguang"))	Controlled by Tan Wen Hua
上海合晶硅材料有限公司 (Wafer Works (Shanghai) Corp. ("Wafer Works (SH)"))	Subsidiary of Wafer Works Corp. Group

Particulars of significant transactions between the Group and the above related parties during the Relevant Period are as follows:

(a) Recurring transactions

	Years ended 31 December			Six months ended 30 June	
	2004	**2005**	**2006**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Sales of goods to:					
– Wafer Works Corp. Group	724	3,734	53,635	8,857	78,561
– Wafer Works (SH)	–	777	8,310	–	1,849
– Yangguang	–	–	12,978	–	52,310
	724	4,511	74,923	8,857	132,720
Provision of precessing services to:					
– Wafer Works Corp. Group	3,974	5,263	3,217	2,698	1,228
– Wafer Works (SH)	1,154	2,247	1,368	291	1,169
– Yangguang	–	–	–	–	1,550
	5,128	7,510	4,585	2,989	3,947
Purchases of goods from:					
– Changhua	–	–	246	–	1,296
– Helitek	–	647	5	5	–
– Huihua	–	–	149	–	–
– Wafer Works Corp. Group	17,036	36,175	29,487	12,570	38,722
– Wafer Works (SH)	1,303	16,684	12,912	10,813	38
– Youxin	–	–	2,196	–	3,034
Provision of electricity and water from Huarong	–	–	65	–	37
Receipt of processing services from					
– Yangguang	–	–	21	–	–
– Huachang	–	–	271	–	643
	18,339	53,506	45,352	23,388	43,770

These transactions were conducted at pre-determined prices in accordance with terms mutually agreed between the Group and these related parties. These transactions were conducted on normal commercial terms in the ordinary course of business and the terms, in the opinion of the directors of the Company, are fair and reasonable so far as the shareholders of the Company are concerned.

The directors have confirmed that the above transactions, which will continue in the future after the listing of Solargiga's shares on the SEHK, will be conducted on normal commercial terms in the ordinary course of business.

(b) Non-recurring transactions

	Years ended 31 December			Six months ended 30 June	
	2004	**2005**	**2006**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Disposal of machinery and equipment to					
– Huachang	–	–	260	–	–
– Wafer Works (SH)	100	–	–	–	–

The directors of the Company are of the opinion that the above related party transactions were conducted on normal commercial terms in the ordinary course of business and on terms which were fair and reasonable so far as the shareholders of the Company are concerned.

(c) Amounts due from related parties

	31 December			30 June
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Changhua	–	–	500	–
Wafer Works Corp. Group	832	1,250	32,517	31,482
Wafer Works (SH)	–	519	3,004	467
Yangguang	–	–	18,780	77,946
	832	1,769	54,801	109,895

Amounts due from related parties are unsecured, interest free and are expected to be recovered within one year.

(d) Amounts due to related parties

	31 December			30 June
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Changhua	–	–	–	253
Helitek	12	95	–	–
Huachang	–	–	120	148
Wafer Works Corp. Group	3,207	13,701	17,443	35,379
Wafer Works (SH)	816	1,690	2,925	45
Youxin	–	–	–	750
	4,035	15,486	20,488	36,575

Amounts due to related parties are unsecured, interest free and expected to be settled within one year.

(e) Guarantees

	31 December			30 June
	2004	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial guarantees issued by related parties:				
Joint guarantees issued in favour of banks in respect of a bank loan granted to the Group by Huachang and Tan Wen Hua *(note 16(a))*	–	–	6,000	–

(f) Loan from a fellow subsidiary

Loan from a fellow subsidiary was unsecured, interest bearing at a fixed rate of 9.08% per annum and with a term of five years from 3 February 2000 to 3 February 2005. The loan was fully repaid during the year ended 31 December 2005.

