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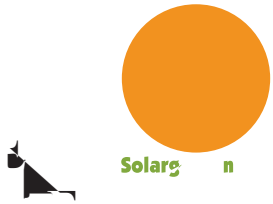

Solargiga Holdings Limited

陽光能源控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 757)

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has applied the following new and revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*
HKFRS 16	*Leases*
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
Annual Improvements 2015–2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Except for the amendments to HKFRS 9, HKAS 19 and 28, and Annual Improvements to HKFRSs 2015–2017 Cycle, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

a. HKFRS 16 Leases

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases — Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under HKAS 17. The standard includes two recognition exemptions for lessees — leases of low-value assets and leases with a duration of 12 months or less. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17.

HKFRS 16 did not have any significant impact on leases where the Group is the lessor.

The Group has applied HKFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under HKAS 17.

New definition of a lease

Under HKFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS

c. HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope

(b) Geographic information

Substantially alb. f the Gr up's pr perty, plant an q uipment, lease prepayments, g o. will, intangible assets an interests in ass ciates areol cate o. n o. perate in Mainlan China. The of dl wing table set s. ut inf rmat n ab ut the Gr up's revenue fr m external cust mers an the Gr up's n n-current prepayments by ge graphicalol cat n. The ge graphicalol cat n o. f a cust mer is base o. n theol cat n ot which the g o. s were elivere o. r the services were

4. OTHER INCOME AND GAINS, NET

	2019	2018
	RMB'000	*RMB'000*
Other income		
Government grants	**166,152**	46,184
Interest income from bank deposits	**11,740**	5,616
	177,892	51,800
Other gains/(losses), net		
Net foreign exchange gain	**9,412**	787
Net loss on disposal of property, plant and equipment	**(128,879)**	(2,774)
Gain from sales of other materials	**216**	1,021
Others	**(42,671)**	2,918
	(161,922)	1,952

5. LOSS BEFORE TAX

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

	2019	2018
	RMB'000	*RMB'000*
(a) Staff costs[#] (including directors' and chief executive's remuneration)		
Salaries, wages and other benefits	**256,061**	201,374
Contributions to retirement schemes	**27,663**	20,273
	283,724	221,647

6. FINANCE COSTS

	2019	2018
	RMB'000	*RMB'000*
Interest on bank and other loans wholly repayable within five years	**123,003**	135,469
Interest on lease liabilities	**127**	—
Interest on finance leases	**—**	543
Total interest expenses on financial liabilities not at fair value through profit or loss	**123,130**	136,012

12. TRADE AND BILLS RECEIVABLES

	2019	2018

MANAGEMENT DISCUSSION AND ANALYSIS

Market Overview

2019 was the first year of the new photovoltaics subsidy binding mechanism in China's

In 2019, the energy poverty alleviation work was carried out steadily and effectively. According to the report of the National Energy Administration, 4.07 million poverty-stricken households across the country obtained stable income through photovoltaic poverty alleviation projects, with a cumulative scale of 19.1GW. "The First Batch of Photovoltaic Poverty Alleviation Projects of the "13th Five-Year Plan"" (《"十三五"第一批光伏扶貧項目計劃》) with a total installed capacity of 4.186GW (3.85GW after revision), and "The Second Batch of Photovoltaic Poverty Alleviation Projects of the "13th Five-Year Plan"" (《"十三五"第二批光伏扶貧項目計劃》) with a total of 1.67GW, jointly issued and distributed by The National Energy Administration and The State Council Leading Group Office of Poverty Alleviation and Development* (國家能源局及國務院扶貧開發領導小組辦公室), should be completed and connected to the grid by the end of 2019. The National Energy Administration expected to establish the "14th Five-Year Plan" and subsequent energy development plans as soon as possible in 2020.

According to the U.S. Solar Market Insight Report jointly issued by Wood Mackenzie Power & Renewables and the Solar Energy Industries Association, in the third quarter of 2019, the United States solar market installed 2.6GW of photovoltaic capacity (up 45% year-on-year), the cumulative installed capacity increased to 71.3GW. The U.S. residential solar market reached record high in the third quarter of 2019 with an installation of 712MW, of which California, the largest residential solar market, installed nearly 300MW, breaking its quarterly record. The total installed photovoltaic capacity in the United States in 2019 is expected to reach 13GW, an increase of 23% over 10.6GW in 2018. Although the United States finally decided to waive the 201 tariff on bifacial solar modules at the end of 2019, due to sensitive China-US trade relationship and strong opposition from American domestic manufacturing companies, uncertainty shrouded over the waiver decision. With the declining cost and gradual reduction of the investment tax credit policy ("ITC policy") of residential systems, the total installed capacity of photovoltaics in the United States will more than double in the next five years. By 2021, the installed capacity will reach 20.1GW before the expiration of the ITC policy.

