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Solargiga Energy Holdings Limited
陽光能源控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 757)

**ANNOUNCEMENT OF INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2021**

FINANCIAL HIGHLIGHTS

- The Group shows a turnaround of the Group's financial position from loss to profit and recorded a profit of RMB120.646 million for the period, which has improved substantially from the loss of RMB42.702 million for the corresponding period of 2020.
- The Group recorded a gross profit of RMB366.134 million and a gross profit margin of 13.0% in the first half of 2021, as compared to a gross profit of RMB279.135 million and a gross profit margin of 10.7% in the corresponding period in 2020, which increased significantly by 31% and 2.3 percentage point respectively.
- During the period, earnings before interest, taxes, depreciation and amortisation was RMB364.042 million, represented a significant increase of 128% from RMB159.634 million for the corresponding period of 2020.
- A significant improvement of profit attributable to the equity shareholders of RMB61.339 million was shown, as compared to a loss attributable to the equity shareholders of RMB54.493 million in the first half of 2020.
- Net cash inflow from operating activities during the period increased from RMB130.920 million in the corresponding period of last year to RMB306.862 million.
- Basic earnings per share amounted to RMB1.86 cents (corresponding period of 2020: RMB1.71 cents loss per share).
- The board of directors of the Company does not recommend the distribution of any interim dividend for the six months ended 30 June 2021 (corresponding period of 2020: Nil).

INTERIM RESULTS

The directors (the “Directors”) of Solargiga Energy Holdings Limited (the “Company”) present herewith the unaudited consolidated interim financial results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2021, together with the comparative figures for the corresponding period in 2020. The interim condensed consolidated financial statements are unaudited but have been reviewed by the Company’s audit committee and the Company’s auditor, Ernst & Young.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS for the six months ended 30 June 2021 — unaudited

		Six months ended 30 June	
		2021	2020
	<i>Notes</i>	RMB’000	RMB’000
Revenue	3	2,820,623	2,599,661
Cost of sales		<u>(2,454,489)</u>	<u>(2,320,526)</u>
Gross profit		366,134	279,135
Other income and gains, net	4	63,239	66,210
Selling and distribution expenses		(58,379)	(63,153)
Administrative expenses		(135,697)	(184,010)
Impairment losses on financial and contract assets, net		(9,314)	(19)
Share of losses of associates		—	(157)
Impairment losses on property, plant and equipment	5	—	(68,587)
Finance costs		<u>(60,763)</u>	<u>(65,742)</u>
Profit/(loss) before tax	5	<u>165,220</u>	<u>(36,323)</u>
Income tax expense	6	<u>(44,574)</u>	<u>(6,379)</u>
Profit/(loss) for the period		<u>120,646</u>	<u>(42,702)</u>
Attributable to:			
Equity holders of the Company		61,339	(54,493)
Non-controlling interests		<u>59,307</u>	<u>11,791</u>
Profit/(loss) for the period		<u>120,646</u>	<u>(42,702)</u>
BASIC AND DILUTED EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY (RMB cents)	7	<u>1.86</u>	<u>(1.71)</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 30 June 2021 — unaudited

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Profit/(loss) for the period	120,646	(42,702)
Other comprehensive income/(loss) for the period, after tax:		
Items that may be reclassified subsequently to profit or loss:		
— Exchange differences on translation of foreign operations	<u>28,491</u>	<u>(3,545)</u>
Total comprehensive income/(loss) for the period, after tax	<u>149,137</u>	<u>(46,247)</u>
Attributable to:		
Equity holders of the Company	89,830	(58,038)
Non-controlling interests	<u>59,307</u>	<u>11,791</u>
Total comprehensive income/(loss) for the period	<u>149,137</u>	<u>(46,247)</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2021

		At 30 June 2021	At 31 December 2020
	<i>Notes</i>	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i> (Audited)
Non-current assets			
Property, plant and equipment	8	1,638,718	1,513,287
Long term prepayments and other receivables		23,445	27,566
Right-of-use assets		197,362	192,449
Equity investments designated at fair value through other comprehensive income		190	190
Deferred tax assets		11,322	9,662
		<u>1,871,037</u>	<u>1,743,154</u>
Current assets			
Inventories		871,222	435,087
Trade and bills receivables	9	1,512,275	1,796,315
Contract assets	10	213,368	131,551
Prepayments, deposits and other receivables	11	623,271	353,163
Current tax recoverable		68	68
Pledged deposits		771,592	686,100
Cash and cash equivalents		370,603	456,265
		<u>4,362,399</u>	<u>3,858,549</u>
Current liabilities			
Interest-bearing borrowings		2,334,421	2,475,519
Trade and bills payables	12	2,011,239	2,011,213
Other payables and accruals	13	504,994	262,323
Contract liabilities		351,095	61,318
Current tax payable		43,000	3,379
Current portion of lease liabilities		7,209	8,564
		<u>5,251,958</u>	<u>4,822,316</u>
Net current liabilities		<u>(889,559)</u>	<u>(963,767)</u>
Total assets less current liabilities		<u>981,478</u>	<u>779,387</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2021 (continued)

		At 30 June 2021	At 31 December 2020
	<i>Note</i>	RMB'000 (Unaudited)	RMB'000 (Audited)
Non-current liabilities			
Interest-bearing borrowings		2,592	4,060
Deferred tax liabilities		3,740	3,777
Deferred income		286,655	239,281
Lease liabilities		42,288	40,786
Other non-current liabilities		156,869	151,487
		<u>492,144</u>	<u>439,391</u>
NET ASSETS		<u>489,334</u>	<u>339,996</u>
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	<i>14</i>	285,924	270,867
Reserves		(28,333)	(130,312)
		<u>257,591</u>	<u>140,555</u>
Non-controlling interests		<u>231,743</u>	<u>199,441</u>
TOTAL EQUITY		<u>489,334</u>	<u>339,996</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
for the six months ended 30 June 2021 — unaudited

	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Cash generated from operations	313,512	138,580
Tax paid	(6,650)	(7,660)
Net cash flows generated from operating activities	306,862	130,920
Net cash flows used in investing activities	(101,738)	(72,966)
Net cash flows used in financing activities	<u>(292,255)</u>	<u>(158,606)</u>
Net decrease in cash and cash equivalents	(87,131)	(100,652)
Effect of foreign exchange rate changes	1,469	2,794
Cash and cash equivalents at 1 January	<u>456,265</u>	<u>396,854</u>
Cash and cash equivalents at 30 June	<u><u>370,603</u></u>	<u><u>298,996</u></u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

1. BASIS OF PREPARATION

These interim condensed consolidated financial statements for the six months ended 30 June 2021 are prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, *Interim Financial Reporting*, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the annual financial statements for the year ended 31 December 2020, which has been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

As at 30 June 2021, the Group’s current liabilities exceeded its current assets by RMB889,559,000. The liquidity of the Group is primarily dependent on its ability to maintain adequate cash flows from operations, to renew its short-term bank loans and to obtain adequate external financing to support its working capital and meet its obligations and commitments when they become due.

The Group has carried out a review of its cash flow forecast for the twelve months ending 30 June 2022. Based on such forecast, the directors believe that adequate sources of liquidity exist to fund the Group’s working capital and capital expenditure requirements, and to meet its short-term debt obligations and other liabilities and commitments as they become due in the twelve months ending 30 June 2022. In preparing the cash flow forecast, management has considered historical cash requirements of the Group, as well as other key factors, including unutilised banking facilities as at 30 June 2021 from the Group’s major banks with an amount of RMB1,596,300,000, which will expire on 31 December 2023.

Based on the above factors, the directors are confident that the Group will have sufficient funding to enable the Group to operate as a going concern and meet its financial obligations as and when they fall due for at least twelve months from the reporting date. Accordingly, the interim consolidated financial statements have been prepared on a going concern basis.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those applied in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2020, except for the adoption of the following revised HKFRSs for the first time for the current period’s financial information.