(g) Key management personnel emoluments borne on behalf by a related party

During the Relevant Period, certain key management personnel received compensation in the form of salaries, housing and other allowances, benefits in kind, discretionary bonuses and retirement scheme contributions from the ultimate equity shareholder, Wafer Works Corp. Group, for their services rendered to the Group as follows:

	Years ended 31 December			Six months ended 30 June	
	2004	2005	2006	2006	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Key management personnel emoluments borne on behalf by Wafer Works Corp. Group	731	714	785	356	242

The ultimate equity shareholder did not recharge these expenses to the Group during the Relevant Period. The directors have confirmed that the above transactions will not continue in the future after the listing of Solargiga's shares on the SEHK.

(h) Key management personnel emoluments

Key management personnel receive compensation in the form of salaries, housing and other allowances, benefits in kind, discretionary bonuses and retirement scheme contributions. Details of key management personnel emoluments are disclosed in notes 9 and 10. Total remuneration is included in "staff costs" as disclosed in note 5(b).

25. CAPITAL COMMITMENTS

Capital commitments outstanding at each balance sheet date not provided for in the Financial Information were as follows:

	31 December			30 June
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Authorised and contracted for	–	–	1,185	105

26. OPERATING LEASE COMMITMENTS

(a) At each balance sheet date, the total future minimum lease payments of the Group under non-cancellable operating leases in respect of land and buildings are payable as follows:

	31 December			30 June
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	363	308	34	933
After 1 year but within 5 years	223	245	145	2,539
After 5 years	1,888	1,849	1,812	2,051
	2,474	2,402	1,991	5,523

The Group is the lessee in respect of a number of properties held under operating leases. The leases typically run for an initial period of 1 to 30 years, with an option to renew the lease upon expiry when all terms are renegotiated. None of the leases includes contingent rentals.

(b) As at each balance sheet date, the total future minimum lease payments of the Group under a non-cancellable operating sublease are receivable as follows:

	31 December			30 June
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	100	138	12	–
After 1 year but within 5 years	–	12	–	–
After 5 years	–	–	–	–
	100	150	12	–

The Group subleases out a property under an operating lease. The lease ran for an initial period of 2 years, with an option to renew the lease upon expiry when all terms were renegotiated. The lease does not include any contingent rentals.

27. FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

(a) Credit risk

The Group's credit risk is primarily attributable to cash and cash equivalents and trade and other receivables. Cash and cash equivalents are normally placed with financial institutions that have a sound credit rating and the Group considers the credit risk to be insignificant.

Credit risks and exposures in respect of trade and other receivables are controlled and monitored on an on-going basis by performing credit evaluations on customers on a case-by-case basis. As at the balance sheet dates, the Group has a certain concentration of credit risk as 45%, 28%, 34% and 20% of the total trade and other receivables was due from the Group's largest customer and 67%, 68%, 53% and 70% was due from the five largest customers of the Group as at 31 December 2004, 2005 and 2006 and 30 June 2007 respectively.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. The Group does not provide any guarantees which would expose the Group or the Company to credit risk.

(b) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

(c) Interest rate risk

Effective interest rates and repricing analysis

In respect of interest-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the period in which they reprice or mature, whichever is earlier.

	31 December 2004		
	Effective interest rate per annum	**Total**	**Within 1 year**
	%	*RMB'000*	*RMB'000*
Repricing dates for assets which reprice before maturity			
Cash and cash equivalents	0.72	5,946	5,946
Maturity dates for liabilities which do not reprice before maturity			
Loan from a fellow subsidiary	9.08	(1,655)	(1,655)

	31 December 2005		
	Effective interest rate per annum	**Total**	**Within 1 year**
	%	*RMB'000*	*RMB'000*
Repricing dates for assets which reprice before maturity			
Cash and cash equivalents	0.72	3,211	3,211

	31 December 2006		
	Effective interest rate per annum	**Total**	**Within 1 year**
	%	*RMB'000*	*RMB'000*
Repricing dates for assets which reprice before maturity			
Cash and cash equivalents	0.83	35,922	35,922
Maturity dates for liabilities which do not reprice before maturity			
Short-term secured bank loans	6.34	(6,000)	(6,000)