2019 was a challenging year for India, with the Prime Minister election in the first half and religious unrests in the second half. In addition to the impact of political instability on the Indian photovoltaic market, factors such as falling power demand, financing difficulties, tax ceilings, land acquisition issues, weak power infrastructure, rising solar

domestic solar photovoltaic modules. In addition, the government has approved a grid-connecting photovoltaic plan proposed by the Ministry of New and Renewable Energy to complete photovoltaic power generation projects of 12GW between 2019 and 2023.

2019 was the strongest year of rosolar energy growth in the European Union. According to data from SolarPower Europe, the newly-installed capacity reached 16.7GW, a 104% increase from 8.2GW in 2018. The main markets include Spain 4.7GW, Germany 4GW, Netherlands 2.5GW, France 1.1GW and Poland 784MW. It is expected that the overall newly-installed capacity in the European Union will continue to grow, reaching 21GW in 2020, 21.9GW in 2021, 24.3GW in 2022, and 26.8GW in 2023.

Looking ahead to 2020, according to the PV-Magazine, due to the impact of a new

Although the Group possesses the capacities of manufacturing monocrystalline silicon ingots, monocrystalline silicon wafers, solar cells and modules, the production capacity of each is not exactly the same.

After the continuous adjustment of new capacity during the year and the technical transformation of existing capacity, from 2020, the Group has increased its annual production capacity of monocrystalline silicon ingots and monocrystalline wafers to 3.6GW. The annual production capacity of photovoltaic modules has also been increased to 3.5GW through equity cooperation in 2020. Under the consideration of limited resources that need to be coordinated and allocated, the annual production capacity of monocrystalline silicon solar cells remains unchanged at 400MW. However, through the strategies of focusing on upstream monocrystalline silicon ingots and wafers and increasing downstream module production capacity, the Group formed strategic partnership between the Group and large manufacturers focusing on the production of mid-stream solar cells. These external solar cell manufacturers purchase monocrystalline silicon wafers from the Group and in turn sell the solar cells they manufacture to the Group for the Group's manufactures the downstream modules for external customers. This will drive the demand for upstream niche self-produce monocrystalline silicon ingots and wafers.

Secondly, the Group's vertical integration of upstream and downstream capacities, by adopting a dual-track strategy of continuous development of upstream monocrystalline silicon ingots, silicon wafer niche products and downstream module products, while not proactively expanding the capacity for the mid-stream solar cell, effectively focuses the Group's resources and withstands the fluctuations in upstream monocrystalline silicon wafer market to mitigate any instability in the supply of mid-stream solar cells. For example, strategic partnership formed between the Group and external manufacturers focusing on the production of mid-stream solar cells, where in the event of a poor sales market for monocrystalline silicon wafers, the Group can outsource these monocrystalline silicon wafers to these strategic partners and work them into solar cells, which is then returned to the Group for continue production into modules, and then sold to downstream third-party large module customers. On the other hand, if the sales market for monocrystalline silicon wafers is good, the Group can directly sell the monocrystalline silicon wafers to these strategic partners, and then purchase solar cells from these strategic partners in order to meet the production needs of the downstream modules of the Group. Therefore, in the market situation where the industry is changing drastically, the Group can properly arrange the use of self-produce monocrystalline silicon wafers, and the solar cells required for the Group's module rh

Regarding the production of upstream mono-crystalline silicon ingot and wafer products, the Group's low-cost high-efficiency production capacity located in Yunnan Qujing has completed its adjustment phase in 2019. Its results are now showing gradually. With the lowerolocal electricity cost in Yunnan Qujing, its gross profit margins are recovered at 15% and is expected to reach improved levels. After the Group's transformation and upgrading work performed on the original production bases in Jinzhou, Liaoning and Xining, Qinghai during the year, they are expected to demonstrate their advantages in production capacity increase and cost reduction from 2020 onwards, which can further improve the Group's overall gross profit margin.