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	<i>Interest Rate Benchmark Reform — Phase 2</i>
Amendment to HKFRS 16	<i>Covid-19-Related Rent Concessions beyond 30 June 2021 (early adopted)</i>

The nature and impact of the revised HKFRSs are described below:

- (a) Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative risk-free rate (“RFR”). The phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount of financial assets and liabilities when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of HKFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity’s financial instruments and risk management strategy. These amendments had no material impact on the interim condensed consolidated financial statements of the Group.

- (b) Amendment to HKFRS 16 issued in April 2021 extends the availability of the practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic by 12 months (the “2021 Amendment”). Accordingly, the practical expedient applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The amendment is effective retrospectively for annual periods beginning on or after 1 April 2021 with any cumulative effect of initially applying the amendment recognised as an adjustment to the opening balance of retained profits at the beginning of the current accounting period. Earlier application is permitted. The amendment did not have any impact on the financial position and performance of the Group as there were no lease payments reduced or waived by the lessors as a result of the covid-19 pandemic during the period.

3. SEGMENT REPORTING

In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resources allocation and performance assessment, the Group has identified four reportable segments: (i) the manufacture of, trading of, and provision of processing services for monocrystalline silicon solar ingots/wafers, semiconductor and related products ("Segment A"); (ii) the manufacture and trading of photovoltaic modules ("Segment B"); (iii) the manufacture and trading of monocrystalline silicon solar cells ("Segment C"); and (iv) the construction and operation of photovoltaic power plants ("Segment D").

Segment C is no longer engaged in the manufacture of monocrystalline silicon solar cells in the foreseeable future. The remaining business is related to sporadic trading of monocrystalline silicon solar cells.

(a) Segment results, assets and liabilities

For the purpose of assessing segment performance and allocating resources between segments, the Group's most senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the basis as they are presented in the Group's financial statements. Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the period is set out below:

	Six months ended 30 June 2021				
	Segment A <i>RMB'000</i> (Unaudited)	Segment B <i>RMB'000</i> (Unaudited)	Segment C <i>RMB'000</i> (Unaudited)	Segment D <i>RMB'000</i> (Unaudited)	Total <i>RMB'000</i> (Unaudited)
Revenue from external customers	1,152,301	1,634,502	1,146	32,674	2,820,623
Intersegment revenue	269,645	1,653,173	288,933	2,304	2,214,055
Reportable segment revenue	<u>1,421,946</u>	<u>3,287,675</u>	<u>290,079</u>	<u>34,978</u>	<u>5,034,678</u>
Reportable segment profit/(loss)	<u>172,302</u>	<u>(50,691)</u>	<u>(7,375)</u>	<u>6,410</u>	<u>120,646</u>
	As at 30 June 2021				
	Segment A <i>RMB'000</i> (Unaudited)	Segment B <i>RMB'000</i> (Unaudited)	Segment C <i>RMB'000</i> (Unaudited)	Segment D <i>RMB'000</i> (Unaudited)	Total <i>RMB'000</i> (Unaudited)
Reportable segment assets	<u>2,584,080</u>	<u>3,107,321</u>	<u>359,284</u>	<u>182,751</u>	<u>6,233,436</u>
Reportable segment liabilities	<u>2,480,882</u>	<u>2,964,021</u>	<u>195,393</u>	<u>103,806</u>	<u>5,744,102</u>

	Six months ended 30 June 2020				
	Segment A <i>RMB'000</i> (Unaudited)	Segment B <i>RMB'000</i> (Unaudited)	Segment C <i>RMB'000</i> (Unaudited)	Segment D <i>RMB'000</i> (Unaudited)	Total <i>RMB'000</i> (Unaudited)
Revenue from external customers	767,450	1,815,545	13,815	2,851	2,599,661
Intersegment revenue	103,866	775,363	311,531	4,678	1,195,438
Reportable segment revenue	<u>871,316</u>	<u>2,590,908</u>	<u>325,346</u>	<u>7,529</u>	<u>3,795,099</u>
Reportable segment profit/(loss)	<u>18,704</u>	<u>26,499</u>	<u>(85,214)</u>	<u>(2,691)</u>	<u>(42,702)</u>
	As at 31 December 2020				
	Segment A <i>RMB'000</i> (Audited)	Segment B <i>RMB'000</i> (Audited)	Segment C <i>RMB'000</i> (Audited)	Segment D <i>RMB'000</i> (Audited)	Total <i>RMB'000</i> (Audited)
Reportable segment assets	<u>2,214,286</u>	<u>2,805,411</u>	<u>393,364</u>	<u>188,642</u>	<u>5,601,703</u>
Reportable segment liabilities	<u>2,195,720</u>	<u>2,729,005</u>	<u>230,847</u>	<u>106,135</u>	<u>5,261,707</u>

Other segment information:

	Six months ended 30 June									
	Segment A		Segment B		Segment C		Segment D		Total	
	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Interest income from bank deposits	1,220	2,413	1,288	2,010	44	205	21	30	2,573	4,658
Finance costs	(30,853)	(31,812)	(20,316)	(23,359)	(6,241)	(7,273)	(3,353)	(3,298)	(60,763)	(65,742)
Depreciation and amortisation	(90,588)	(78,882)	(46,039)	(41,178)	(1,417)	(10,142)	(15)	(13)	(138,059)	(130,215)
Impairment losses on property, plant and equipment	—	—	—	—	—	(68,587)	—	—	—	(68,587)
Reversal of impairment losses/ (impairment losses) on trade receivables and contract assets	(4,803)	7,268	(7,038)	(6,960)	428	(301)	2,099	(26)	(9,314)	(19)
(Write-down)/reversal of write-down of inventories	—	(1,526)	10,631	(4,519)	—	2,474	—	1	10,631	(3,570)
Capital expenditure	289,772	76,541	12,894	55,508	—	35	—	—	302,666	132,084

- (b) For the six months ended 30 June 2021, revenue from the major customers, each of which amounted to 10% or more of the Group's total revenue, is set out below:

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Customer A		
— From segment B	319,208	298,550
Customer B		
— From segment A	30,466	120,174
— From segment B	561,699	321,654

(c) **Geographic information**

The following table sets out information about the Group's revenue from external customers by geographical location. The geographical location of a customer is based on the location to which the goods were delivered or in which the services were provided.

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Mainland China (place of domicile)	<u>2,410,015</u>	<u>1,916,510</u>
Export sales		
— Japan	358,639	554,771
— South Asia	37,811	93,641
— Europe	14,128	31,991
— Others	<u>30</u>	<u>2,748</u>
Sub-total	<u>410,608</u>	<u>683,151</u>
Total	<u><u>2,820,623</u></u>	<u><u>2,599,661</u></u>

4. OTHER INCOME AND GAINS, NET

	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Other income		
Government grants	37,353	19,008
Interest income from bank deposits	2,573	4,658
	<u>39,926</u>	<u>23,666</u>
Other gains, net		
Net foreign exchange (loss)/gain	(398)	3,172
Net gains on disposal of property, plant and equipment	8,131	1,415
Gain from sales of other materials	8,597	6,219
Others	6,983	31,738
	<u>23,313</u>	<u>42,544</u>

5. PROFIT/(LOSS) BEFORE TAX

The Group's profit/(loss) before tax is arrived at after charging/(crediting):

	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Salaries, wages and other benefits	117,824	105,408
Depreciation of right-of-use assets	6,417	4,193
Depreciation of property, plant and equipment	131,642	126,022
(Reversal of write-down)/write-down of inventories	(10,631)	3,570
Impairment losses on property, plant and equipment	—	68,587
Research and development costs	34,855	98,250
Provision for warranty	5,382	9,534
Impairment losses on trade receivables and contract assets	9,314	19
Gain on disposal of property, plant and equipment	(8,131)	(1,415)
Gain on remeasurement of fair value of investments	—	(1,278)
Cost of inventories sold*	2,407,932	2,167,982
Cost of services rendered*	46,557	152,544
	<u>2,407,932</u>	<u>2,167,982</u>
	<u>46,557</u>	<u>152,544</u>

* Included in cost of inventories sold and cost of services rendered, amounts of RMB216,248,000 and RMB214,780,000 in aggregate for the six months ended 30 June 2021 and 2020, respectively, relating to salaries, wages and other benefits, depreciation and provision for warranty cost which are also included in the respective total amounts disclosed separately above for each of these types of expenses.