	30 June 2007		
	Effective interest rate per annum	**Total**	**Within 1 year**
	%	*RMB'000*	*RMB'000*
Repricing dates for assets which reprice before maturity			
Cash and cash equivalents	0.89	68,479	68,479
Maturity dates for liabilities which do not reprice before maturity			
Short-term secured bank loans	6.02	(15,000)	(15,000)

(d) Foreign currency risk

The Group is exposed to foreign currency risk primarily through sales and purchases 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 USD and EUR. The directors do not expect any significant impact from the exchange rate movement since the Group uses the foreign currencies collected from customers to settle the amount due to suppliers. In addition, the directors ensure that the net exposure is kept to an acceptable level by buying or selling USD and EUR at spot rates where necessary to address short-term imbalances.

(e) Supply of raw materials risk

The Group's revenue depends significantly on its ability to obtain sufficient raw materials which meet the Group's specifications. The Group obtains most of its raw materials from a limited number of suppliers. As a result, there is risk that the Group will be unable to secure a sufficient supply of raw materials to meet its planned production output, which may have a material and adverse impact on the revenue of the Group.

(f) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2004, 2005 and 2006 and 30 June 2007.

28. THE COMPANY'S BALANCE SHEET

The balance sheet of the Company as at 31 December 2006 and 30 June 2007 was as follows:

	Note	31 December 2006 RMB'000	30 June 2007 RMB'000
Non-current assets			
Investment in subsidiaries	*(a)*	–	200,386
Property, plant and equipment	*(b)*	–	110
		–	200,496
Current asset			
Trade and other receivables	*(c)*	–	43,369
Cash and cash equivalents	*(d)*	–	1,086
		–	44,455
Current liabilities			
Trade and other payables		–	995
Net current assets		–	43,460
Net assets		–	243,956
Capital and reserves			
Issued capital	*(e)*	–	163,005
Share premium	*(e)*	–	50,171
Capital reserve	*(e)*	–	2,483
Retained earnings		–	28,297
Total equity		–	243,956

(a) Investment in subsidiaries is stated at cost and details of the subsidiaries as at 30 June 2007 are set out in section A.

(b) Property, plant and equipment represents office equipment additions in the six months ended 30 June 2007.

(c) Included in trade and other receivables are share subscription receivables from the Relevant Employees and the Other Relevant Officers of RMB12,244,000 (note 20) and dividend receivable from Youhua of RMB30,111,000.

Included in trade and other receivables are the following amounts denominated in a currency other than the functional currency of the Company:

	31 December 2006 '000	30 June 2007 '000
Renminbi	RMB –	RMB 30,111

(d) Cash and cash equivalents represent cash at bank and cash in hand.

Included in cash and cash equivalents are the following amounts denominated in a currency other than the functional currency of the Company:

	31 December 2006 '000	30 June 2007 '000
New Taiwan dollars	NTD –	NTD 1,289
United States dollars	USD –	USD 82

(e) The Company was incorporated in the Cayman Islands on 15 December 2006 with authorised share capital of 4,000,000,000 shares of the HK$0.1 each. One nil-paid share of HK$0.1 was issued and allotted to Offshore Incorporations (Cayman) Limited, which was transferred to WWIC on the same day.

Pursuant to written resolution of the Company passed on 6 February 2007, the Company obtained the entire equity interests in Youhua and Jingji by issuing 1,521,640,129 shares of HK$0.1 each (equivalent to RMB147,732,000). The difference between the nominal value of the shares of the Company issued and the net assets of Youhua and Jingji acquired of RMB50,171,000 was credited to the share premium account.

By a resolution passed at a meeting of the board of directors of the Company on 6 February 2007, the Company issued of 31,200,000 shares of HK$0.1 each (equivalent to RMB3,029,000) to the ultimate equity shareholders of the Group.

By a resolution passed at a meeting of the board of directors of the Company on 24 June 2007, the Company allotted and issued of 126,114,814 shares of HK$0.1 each (equivalent to RMB12,244,000) to certain employees of the Group. RMB2,483,000 is recognised as the equity-settled share-based payment expenses for the six months ended 30 June 2007, with a corresponding increase in capital reserve.