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 most powerful 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 not only maintains a more stable terminal product estuary, but also drives the utilisation rate of each production segment of the Group from the bottom up. As such, in order to meet the needs of module customers, in addition to the 2.3GW module capacity owned by its wholly-owned subsidiaries, the Group has participated in a newly-established module manufacturing base of 1.2GW in Yancheng, Jiangsu. It only invested a small amount of cash for a direct equity investment of 15%, however, through strategic alliances among strategic investors and employees of the Group, the 1.2GW module capacity will co-ordinate with the manufacturing needs of the Group and it has already begun production in 2020. The Group's effective module production capacity has been increased to 3.5GW in 2020, which can greatly increase the economic scale advantage of module products.

In terms of operating results, reaping the benefits of the results from strengthening the customer relationship of downstream module products over the years, the Group's high-end photovoltaic products continued to be welcome by domestic state-owned enterprises and multinational corporations. Total shipment increased from 2,797MW in 2018 to 4,134MW in 2019, a growth reaching 48%. However, unit selling prices has dropped rapidly during 2019 and China's photovoltaic power subsidy policy was introduced later than expected, industry players generally held a wait-and-see attitude, resulting in a year-on-year decrease in Chinese domestic photovoltaic installation. Further, since the production capacity of the Group's new low-cost high-efficiency mono-crystalline silicon ingots and wafers was in adjustment phase most time during the year, production capacity has not been fully utilised, the advantages of its economy of scale has not yet been displayed. This forced the Group to continue to rely heavily on the mono-crystalline ingot and wafer products from its production base in Liaoning Jinzhou. While the local electricity cost in Liaoning Jinzhou is more than double that of Yunnan Qujing, it has directly and indirectly contributed to higher production cost of mono-crystalline silicon ingots and wafers. As such, the Group's overall gross profit was greatly compressed. Further, although external shipments of the main products of mono-crystalline silicon wafers and photovoltaic modules of the year increased by 137% and 27% respectively

compare to last year, the Group was committed to the technical transformation and upgrading of the existing production equipment for mono-crystalline silicon ingots and mono-crystalline silicon wafers and addition modules in Jinzhou, Liaoning. It affected the utilisation rate of production capacity during the year and hence led to the benefits of economy of scale not being fully demonstrated. In summary, the gross profit margin was therefore reduced from 9.9% in 2018 to 7.7% in 2019, which resulted in an operating loss of RMB184.107 million in 2019, compared to an operating loss of RMB95.271 million in 2018.

As a clean energy source, photovoltaic power generation replacing traditional petrochemical energy sources has become a global trend. Even though the current coronavirus epidemic has delayed demand temporarily, the trend of rapid growth in the demand for photovoltaic products is unwavering. During the year, due to the comprehensive upgrade of existing production capacity and the efficient adjustment of new equipment in 2019, benefits of production efficiencies could not be fully displayed, resulting in an increase of operating losses. In 2020, relying on (1) the new production base having low external electricity costs, which directly and indirectly reduces the production costs; (2) the commencement of mass production by the new equipment and the completion of upgrades to the old equipment; (3) technological integration advantages of its various product lines; and (4) stronger client base in China and overseas, the Group expects its gross profit to return to a normal level.

While maintaining its own leading technological advantage in mono-crystalline products, and adhering to the vertical integration strategy, through external customer demand for the Group's downstream modules driving the internal demand of its upstream mono-crystalline wafers, and through further strengthening its strategic partnerships with third party mid-stream solar cell manufacturers, the Group and its partners will be able to leverage their respective strengths and experiences in laying a solid foundation for a recovery in the future.

Silicon ingot and wafer business

Apart from mono-crystal producing its own polysilicon, a chemical product, in the second phase of its business, the Group covers and allocates under the photovoltaic industry production chain under its vertically integrated business model. Among this model, mono-crystalline silicon ingots products are mostly used for the internal production of mono-crystalline silicon wafers within the Group, and are less engaged in external sales. In addition, due to insufficient production capacity of the Group's mid-stream solar cell production, mono-crystalline silicon wafer products of the Group are mostly sold to third-party professional solar cell manufacturers. During the year, with the advantages in application of mono-crystalline products over multi-crystalline products in photovoltaic power generation, the market share of mono-crystalline products has continued to increase rapidly. As such, demand for what the Group has been focusing on allocating, mono-crystalline products, has continued to increase. Its market share is fast growing. Further, in addition to the traditional mono-crystalline P-type products, shipment volume of mono-crystalline N-type