6. INCOME TAX EXPENSE

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax – the PRC		
Provision for the period	50,268	18,927
Provision adjustment in respect of prior years	<u>(3,997)</u>	<u>(5,728)</u>
	46,271	13,199
Deferred tax	<u>(1,697)</u>	<u>(6,820)</u>
Income tax expense for the period	<u>44,574</u>	<u>6,379</u>

7. BASIC AND DILUTED EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

(a) Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the earnings attributable to ordinary equity holders of the Company of RMB61,339,000 (six months ended 30 June 2020: loss of RMB54,493,000) and the weighted average of 3,295,925,829 ordinary shares of the Company in issue during the period (six months ended 30 June 2020: 3,180,391,597).

(b) Diluted earnings/(loss) per share

The Company had no dilutive potential ordinary shares in issue for the periods ended 30 June 2021 and 2020.

8. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2021, the Group acquired property, plant and equipment at a total cost of RMB301,605,000 (six months ended 30 June 2020: RMB132,084,000).

Assets with a net book value of RMB44,556,000 were disposed of by the Group during the six months ended 30 June 2021 (six months ended 30 June 2020: RMB11,697,000), resulting in a net gain on disposal of items of property, plant and equipment of RMB8,131,000 (six months ended 30 June 2020: net gain of RMB1,415,000).

9. TRADE AND BILLS RECEIVABLES

	As at 30 June 2021 <i>RMB'000</i> (Unaudited)	As at 31 December 2020 <i>RMB'000</i> (Audited)
Trade receivables	1,161,227	1,240,634
Bills receivable	491,256	686,613
Less: Impairment	<u>(140,208)</u>	<u>(130,932)</u>
	<u>1,512,275</u>	<u>1,796,315</u>

The ageing analysis of trade and bills receivables (net of allowance for doubtful debts) at the end of the reporting period based on the invoice date is as follows:

	As at 30 June 2021 <i>RMB'000</i> (Unaudited)	As at 31 December 2020 <i>RMB'000</i> (Audited)
Within 1 month	844,713	676,716
1 to 3 months	273,799	384,714
4 to 6 months	78,869	241,860
7 to 12 months	188,200	125,352
Over 1 year	<u>126,694</u>	<u>367,673</u>
	<u>1,512,275</u>	<u>1,796,315</u>

The Group normally allows a credit period of 30 to 90 days for its customers. However, regarding domestic photovoltaic module sales, some trade receivables are granted longer credit periods of up to 180 days depending on the construction period of photovoltaic power plants.

As at 30 June 2021, bills receivable amounting to RMB96,955,000 (31 December 2020: RMB260,637,000), together with pledged deposits amounting to RMB677,347,000 (31 December 2020: RMB632,615,000) had been pledged as security to banks for issuing bills payable to suppliers amounting to RMB983,862,000 (31 December 2020: RMB1,112,661,000), and for issuing letters of guarantee amounting to RMB86,261,000 (31 December 2020: RMB19,791,000).

10. CONTRACT ASSETS

	As at 30 June 2021 <i>RMB'000</i> (Unaudited)	As at 31 December 2020 <i>RMB'000</i> (Audited)
Contract assets	213,790	131,935
Less: Impairment	<u>(422)</u>	<u>(384)</u>
	<u>213,368</u>	<u>131,551</u>

11. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 30 June 2021 <i>RMB'000</i> (Unaudited)	As at 31 December 2020 <i>RMB'000</i> (Audited)
Prepayments for raw materials	442,643	186,217
Deductible value-added tax	146,585	143,973
Other receivables	34,043	22,973
Less: Impairment	<u>—</u>	<u>—</u>
	<u>623,271</u>	<u>353,163</u>

12. TRADE AND BILLS PAYABLES

	As at 30 June 2021 <i>RMB'000</i> (Unaudited)	As at 31 December 2020 <i>RMB'000</i> (Audited)
Trade payables	982,945	802,769
Bills payable	<u>1,028,294</u>	<u>1,208,444</u>
	<u>2,011,239</u>	<u>2,011,213</u>

- (a) The ageing analysis of trade and bills payables at the end of the reporting period based on the invoice date is as follows:

	As at 30 June 2021 <i>RMB'000</i> (Unaudited)	As at 31 December 2020 <i>RMB'000</i> (Audited)
Within 1 month	489,640	561,240
1 to 3 months	547,994	589,883
4 to 6 months	661,870	779,100
7 to 12 months	297,530	63,959
Over 1 year	14,205	17,031
	<u>2,011,239</u>	<u>2,011,213</u>

- (b) As at 30 June 2021, the Group's bills payable of RMB983,862,000 (31 December 2020: RMB1,112,661,000) were secured by the Group's bills receivable of RMB96,955,000 (31 December 2020: RMB260,637,000) (Note 9) and by the Group's pledged deposits of RMB677,347,000 (31 December 2020: RMB632,615,000).

13. OTHER PAYABLES AND ACCRUALS

	As at 30 June 2021 <i>RMB'000</i> (Unaudited)	As at 31 December 2020 <i>RMB'000</i> (Audited)
Other payables and accrued expenses	452,284	221,578
Other tax payables	52,144	40,071
Dividends payable	566	674
	<u>504,994</u>	<u>262,323</u>

14. CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

The directors did not recommend the payment of a dividend in respect of the six months ended 30 June 2021 (six months ended 30 June 2020: Nil).

(b) Share capital

The information about the Company's ordinary shares is set out below:

	<i>No. of shares</i>	Amount <i>RMB'000</i>
As at 31 December 2020 (Audited)	3,143,771,133	270,867
Issue of Shares (<i>note</i>)	<u>180,000,000</u>	<u>15,057</u>
As at 30 June 2021 (Unaudited)	<u><u>3,323,771,133</u></u>	<u><u>285,924</u></u>

Note: On 21 January 2021, the Company entered into an agreement with a subscriber, pursuant to which, the Company agreed to allot and issue 180,000,000 subscription shares at the subscription price of HK\$0.29 per subscription share. The total consideration payable by the subscriber under the subscription agreement amounted to HK\$52,200,000, equivalent to RMB41,424,000, among of which, RMB15,057,000 and RMB26,367,000 were recorded in share capital and share premium respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

Market Overview

In the first half of 2021, the global epidemic has been gradually subsiding and economic activities has been resuming in an orderly manner. According to the “Renewable Energy Market Update 2021” released by the International Energy Agency (IEA), it is estimated that the development of solar power generation will continue to break records, and that 145 GW of new photovoltaic installations will be made in 2021 worldwide, representing an increase of 12%. The prediction made in the white paper named “Top Ten Cleantech Trends in 2021” published by IHS Markit, a British information provider, was more optimistic, who estimated that the global photovoltaic new installed capacity in 2021 would be increased by 27% to 181 GW, as compared to 158 GW of 2020. China, the United States, Europe and India are still the key photovoltaic markets in 2021 and China will continue to be the largest market for photovoltaic installation. Although the world is still affected by the mutation of the epidemic virus, various countries have successively introduced environmental protection and new energy policies and laws. The global solar energy industry is expected to maintain positive development and continuous growth in 2021.