The holders of shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

29. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

In determining the carrying amounts of certain assets and liabilities, the Group makes assumptions of the effects of uncertain future events on those assets and liabilities as at the balance sheet dates. The Group's estimates and assumptions are based on historical experience and expectations of future events and are reviewed periodically. In addition to assumptions and estimations of future events, judgements are also made during the process of applying the Group's accounting policies.

(a) Useful lives of property, plant and equipment

Property, plant and equipment is depreciated on a straight-line basis over the assets' estimated useful lives, after taking into account the estimated residual value. The Group reviews annually the useful life of an asset and its residual value, if any. Both the period and methods of depreciation are reviewed annually. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

(b) Impairment

In considering the impairment losses that may be required for the Group's property, plant and equipment, construction in progress and goodwill the recoverable amount of the asset needs to be determined. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate the selling price because quoted market prices for these assets may not be readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present values, which requires significant judgement relating to items such as the level of sales volume, selling prices and amount of operating costs. The Group uses all readily available information in determining an amount that is reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of items such as sales volume, selling prices and amount of operating costs.

Impairment losses for bad and doubtful debts are assessed and provided based on the directors' regular review of ageing analyses and the evaluation of collectibility. A considerable level of judgement is exercised by the directors when assessing the credit worthiness and past collection history of each individual customer.

Any increase or decrease in the above impairment losses would affect the net profit in future years.

(c) Valuation of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs to completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in technique and competitor actions in response to adverse industry cycles. Management reassess these estimates at each balance sheet date.

30. FIRST TIME ADOPTION OF HKFRSs

(a) Reconciliation of total equity as at 1 January 2004 (date of transition to HKFRSs):

	RMB'000
Total equity of the Group under PRC GAAP	13,363
Total equity of the Group under HKFRSs	13,363

(b) Reconciliation of total equity as at 31 December 2006 (end of the latest period presented in the most recent annual financial statements under PRC GAAP):

	RMB'000
Total equity of the Group under PRC GAAP	160,446
Total equity of the Group under HKFRSs	160,446

(c) Reconciliation of profit for the year ended 31 December 2006:

	RMB'000
Combined profit for the year under PRC GAAP	57,498
Staff and workers' bonuses and welfare fund costs *(note)*	(3,202)
Combined profit for the year under HKFRSs	54,296

Note: Under PRC GAAP, staff and workers' bonuses and welfare fund costs are treated as an appropriation from profit after taxation. However, under HKFRSs, they are treated as expenses in the combined income statements. Under both PRC GAAP and HKFRSs, the staff and workers' bonuses and welfare fund is classified under current liabilities in the combined balance sheets.

31. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE PERIOD BEGINNING ON 1 JANUARY 2007

Up to the date of issue of the Financial Information, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the accounting period beginning on 1 January 2007 and which have not been adopted in the Financial Information.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

In addition, the following developments may result in new or amended disclosures in the Financial Information:

		Effective for accounting periods beginning on or after
HK(IFRIC) 11	"HKFRS 2 – Group and treasury share transactions"	1 March 2007
HK(IFRIC) 12	"Service concession arrangements"	1 January 2008
HKFRS 8	"Operating segments"	1 January 2009
HKAS 23 (Revised)	"Borrowing costs"	1 January 2009
HK(IFRIC 13)	"Customer loyalty programmes"	1 July 2008
HKAS 1 (Revised)	"Presentation of financial statements"	1 January 2009

32. PARENT AND ULTIMATE HOLDING COMPANY

The directors consider the parent company and ultimate holding company as at 30 June 2007 to be Solargiga, which is incorporated in the Cayman Islands.

D. NON-ADJUSTING POST BALANCE SHEET EVENTS

Valuation of properties

For the purpose of the listing of Solargiga's shares on the SEHK, the properties of the Group were revalued at 30 November 2007 by Vigers Appraisal & Consulting Ltd.

E. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or its subsidiaries in respect of any period subsequent to 30 June 2007.

Yours faithfully,
KPMG
Certified Public Accountants
Hong Kong