Regarding photovoltaic module business, during the year, the Group recorded external shipments of photovoltaic modules of 1,855.7MW, which grew by 27% when compared to external shipments of 1,466.2MW in 2018. Although the market prices has continued to drop for many of previous years, the Group's module sales of the year still increased from RMB3,070.65 million in last year to RMB3,199.10 million in 2019. Even with this significant increase in shipments of photovoltaic modules, the production has been in fact been hindered by the technical transformation and equipment upgrades on the existing module manufacturing capacity during the year, the advantages of economy of scale have hence not been fully realised. However, after the completion of the comprehensive technical upgrade, with the excellent product quality and price competitiveness, the Group is expected to continue to record rapid growth in external shipments and total sales, and to make full use of the expected economies of scale. External sales was mainly made to huge Chinese state-owned enterprises and Japanese multinational enterprises, such as SPIC, China Huadian Corporation (中國華電集團公司) ("Huadian"), Beijing Enterprises Holdings Limited (北京控股集團有限公司) ("BEGCL"), SHARP Corporation ("SHARP") and SANSHIN ELECTRONICS CO., LTD., etc.

On the other hand, following the increasing awareness of the benefits of higher conversion efficiency and more competitive costs offered by the Group's focused on crystalline photovoltaic modules, and responding to the opportunity offered by grid parity, market share of mono crystalline module products continues to grow quickly. Demand for N-type mono-crystalline and P-type PERC photovoltaic modules have surged. In addition to flexibly supporting the manufacturing of mono- and multi-crystalline photovoltaic modules, the Group will continue to expand and strengthen the development and sales of mono crystalline silicon high-efficiency module products such as N-type double-size glass photovoltaic modules, half-cell photovoltaic modules, P-type mono crystalline cellular Passivate Emitter and Rear Cell (PERC), smart photovoltaic modules, and related high-end products. Among them, installation of the new production lines of four BS modules of N-type mono crystalline IBC cellular cell, which produces higher current output, open circuit voltage, fill factor and other electrical performance advantages, have been completed. Product quality and conversion has been stable. External sales has been recorded since the first half of 2019. BS modules utilises, first in the country, this internationally-leading FPC manufacturing technique, with SHARP, the Group's key strategic partner, being its major sales customer.

As a company focusing on mono crystalline silicon photovoltaic products, equipped with high-quality, self-produced upstream mono-crystalline silicon ingots and mono-crystalline silicon wafers, customers' demand for the Group's mono-crystalline modules has always remained high. Currently, proportion of sales of the Group's mono to multi-crystalline silicon photovoltaic modules has remained at 85:15 and the market share of mono-crystalline silicon photovoltaic products is expected to rise continuously.

In summary, thor ugh cust mer eman of r the Gor up's o wnstream m ules, it has on t o nly riven the eman of r the Gor up's upstream m on -crystalline ing ts an m on - crystalline wafers, but ads helpsot realise the benefits arising fr m the Gor up's vertical integrati n strategy, an ot better mitigate the market risks arising fr m fluctuant sales o f upstream silic n wafers r unstable supply f mi -streamos lar cells.

Construction and operation of photovoltaic system business

T o mos li ate its a vantages f the business m eb f vertical integrati n, the Gor up actively expan e the busines f en -user market apart fr m its eff rts in stabilising its upstream an mi stream business evel pment, thereby riving eman of r por ucts fr m o wnstreamot upstream. As such, in respect f the business pp rtunity erive fr m the c nstructi n f istribute p wer plants, apart fr m establishing internal ph t ltaic p wer plant system c mpanies f the Gor up, the Gor up ads plans ot establishoj int venture c mpanies with c mpanies fr m ther in ustries in r erot share the por fits an ads por vi e extra istributi n channels f r the Gor up's m ule sales.

Financial Review

Revenue

The c st f ph t ltaic p wer generati n must c ntinue ot ecline as techn l gy c ntinues imp ve in r erot replace tra iti nal pet chemical energy in a larger scale an ot effectively achieve the g al f green an clean energy. As such, alth ugh the average selling price uring the year ecline substantially f ver last year, as a result f successful cust mer evel pment, the size f the cust mer base an the purchases by in ivi ual cust mers are sh wing c ntinu us gr wing tren s. The external shipment v lume increase significantly by 48% c mpare ot last year. The Gor up has ads c ntinue ot maintain its gr wing tren an rec r e revenue f RMB4,425.552 milli n f r the year en e 31 December 2019, a 10% increase fr m RMB4,022.452 milli n in 2018.