2021 is the beginning year of China’s move towards grid parity and the commencement of “14th Five-Year Plan”. At the virtual conference of the Leaders’ Summit on Climate held in April 2021, President of the PRC, Xi Jinping reiterated last year’s commitment to “hit peak emissions” and “carbon neutrality” and said that China will strictly control the growth of coal consumption during the “14th Five-Year Plan” period and decrease coal consumption during the next ten years gradually, which means the demand for new energy in China will rise sharply and the photovoltaic power generation with lower cost will become the focus of development. In May 2021, The National Energy Administration published the “Notice on Matters Relating to the Development and Construction of Wind Power and Photovoltaic Power Generation Projects in 2021” (《關於2021年風電、光伏發電開發建設有關事項的通知》), which stated that wind power and photovoltaic power generation is targeted to reach about 11% of the total electricity consumption in China in 2021, to increase year by year thereafter, and to ensure that non-fossil fuel energy consumption accounted for 20% of primary energy consumption in 2025. According to the announcement made by the National Energy Administration, as of 30 June 2021, the cumulative installed capacity of solar power generation was 268 GW, represented an increase of 24% over the same period of last year, and the newly installed power generation was 13.01 GW, represented an increase of 13% over the same period of last year.

According to the data provided by PVInfoLink, the price of silicon materials as at the end of the first half of 2021 has surged by more than 135% compared to the beginning of the year. PVInfoLink anticipated that the price of polysilicon will remain stable in the short term, and given that there will be an upsurge of installation in the second half of the year, it is expected that there will not be much room for the price of modules to drop. In June 2021, the National Energy Administration issued the “Notice on Submitting the Pilot Scheme for the Development of Distributed Photovoltaics on the Roof of the Entire Counties (Cities, Districts)” (《關於報送整縣(市、區)屋頂分布式光伏開發試點方案的通知》), it set out specific installation targets on governmental departments, public facilities, industrial and commercial buildings and rural houses, based on two key principles, which were “to make photovoltaic installation as much as possible” and “to make grid connection as much as possible”. Since the notice was published, 24 provinces and cities have announced details of their corresponding targets. Distributed photovoltaic installations increased by 7.65 GW in the first half of 2021, representing a growth of 73% as compared to last year, and it is expected that photovoltaic installations for the second half of the year would be further increased. Wang Bohua, the honorary chairman of the China Photovoltaic Industry Association, said that China’s addition photovoltaic capacity in 2021 will reach 55–65 GW.

According to a report jointly issued by Wood Mackenzie Power & Renewables (“**Wood Mackenzie**”) and Solar Energy Industry Association (SEIA), the additional installation of solar power generation in United States was more than 5 GW in the first quarter of 2021, which increased by 46% comparing to the same period of last year. It was the quarter with the largest recorded growth, and the cumulative solar capacity has officially exceeded 100 GW. The data in the first quarter showed that nearly 100% of the additional power generated was renewable energy power, with solar power generation reaching a record high, accounting for 58% of the total additional power generation. Residential solar sales have increased by 11% to 0.905 GW, as compared to last year. Utility-scale sector set a quarterly installations record of 3.6 GW. IHS Markit also predicts that the United States will add more than 20 GW of new solar capacity throughout the year. Since U.S. President Biden took office, in addition to rejoining the Paris Agreement, he also convened a virtual conference of Leaders’ Summit on Climate in April this year, promising to reduce carbon emissions by 50% to 52% by 2030 from the level of 2005, which doubled the previous commitment target, which signifies that the United States will replace fossil fuels with renewable energy in power generation. Moreover, Wood Mackenzie’s anticipated that, the solar investment tax credit (ITC) will continue to be highly influential and will drive record growth and investment. The new installed capacity in the whole year of 2021 is estimated to exceed 22 GW.

SolarPower Europe released the “EU Market Outlook for Solar Power 2020–2024”, it anticipated that the annual new installed capacity of the EU photovoltaic market in 2021 will be between 14.9 GW and 28 GW and the cumulative installed capacity will reach 145.1 GW to 173.1 GW. It is estimated that the top five countries with the highest new installed capacity are Germany, Spain, the Netherlands, France and Poland in order. According to EUPD Research’s annual survey, as of April this year, Germany has raised 2 GW of photovoltaic installations. Together with Germany’s “Federal Climate Change Act” newly passed in May 2021, the annual new photovoltaic installations is forecasted to rise by 23%, reaching 6 GW; whereas France recorded 546 MW of new photovoltaic installations in the first quarter, an increase of 177% year-on-year. Before the virtual conference of Leaders’ Summit on Climate held in April this year, the European Union passed a Temporary Climate Act, promising to reduce carbon emissions by 55% as compared to the level of 1990 by 2030 and set a legally binding target of net zero greenhouse gas emissions by 2050.

In the first half of 2021, the epidemic situation in India was severe. Based on the report by Mercom India Research, although solar power generation in India rose by more than 2 GW, these projects were affected by the epidemic control measures and caused delay in completion, the growth in photovoltaic installations was therefore being hampered in the short-term. Bharat Bhut, co-founder of photovoltaics manufacturer Goldi Solar said that the nationwide photovoltaic installation will slow down in the short term. Given that only 44 GW cumulative installations of renewable energy were made in India at the end of March 2021, it is believed that the plan of having 100 GW cumulative installations of renewable energy before 2022 will be delayed accordingly. However, in the renewable energy country attractiveness index released by a global professional services company, India’s solar sector is expected to grow significantly, and solar photovoltaic power generation will surpass coal before 2040. Therefore, India was once again listed as the most attractive destination for photovoltaic investment and deployment.

Countries around the world have announced their new carbon reduction targets in 2021: the United Kingdom aims to decrease carbon emissions by 78% before 2035; Canadian Prime Minister, Justin Trudeau, has changed the carbon reduction target from reducing 30% by 2030 to 40%–45%; Japanese Prime Minister, Yoshihide Suga, announced a new goal of reducing emissions by 46% by 2030; South Korean President, Moon Jae-in, said that he would stop providing public financing for new coal-fired power plants; Brazil President, Jair Bolsonaro, announced the illegal deforestation of the Amazon rainforest be ended in 2030 and to achieve carbon neutrality in 2050; the United States has released the first International Climate Finance Plan in the world, which will assist developing countries in combating climate crises in the future. In summary, amidst the subsiding epidemic and the recovery of the global economy, the global development of renewable energy continues to grow, among which the development of solar energy is the general trend. We look forward to hearing the signatory parties of the Paris Agreement to formally announce their new emission reduction targets at the United Nations Climate Change Conference in the second half of 2021, which will further establish the foundation for global green and sustainable development and allow all countries to jointly achieve the goal of net zero carbon emissions.

Operations Review

Operations Summary

Non-petrochemical energy has become a new trend of the world. The rapid growth in demand for photovoltaic products in the future would be inevitable. The Group focuses on the manufacturing and sales of upstream monocrystalline silicon ingots, wafers and downstream photovoltaic modules in the photovoltaic industry. Our major customers of monocrystalline silicon ingots and wafers are large midstream solar cell manufacturers and our major customers of photovoltaic modules are large domestic state-owned enterprises in PRC, multinational corporations and other photovoltaic end-user customers. Moreover, the Group is engaged in and provides the installation of photovoltaic systems and the development, design, construction, operation and maintenance of photovoltaic generation plants.

As the first batch of domestic photovoltaic enterprises engaged in the production of czochralski monocrystalline silicon ingots, through 20 years of experience in manufacturing monocrystalline silicon ingot, the Group now has accumulated mature experience in terms of technology, domestic and overseas market development, industrial chain cooperation, brand effect, etc.. Subsidiaries of the Group have obtained 150 National patents, 28 provincial and municipal science and technology first prizes, second prizes, achievement awards, are awarded titles of: National high-tech enterprise, National green factory, Global Top 500 New Energy Companies (No.228), Top 100 New Energy Companies Global Competitiveness (No.92), Top 500 PRC Energy Group Companies (No.314), Top 20 PRC PV Module Companies in 2020 (No.11). The Group is the vice chairman unit of PRC Photovoltaic Industry Association, standing council unit of China Electronic Materials Industry Association and expert member of Photovoltaic Professional Committee of China Renewable Energy Society. The Group is also the first in the world to be SHARP's largest OEM processing services partner for photovoltaic module for 8 consecutive years, the OEM for the State Power Investment Group (one of the five major power generation groups all year round), the major supplier of double-sided double glass modules in the 2018 Front Runner Plan and the major module supplier for the power configuration project of the UHV transmission base in Hainan, Qinghai Province, a national key project in 2019.

Currently, the Group has set its “one base, three wings” layout strategy, with Jinzhou in Liaoning as the base, Qujing in Yunnan and Yancheng in Jiangsu as two side wings, Xining in Qinghai as the tail wing. As at the end of June 2021, as a result of the high-efficiency and high production capacity layout, the total annual production capacity of our production bases were 6.05 GW of monocrystalline silicon ingot, 2.90 GW of monocrystalline silicon wafers, and 4 GW of modules. The Group has been starting to demonstrate stronger comprehensive competitiveness and further increase the market share of products.

Silicon ingot and wafer business

The Group is one of the earliest enterprises in PRC to invest in the production of monocrystalline silicon ingots and wafers. At present, monocrystalline silicon ingot products are mostly used for the internal production of monocrystalline silicon wafers within the Group, and less engaged in external sales. Monocrystalline silicon wafer products of the Group are mostly sold to third-party large professional solar cell manufacturers. During the period, since monocrystalline products are advantageous over multicrystalline products in photovoltaic power generation, the market share of monocrystalline products has continued to increase rapidly. As such, demand for monocrystalline silicon wafers of the Group has continued to increase. With the continuing realisation of advantages such as the relating high potential for improvement in conversion efficiency of monocrystalline products and continuing reduction in unit costs due to improving technology, the monocrystalline technology, which has been the focus of the Group in the past two decades, has officially defeated that of multicrystalline and became the only mainstream in the market.

Apart from the traditional monocrystalline P-type products, the Group has monocrystalline N-type products with higher conversion efficiencies. Currently, photovoltaic cells are mainly produced by PERC (Passivated Emitter and Rear Cell) and PERC+ technology with P-type silicon wafer base. TOPCON cells and heterojunction HJT cells with monocrystalline N-type silicon wafer base are expected to become the mainstream of next-generation photovoltaic cells. The Group has many years of experience in joint research and development with large multinational corporate customers. The Group has accomplished technical breakthrough and product marketisation of monocrystalline N-type silicon ingot at an earlier time. N-type silicon ingots and wafers have also been supplied to domestic and foreign customers at an earlier time, and N-type ingots are in a leading position in the industry in respect of various indicators.

During the period, since most of the monocrystalline silicon ingot products have been reserved for internal use, the external shipment volume of monocrystalline silicon ingots was only 280.8 MW (217.3 MW in the first half of 2020). External shipment volume of monocrystalline silicon wafers increased significantly to 1,961.1 MW (1,435.6 MW in the first half of 2020), representing an increase of over 37%. Major customers of external sales included TW Solar Group (通威太陽能集團), Sumin New Energy Group (蘇民新能源集團), Shangrao Jietai New Energy Technology Co., Ltd. (上饒捷泰新能源科技有限公司), Aiko Solar Energy Technology Co., Ltd (愛旭太陽能科技有限公司) and huge state-owned enterprises in China, such as Huanghe Hydropower Development Co., Ltd. (黃河上游水電開發有限責任公司) (“Qinghai SPI”).

The Group's monocrystalline silicon ingot and monocrystalline silicon wafer located in Qujing, Yunnan, the PRC with annual production capacity of 0.9 GW project has carried out mass production since this period. As the investment in Qujing, Yunnan not only enjoys various preferential investment policies from the local government, but more importantly, the local electricity cost, being the major manufacturing cost of ingot-pulling, is also lower than that at previous major production base in Jinzhou, Liaoning, by more than 50%, which would strengthen the improvement of the Group's overall gross profit margin. Therefore, the Group will continue to expand the production capacity of monocrystalline silicon ingot and monocrystalline silicon wafers in Qujing, Yunnan under the rapid growth of customer demand. As of the end of June 2021, the annual production capacity of monocrystalline silicon ingots in Qujing, Yunnan, has increased significantly to 3.5 GW from 0.9 GW at the beginning of the year, and the annual production capacity of monocrystalline silicon wafers has also increased significantly to 1.3 GW from 0.9 GW at the beginning of the year. This low-cost and high-efficiency productivity advantages has significantly increased the gross profit margin of the Group's monocrystalline silicon ingots and silicon wafers in the first half of the year. It is expected that by the end of 2021, the annual production capacity of monocrystalline silicon ingot and silicon wafers in Qujing, Yunnan would be increased to 6 GW and 3 GW respectively, representing 70% of the Group's total annual production capacity of monocrystalline silicon ingots of 8.55 GW and 65% of the group's total annual production capacity of monocrystalline silicon wafers of 4.60 GW, respectively. With the substantial release of this low-cost and high-efficiency production capacity, not only the gross profit margin would continue to boost up in the future, but also the Group's technological advantages could be fully utilised.

Module businesses

In order to concentrate resources to develop other more niche products, the Group has adjusted its operating strategy by no longer manufacturing solar cells since last year, but instead manufacturing upstream monocrystalline silicon wafers (ingot) and downstream modules as dual major products.

The Group has engaged in module production since 2009, and has accumulated rich experience and advanced production technology in monocrystalline module production. The P-type PERC module of the monocrystalline products that the Group focuses on has not only become the mainstream in the market, but it also further expanded and strengthened the development and sales of monocrystalline silicon high-efficiency module products such as P-type double-sided double glass modules, half-cell photovoltaic modules, multi busbar cell module, and other high-end products.

The current main base of the Group for monocrystalline module production is located in Yancheng, Jiangsu. In addition to the various preferential investment policies from the local government, the Company could take the advantage of significantly lowering the investment in capital expenditure by renting plant buildings. Moreover, the area around the Yangtze River Delta is an agglomeration area for the supply of raw and auxiliary materials which provides advantage in terms of procurement. In order to meet the needs of module customers, the Group continues to expand module production capacity in Yancheng, Jiangsu, to further strengthen the economic scale advantage of module products. As of the end of June 2021, the module production capacity of Yancheng, Jiangsu was 1.5 GW, while the total module production capacity of the Group was 4 GW. It is expected that by the end of 2021, the production capacity of Yancheng, Jiangsu would be significantly increased to 5.7 GW, which would also drive the Group's overall module production capacity to 8.2 GW.

External sales of modules were mainly made to large state-owned enterprises and international multinational enterprises, such as State Power Investment Corporation (中國國家電力投資集團公司) (“SPIC”), SHARP Corporation (“SHARP”), Xinyi Glass Holdings Limited and Xinyi Solar Group (信義玻璃與信義光能集團), Suntech Power Holdings Co., Ltd. (無錫尚德太陽能電力有限公司), Sungrow Power Supply Co., Ltd (陽光電源股份有限公司), CGN New Energy Holdings Co., Ltd. (中國廣核新能源控股有限公司) and SANSHIN ELECTRONICS CO., LTD. etc.. The Group has been SHARP's largest processing services partner for photovoltaic module for eight consecutive years and has been cooperating in continually expanding module sales for foreign customers.

The Group focuses on the manufacturing of monocrystalline silicon photovoltaic products. Currently, proportion of sales of the Group's monocrystalline silicon photovoltaic modules has reached over 95%. Further, the Group has also introduced in SHARP's global leading 40-year quality assurance system for photovoltaic products. The quality of the products is stable and reliable, which could bring long-term and stable income to end-user owners.

Construction and operation of photovoltaic system business

The Group has been actively expanding the end-user power plants construction and application business apart from devoting its efforts in stabilising the development of its manufacturing business, which not only drives the sales of module products in a bottom-up manner, but also it would spread the profit of construction and operation of photovoltaic system businesses so as to improve the overall profitability of the Group. As such, besides establishing internal photovoltaic power plant system by wholly owned subsidiaries, the Group also plans to establish joint venture companies with companies from other industries. The Group's photovoltaic system business includes traditional distributed power station EPC business, Building Applied Photovoltaics (BAPV) business and Building Integrated Photovoltaics (BIPV) business. Against the policy background of the PRC government's vigorous advocacy of “hit peak emissions” and

“carbon neutrality” and the construction of “green buildings” and “zero energy buildings”, given the current huge building volume in the PRC, it is anticipated that BIPV business would have broad development prospects and become a new development hotspot in the photovoltaic industry.