Cost of sales

Up t 31 December 2019, c st f sales increase fr m RMB3,624.902 milli n last year t RMB4,084.184 milli n, representing an increase f 12.7%, which was mainly result e fr m the increase in shipment v lume. C st f sales represente 92.3% f t tal revenue, representing an increase f 2.2 percentage p ints fr m 2018. The increase in this rati was mainly ue t the c ntinu us ecline in market prices uring the year c mpare ot last year, an the failure t mass-p uce as a result f the testing an a justment f new p ucti n capacity, an the fact that the existing p ucti n capacity was upgra e , which affecte the actua utput, hin ering the em nstrati n f the Gor up's a vantages f ec n my f scale.

Gross profit and gross profit margin

The Group recorded a gross profit of RMB341.368 million and a gross profit margin of 7.7% in 2019, as compared to a gross profit of RMB397.55 million and a gross profit margin of 9.9% in 2018. Both gross profit and the gross profit margin recorded declines. The main reason was unit selling prices has dropped rapidly during 2019 and China's photovoltaic power subsidy policy was introduced later than expected, industry players generally held a wait-and-see attitude, resulting in a year-on-year decrease in Chinese domestic photovoltaic installation. Further, despite the significant increase in module external shipment, the Group's solar cell and high-efficiency production capacity located in Yunnan Qujing was still in adjustment phase during the year, production capacity was not fully utilised. This forced the Group to continue to rely heavily on the mono-crystalline ingot and wafer products from its production base in Liaoning Jinzhou. While the local electricity cost in Liaoning Jinzhou is more than double that of Yunnan Qujing, it has directly and indirectly contributed to higher production cost of mono crystalline silicon ingots and wafers. As such, the Group's overall gross profit was being affected. Further, although the main products shipment of mono-crystalline silicon wafers and photovoltaic modules during the year increase by 137% and 27% respectively compared with last year, the Group was committed to the technological upgrading and transformation of production equipment has affected production efficiency and led to gross profit performance to be below expectation.

Selling and distribution expenses

Selling and distribution expenses mainly comprise packaging expenses, freight charges and insurance expenses. Selling and distribution expenses increased to RMB84.583 million in 2019 from RMB77.447 million in 2018. The increase in selling and distribution expense was mainly due to the increase in volume of external shipment in 2019.

Administrative expenses

financial occurrence, but the use of funds during the year. Our banks were also showing greater confidence in the Group and have increased their facilities during the year respectively, which includes China Zheshang Bank increasing its facilities of pledged borrowings for the Group to RMB800 million. The Gmillispecsltm occurrence, but its finanhe

According to the terms of the industry's general module sales contract, the recovery of module receivable depends on the construction progress of the photovoltaic power plant. For instance, some trade receivables cannot only be recovered after the customer's photovoltaic power plant is connected to the grid. In addition, 10% of the total amount of receivables are retained as warranties. These warranties will generally be recovered in around one year. As a result, the trade receivables turnover days of module business are generally longer. Even so, due to the continuously effective management of accounts receivable, the collection has been improved, resulting in the Group's trade receivables turnover days being reduced to 113 days in 2019 (2018: 141 days).

Trade payable turnover days

The trade payables turnover day was 130 days, which for second comparing to 124 days of last year, was mainly due to the strategic partnerships established with our major suppliers, understable and frequent cooperations, and the suppliers have gradually increased our lines of credits and payment terms.

Liquidity and financial resources

The principal sources of working capital of the Group during the year were cash flows from bank borrowings. As at 31 December 2019, the current ratio (current assets divided by current liabilities) of the Group was 0.79 (31 December 2018: 0.80). The Group had net borrowings of RMB1,010.194 million as at 31 December 2019 (31 December 2018: RMB1,125.436 million), including cash in bank and on hand of RMB396.854 million (31 December 2018: RMB239.712 million), pledge deposits of RMB403.191 million (31 December 2018: RMB425.309 million), bank loans due within one year of RMB1,680.914 million (31 December 2018: RMB1,773.140 million) and non-current bank and other loans of RMB129.325 million (31 December 2018: RMB17.317 million). The net debt equity ratio (net debt divided by total equity) was 221.7% (31 December 2018: 139.3%).