Relying on the rich technological experience accumulated in the photovoltaic industry, the Group is carrying out a series of research and development projects in cooperation with Shenyang Jianzhu University, the National Housing and Residential Environment Engineering Technology Research Center and other institutions, of which four series of BIPV products have passed CCC certification, CQC certification, and GB8624–2012 building materials and products combustion performance test certification. The Group expects that with the continuous development of BIPV business, the photovoltaic system construction and application business would have further growth.

Operation Strategy

As a clean energy source, photovoltaic power generation had to rely on government subsidies to compete with the selling price of traditional petrochemical energy in the past. If production costs can be reduced and be competitive in the market without government subsidies, photovoltaic power generation may lead to a widespread application. As such, with the rapid advancement of photovoltaic production technology in the past ten years, the production cost per watt of power generation has dropped sharply. Strictly speaking, the current photovoltaic application has reached the target of grid parity, and explosive sales growth is foreseeable in the future. In the premises, production related equipment also needs to be upgraded or added in order to be in line with technological development. Therefore, since 2018, the Group has continued to invest in upgrading and transforming existing production capacity and invest in low-cost, high-efficiency new production capacity, despite the operational pressure of high procurement costs due to the long-term purchase contracts for high-priced polysilicon materials. Also, ageing production capacity had been eliminated. The upgrading, adjustment and elimination of production equipment during that period led to the increase in production costs and expenses of the Group. Thus, the operating performance was less satisfactory. However, the Group had finally passed the painful period. In addition to the implementation of the long-term contract for high-priced polysilicon purchases have been fully completed, mass output by comprehensive upgrade of production capacity and new high-efficiency production capacity have also been realised. As of the end of June 2021, the annual production capacity of monocrystalline silicon ingot of the Group was 6.05 GW, monocrystalline silicon wafer capacity was 2.9 GW, and module production capacity was 4 GW.

The major concern for the aforementioned monocrystalline silicon wafer production capacity being less than that of monocrystalline silicon ingot, is that: the types of photovoltaic products were originally divided into two types of technologies, monocrystalline and multicrystalline, for many years. The production methods of their corresponding monocrystalline silicon ingots and multicrystalline silicon ingots are

different. With the conversion efficiency improvement of monocrystalline silicon products and the ability of continuously reducing production costs becoming clearer and more feasible, the market share of multicrystalline technology has been quickly replaced by the monocrystalline technology. Yet, although monocrystalline silicon ingot and multicrystalline silicon ingots are completely different, the production capacity of monocrystalline silicon wafers and polycrystalline silicon wafers that are subsequently manufactured by monocrystalline and multicrystalline silicon ingot could be interchangeable. Therefore the production capacity of multicrystalline slicing with multicrystalline silicon ingots has been greatly released. Hence, the difference in the production capacity of the Group's monocrystalline silicon ingots and that of monocrystalline silicon wafers will be compensated by third-party processing service providers that have already released those multicrystalline slicing capacity. As a result, the Group could focus on its limited resources on the development of monocrystalline wafer (ingots) and module of dual niche products.

By adopting a dual-core products strategy of continuous development of upstream monocrystalline silicon ingots and wafer product as well as downstream module products, the Group effectively utilises its existing resources. Regarding the production of upstream monocrystalline silicon ingot and wafer products, the gross profit margin driven by its production efficiency has increased significantly during the period. Regarding the downstream photovoltaic modules, since our photovoltaic module customers are mostly domestic state-owned enterprises or large multinational corporations, the market position and strength possessed by these module customers are the strongest in the overall photovoltaic industry chain. Therefore, the Group has established a direct supply relationship with large module customers through significant module production capacity, which maintains a more stable terminal product estuary.

Operating Performance

In recent years, the Group has been constrained by numerous factors, such as performing long-term contracts for the purchase of high-priced polysilicon materials, which led to unsatisfactory performance of the Group in recent years. As the Group gradually got rid of these unfavorable factors, coupled with the economic scale of high-efficiency production capacity, the Group has successfully turned from loss to profit during the period and was back on the profitable track. Revenue increased from RMB2,599.661 million in the same period last year to RMB2,820.623 million during the period, representing a growth rate of approximately 8%. The total shipments of major products, monocrystalline silicon ingots and wafers, increased from 1,652.9 MW in the same period last year to 2,241.9 MW during the period, representing a growth rate of 36%. The shipment volume of another major product, photovoltaic modules, decreased slightly from 1,185.8 MW in the same period last year to 1,085.9 MW during the period, representing a decrease of approximately 8%. For the period ended 30 June 2021, the profit for the period was RMB120.646 million (the first half of 2020: loss for the period was RMB42.702 million), which was officially a turnaround from loss to profit.

During the period, market demand for monocrystalline silicon ingots and wafers continued to rise and the Group's high-efficiency production capacity has been greatly released, thus, the shipment volume increased significantly. For photovoltaic module products, in the first half of this year, the cost of raw and auxiliary materials for the production of photovoltaic modules continued the trend of irrational increase since the second half of 2020. This led to increase of purchase cost of the Group for raw and auxiliary materials. This also subsequently caused unsmooth production and sales of modules. As a result, the external shipments of modules declined during the period and failed to experience a significant growth as compared to the same period last year. In addition, during the period, some module orders were signed before the price of raw and auxiliary materials rose, and most of the sales unit prices of such orders had already been fixed. For the above reasons, the operating performance of module products was not as expected. However, as the supply and demand relationship of raw and auxiliary materials for module production gradually resume to normal, and the newly signed module orders could transfer the price risk of the raw and auxiliary materials to customers, it is expected that shipment volume of modules will increase significantly with the expansion of production capacity, and profitability could also be greatly improved.

The Group officially stepped out of loss and turned to profit, not only due to the external environment of supply and demand and the release of low-cost and high-efficiency production capacity, but also it is necessary to maintain leading technology in the ever-advancing photovoltaic industry to build up a cost advantage in order to continuously make profits. The Group has gained success in research and development in recent years, and has overcome various production bottlenecks. The Group has successfully incorporated the most advanced production technologies into mass production, such that the production costs of our various product lines have significantly decreased, and the overall gross profit margin has hence increased. For example, in the production of monocrystalline silicon ingots, from 20 years of accumulated technology advantages, we have mastered a number of leading technologies for monocrystalline silicon ingots and silicon wafer production, such as the fast closing technology used in the production of monocrystalline silicon ingot which could shorten the closing time by 70%, the increase of growth rate of monocrystalline silicon ingot from 1.25mm/min to 2.0mm/min through the transformation and upgrading of the water cooling device, the long-life quartz crucible developed in cooperation with suppliers could be used for up to 500 hours, the RCZ production process which could draw 9 ingots in one pot, etc.. Various advanced production technologies significantly reduced production costs and ensured product quality and stability is in a leading position in the industry. Furthermore, for high quality N-type silicon wafers required for the next-generation N-type cell, the Group has also reached the technical position and accomplished marketisation ahead, and has achieved the development direction of leading N-type crystalline silicon products which could readily meet the market demands for shipment in large quantities at any time.

For the monocrystalline modules, apart from the mainstream P-type PERC monocrystalline modules, the Group devoted to the development and sales of monocrystalline high-efficiency module products, such as P-type double-sided double glass modules, half-cell photovoltaic modules, multi busbar cell module, and related high-end products. In particular, BS module products of N-type monocrystalline IBC cell uses the internationally leading and the first domestic FPC module packaging technology, and is in the leading position in the industry. Having a black surface with beautiful design, the products are uniquely produced as rectangular, square, triangular and other special-shaped modules. It could be connected to each other with perfectly matching roof shape to achieve efficient use of space, representing highest-end product of roof modules. The FPC packaging technology of BS modules is still the packaging process with the world's highest precision. It is the benchmark for the monocrystalline N-type IBC cell modules products, leading the monocrystalline N-type cell module industry packaging technology for 3 to 5 years. Besides, the module production line of the Group can also produce multi-busbar half-cell double-sided double glass of 182mm and 210mm large-size modules which the conversion could reach more than 600 watts. In addition, the related equipment automated intelligence and packaging technology are in the leading position in the industry. According to the analysis of the recent bidding in China's photovoltaic market, 182mm and above photovoltaic modules accounted for more than two-third of the bidding product specifications. Since the Group's monocrystalline silicon ingot, monocrystalline silicon wafer and photovoltaic module production lines can all produce large-size scarce products such as 182mm and 210mm products, they could further enhance the Group's ability to increase the selling price and provide opportunity for a substantial increase in gross profit margin. Moreover, the Group is also carrying out a number of research projects for G12 and BIPV products, aiming to upgrade the mass production technology of large-size module products and BIPV products, so as to expand the market sales of corresponding products. Other production technology research and development for frame design, junction box and tin block design, packaging material optimization, packaging method optimization, cell thickness optimization, etc. are also expected to continuously reduce production cost of module products.

Looking ahead, given (a) leading technological cost advantages and large-size product lines with higher bargaining power, the Group will be able to increase the market share and further drive a significant increase in gross profit margin; (b) the major production base with a lower electricity costs and more favorable production environment with policy support, the Group would be able to significantly reduce the production cost; (c) the Group continues to expand low-cost, high-efficiency new production capacity, and the existing production capacity has also been upgraded and transformed, which can further demonstrate the advantages of economic scale; (d) the long-standing diversified and accumulated technological advantages of various product lines; and (e) the strong client base in PRC and overseas, with increasing demand from new and old customers, it is expected that the Group's external shipments and revenue would continue to grow, and the production costs would decrease more than the selling prices. Total gross profit and gross profit margin performance would be further improved significantly.

Financial Review

Revenue

In order to replace traditional energy on a large scale, as a clean energy, it is essential to reduce the production cost of photovoltaic power generation through continuous technological advancement, hence continually lowering the sales unit price of photovoltaic power. When photovoltaic power generation finally does not need to rely on government subsidies, the demand for photovoltaic power generation will grow significantly. The revenue of the Group increased by 8% from RMB2,599.661 million in the first half of 2020 to RMB2,820.623 million for the period. The growth in external shipment volume for the period is even better, with a growth of 16% compared to the same period last year. The growth in revenue and external shipment volume are mainly attributed to the significant increase in sales and shipment volume of monocrystalline silicon wafers. For another major product of the Group, photovoltaic modules, the cost of raw and auxiliary material has increased irrationally since the second half of 2020, leading to an increase in production cost and the sales performance was not as smooth as expected. Therefore, the sales amount and external shipment volume and derived from photovoltaic modules has dropped and failed to experience a significant growth as compared to the same period of last year. As the supply and demand relationship of raw and auxiliary materials for photovoltaic modules gradually resumes to normal, it is expected that the sales amount of photovoltaic modules and the external shipments volume will increase significantly with the expansion of production capacity.

Cost of sales

Cost of sales for the period has increased from RMB2,320.526 million in the first half of last year to RMB2,454.489 million. The cost of sales for the period accounted for 87.0% of total revenue and representing a decrease of 2.3% from 89.3% of the corresponding period of 2020. The decrease in this ratio was mainly due to the production base of monocrystalline silicon ingots and wafers being officially shifted to Qujing, Yunnan. The cost of electricity, being the major manufacturing cost, in Qujing, Yunnan, only accounted for approximately 50% of that in previous major production base in Jinzhou, Liaoning. Together with the supportive policy from the local government, the economic advantages from such high-efficient capacity was demonstrated. However, as mentioned above, the cost of raw material has increased irrationally since the second half of 2020, and the ensuing increase in cost of purchasing goods has led to a higher cost-to-revenue ratio. It is expected that when the supply and demand relationship for raw material of photovoltaic modules gradually resume to normal, the cost-to-revenue ratio would be further lowered.

Gross profit and gross profit margin

The Group recorded a gross profit of RMB366.134 million and a gross profit margin of 13.0% in the first half of 2021, as compared to a gross profit of RMB279.135 million and a gross profit margin of 10.7% in the corresponding period in 2020, which increased significantly by 31% and 2.3% respectively. The growth was mainly attributed to the 55% increase from the corresponding period last year in sales of the Group's major product, monocrystalline solar wafers, the gross profit margin of which was higher than other products. However, as mentioned above, the raw and auxiliary material cost of photovoltaic modules, another major product of the Group, has increased irrationally, causing the subsequent production and sales performance of modules not as smooth as expected. In addition, during the period, some module orders were signed before the price of raw and auxiliary materials rose, and most of the sales unit prices of such orders had already been fixed. For the above reasons, the operating performance of module products was not as expected. Nevertheless, as the supply-demand relationship of raw and auxiliary materials for modules gradually resume to normal, and the risk of price of raw and auxiliary materials could be passed to customers on newly signed module orders, it is estimated that the shipment volume of photovoltaic modules will increase significantly with the expansion of production capacity. Gross profit and gross profit margin performance will be further improved.

Selling and distribution expenses

Selling and distribution expenses mainly comprised freight charges, packaging expenses and insurance expenses. Although there was an increase in external shipment volume, the selling and distribution expenses was decreased from RMB63.153 million in the first half of 2020 to RMB58.379 million for the period. The selling and distribution expenses was higher in the first half of 2020, mainly due to the increase in shipment cost and relevant charges and expenses as a result of the outbreak of COVID-19. As the global epidemic gradually subsided during the period, together with an effective planning and control on such expenses by the Group, selling expenses for the period decreased.

Administrative expenses

Administrative expenses mainly comprised staff costs, research and development expenses and daily office expenses. The administrative expenses for the period amounted to RMB135.697 million, as compared to RMB184.010 million from the corresponding period of 2020. The decrease was mainly due to larger sum of research and development expenses invested in the first half of 2020.

Finance costs

Finance costs represented mainly bank loan interests. The Group's finance costs decreased from RMB65.742 million in the first half of 2020 to RMB60.763 million for the period, represented an decrease of 8%. The Group continued to invest in acquiring equipment for high-efficient production capacity and purchasing raw and auxiliary materials for the expanded production capacity, however, the total finance costs did not increase. This was because the Group has maintained a better financial control over the use of funds during the period.

Income tax

Income tax expense amounted to RMB44.574 million in the first half of 2021, while an income tax expense amounted to RMB6.379 million in the first half of 2020. The income tax expense for the period was mainly derived from the provision of income tax for the profitable subsidiaries of the Group. The increase in income tax expenses was mainly due to the increase in profit before tax and one-off provision made on the government grants.

Profit/(loss) attributable to the equity holders

The Group shows a turnaround of the Group's financial position from loss to profit and recorded a profit of RMB120.646 million for the period, which has improved substantially from the loss of RMB42.702 million for the corresponding period of 2020. A significant improvement of profit attributable to the equity shareholders of RMB61.339 million was shown also, as compared to a loss attributable to the equity shareholders of RMB54.493 million in the first half of 2020.

Inventory turnover days

The Group has been focusing its efforts in raising the inventory turnover and lowering the inventory turnover days in order to mitigate the risk of rapid decline inventory prices caused by continuous technological advancement of photovoltaic products, and at the same time, reducing the backlog of funds and further strengthen the Group's operation working capital. However, the cost of raw and auxiliary materials have increased irrationally since the second half of 2020. In order to avoid the impact of price fluctuations, the Group therefore increased the safety stock level of inventories. In addition, an increase amount of raw and auxiliary material were purchased to cope with the utilisation of new high-efficient production capacity. Therefore, the inventory turnover days of the period increased to 48 days (31 December 2020 : 27 days).

Trade receivables turnover days

The sales of photovoltaic modules accounted for about 60% of the Group's overall sales for the period. According to the standard terms of the industry's module sales contracts, the recovery of module receivables depends on the construction progress of the photovoltaic power plant. For instance, some trade receivables can only be recovered after the customer's photovoltaic power plant is connected to the grid. Therefore, the trade receivables turnover days of module business are generally longer. Furthermore, the sales amount of photovoltaic modules in June 2021 accounted for a relatively high proportion of the total sales amount of that for the six months ended 30 June 2021, and most of those trade receivables were yet to be due; as a result, higher trade receivables turnover days was noted. Trade receivables turnover days for the period has increased to 117 days (31 December 2020 : 95 days), but is still at a reasonable level.

Trade payables turnover days

The trade payables turnover day was 147 days, which was significantly higher comparing to 116 days of 2020. The main reason was that the Group has completed a comprehensive upgrade on production capacity and addition of high-efficiency production capacity during the period, and hence an increased amount in raw and auxiliary materials were purchased for use in the expanded production capacity. As a result, the ratio of trade payables to cost of sales at the end of the period increased. In addition, the Group has formed strategic partnerships with our major suppliers. Under stable and frequent co-operations, the suppliers have gradually increased our credit lines and payment terms.

Liquidity and financial resources

The principal sources of working capital of the Group during the period were cash from bank borrowings. As at 30 June 2021, the current ratio (current assets divided by current liabilities) of the Group was 0.83 (31 December 2020 : 0.80). The Group had net borrowings of RMB1,194.818 million as at 30 June 2021 (31 December 2020 : RMB1,337.214 million), including cash at bank and on hand of RMB370.603 million (31 December 2020 : RMB456.265 million), pledged deposits of RMB771.592 million (31 December 2020 : RMB686.100 million), bank and other loans due within one year of RMB2,334.421 million (31 December 2020 : RMB2,475.519 million) and non-current bank and other loans of RMB2.592 million (31 December 2020 : RMB4.060 million). The net debt to equity ratio (net debt divided by total equity) was 244.2% (31 December 2020 : 393.3%).

Earnings before interest, taxes, depreciation and amortisation

During the period, the Group's earnings before interest, taxes, depreciation and amortisation ("EBITDA") was RMB364.042 million (12.9% of the revenue) (corresponding period of 2020 : RMB159.634 million, 6.1% of the revenue). The main reason for the increase in EBITDA was attributed to the growth in gross profit, the achievement of production efficiency and improvement in control on expenses during the period.

Net cash inflow from operating activities

As mentioned above, the Group has turned losses into profits during the period; the Group continued to invest and upgrade the existing production capacity which, together with the economies of scale reflected in high-efficiency production capacity, resulted in a significant increase in operating profit. The net cash inflow from operating activities increased from RMB130.920 million in the first half of 2020 to RMB306.862 million for the period, representing a growth rate of 134%.

Foreign currency risk

The Group is exposed to foreign currency risk primarily through sales and purchases, cash, bank deposits and bank loans that are denominated in a currency other than the functional currency, Renminbi, of the operations to which they relate. The currencies giving rise to this risk are primarily the US Dollar and Euro. The Directors do not expect any significant impact from the change in exchange rates since the Group uses trade receivables in foreign currencies received from foreign customers to settle foreign loans and trade payables in foreign currencies which naturally mitigates the exchange rate risk. In addition, the Group will consider the difference in interest rates and fluctuations in the exchange rates of foreign currency denominated and local currency-denominated loan balance, and seize opportunities to mitigate the risk through low-risk forward exchange agreements, in order to strike a balance between the exposure to the variations in interest costs and fluctuations in foreign exchange rates.

Human resources

As at 30 June 2021, the Group had 4,224 (31 December 2020 : 3,890) employees.

Future prospects and strategies

It is expected that the global newly installed capacity of photovoltaic power generation will continue to grow rapidly in 2021. Coupled with a series of government policies to support the development of the photovoltaic industry, it is expected that PRC and the global mid and long-term demand for photovoltaic products will continue to experience robust growth. Photovoltaic products would be able to move further towards full-scale marketised competition in the photovoltaic industry and away from policy subsidies and would draw explosive growth in demand.

In order to respond to the rapid increase in demand, the Group has continuously expanded production capacity of monocrystalline silicon ingot, wafer and module in order to take advantage of the external production environment in different areas, so as to enable the Group to fully utilise its current technological advantages in production. It is estimated that the annual production capacity of monocrystalline silicon ingot would be expanded from the current 6.05 GW to 8.55 GW by the end of 2021, and further expanded to 18.55 GW by the end of 2022; the annual production capacity of monocrystalline silicon wafer would be expanded from the current 2.9 GW to 4.6 GW by the end of 2021, and further expanded to 14.6 GW by the end of 2022; and the annual production capacity of modules would be expanded from the current 4 GW to 8.2 GW by the end of 2021, and further expanded to 12.5 GW by the end of 2022.

As mentioned above, the annual production capacity of monocrystalline silicon wafer is lower than that of monocrystalline silicon ingot was mainly due to the current trend of rapid replacement of multicrystalline products by monocrystalline products. Hence, a substantial amount of production capacity of multicrystalline slicing with multicrystalline silicon ingots has been released. The difference in the production capacity of the Group's monocrystalline silicon ingots and that of monocrystalline silicon wafers will be gradually replaced by third-party OEMs that have excess multicrystalline slicing capacity. As such, the Group would focus on its limited resources on the development of monocrystalline ingots/wafers and niche module products. Besides, in the planning for 2022, the upstream monocrystalline silicon ingot production capacity will be significantly higher than the downstream module production capacity. Having considered that the future supply and demand is growing rapidly, and production of upstream monocrystalline silicon ingot has higher technical thresholds and of higher gross profit margins compared with downstream modules, the oligopoly market trend of the monocrystalline silicon ingot suppliers will continue. As the first batch of domestic enterprises engaging in the production of monocrystalline silicon ingot, with 20 years experience in manufacturing of monocrystalline silicon ingot, leading the industry with accumulated technological advantages, if more resources would be invested in the oligopoly market of upstream monocrystalline silicon ingots, it would enhance the Group's market bargaining power and can strengthen the Group's profitability. Additionally, to avoid sales competition with existing overseas OEM customers of photovoltaic modules, the Group has not yet engaged in large-scale self-owned module brand sales. The overseas module sales strategy still focus on processing services. Therefore, expansion plan for production capacity of modules would have a lower growth rate.

As a clean energy source, in respect of photovoltaic power generation, the road to grid parity is a painful change. Yet, market demand will inevitably explode after reaching grid parity. The Group is fully prepared to embrace the good times of the growth and development in the photovoltaic industry in the good times and contribute to the sustainable development of the global environment.

DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2021 (for the six months ended 30 June 2020: Nil).

CORPORATE GOVERNANCE AND OTHER INFORMATION

Corporate Governance

The Company has complied with the requirements set out in the Corporate Governance Code as set out in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2021.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. Specific enquiries have been made by the Company to confirm that all Directors have complied with the Model Code for the six months ended 30 June 2021.

Audit Committee

The audit committee of the Company, comprising three independent non-executive Directors, has reviewed the accounting principles and practices adopted by the Group and such matters as internal controls and financial reporting with the management of the Company, including the review of the interim results for the six months ended 30 June 2021.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company’s listed securities during the six months ended 30 June 2021 and up to the date of this announcement.

PUBLICATION OF FINANCIAL INFORMATION

The interim report for the six months ended 30 June 2021 containing all the detailed information will be dispatched to the shareholders of the Company and published on the respective websites of The Stock Exchange of Hong Kong Limited (<http://www.hkexnews.hk>) and the Company (<http://www.solargiga.com>) in due course.

By Order of the Board
Solargiga Energy Holdings Limited
Wang Junze
Executive Director

Hong Kong, 27 August 2021

As at the date of this announcement, the executive Directors are Mr. Tan Wenhua (Chairman), Mr. Tan Xin and Mr. Wang Junze, the non-executive Director is Mr. Hsu You Yuan and the independent non-executive Directors are Dr. Wong Wing Kuen, Albert, Ms. Feng Wenli and Mr. Lian Tao.