Earnings before interest, taxes, depreciation and amortisation ("EBITDA")

During the period, earnings before interest, taxes, depreciation and amortisation ("EBITDA") was RMB49.126 million (1.11% of revenue) (2018: RMB136.938 million, 3.4% of revenue). The main reason for the decrease in EBITDA was due to the Group's net loss during the year.

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 foreign currencies received from customers to settle the amounts due to suppliers 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 the need to mitigate the risk through low-risk forward contracts, 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 31 December 2019, the Group had 4,036 (31 December 2018: 3,669) employees.

Future prospects and strategies

As a clean energy source, photovoltaic power generation replacing traditional petrochemical energy sources has become a global trend. The market is now undergoing a structural transformation. In addition to the technological advantages of non-crystalline silicon products, which has been the Group's focus, being superior to multi-crystalline products, through the continued reduction of government subsidies, or even without subsidies, it is also advancing technological progress and reducing power generation costs, to promote the acceleration of the industry in the achievement of comprehensive grid parity.

After years of rapid development, the Chinese photovoltaic industry is leading its peers in the world. Its annual output in China has exceeded RMB400 billion, and it has provided millions of jobs. It has made a significant contribution to China's economic growth. It is expected that the Chinese government will continues its long-term support to the photovoltaic industry. Year 2019 is the first year of implementing a new mechanism of photovoltaic subsidy billing, and it is also the first year of parallel development of grid parity and bidding projects. Coupled with the effect of the later-than-expected introduction of China's photovoltaic power subsidy policy during the year, industry players generally held a wait-and-see attitude, resulting in a year-on-year decrease in domestic photovoltaic installation of 30.1GW in China compared with last year. This is expected to be a short term response. Demands in 2019 is expected to be deferred to 2020. However, due to epidemic of the new coronavirus, this deferred demand may not be immediately apparent in early 2020, but it is estimated that the global new photovoltaic installation in 2020 may still reach 140 to 150GW. Among them, China is expected to account for around 40GW. It is judged that the impact of the short-term deferral caused by the new coronavirus should be limited.

As for the technology of photovoltaic products, due to the advantages of high conversion ratios, stable decay rate in its photovoltaic systems, continue reduction in unit cost, etc. of mono-crystalline products are highlighted, market share of mono crystalline products will continue to rise. Therefore, mono crystalline products has become the popular choice in solar project. Hence, the proportion of solar plants installing mono-crystalline photovoltaic systems and the mono-crystalline products used by distributed power plants have been increasing as a result.

The Group focuses on mono-crystalline silicon products in photovoltaic products and has industry-leading production technology of mono-crystalline products. In the upstream and downstream of the vertical integration of the photovoltaic industry, while not producing chemical raw material polysilicon, its business form covers the entire photovoltaic industry. The chain can fully leverage the synergies between the Group's businesses. The focus on the production of upstream mono-crystalline silicon ingots and silicon wafers, and planning the downstream module production capacity, in order to focus on the production of upstream niche products, mono-crystalline silicon ingots and wafers, retaining only a small scale solar cell manufacturing capacity, and though significant module production capacity, the Group not only maintains direct contact with downstream module customers with huge market power, establishes stable supply and demand relations but also keeps a finger on the pulse of the end-user market, and can also bring out the upstream high-end mono-crystalline silicon ingot and wafer products. Through the potential for continuous improvement in production costs of the upstream high-end mono-crystalline ingot and wafer products, the Group's innate advantage will be demonstrated. As such, in order to meet the needs of module customers, in addition to the 2.5GW module capacity owned by its wholly-owned subsidiaries, the Group has participated in a newly-established module manufacturing base of 1.2GW in Yancheng, Jiangsu. It only invested a small amount of cash for a direct equity investment of 15%, however, through strategic alliances among strategic investors and employees of the Group, the 1.2GW module capacity will cooperate with the manufacturing needs of the Group and it has already begun production in 2020. The Group's effective module production capacity has been increased to 3.5GW in 2020, which can greatly increase the economic scale advantages of module products, and also provide a more stable outlet of the Group's 3.6GW upstream mono-crystalline silicon ingots and wafers production capacity.

Although the average unit selling price of the product in the future is still expected to gradually decline with the advent of grid parity, the Group can rely on (1) the new production base having low external electricity costs, which directly and indirectly reduces the production costs; (2) the commencement of mass production by the new equipment and the completion of upgrades of the old equipment; (3) technological integration advantages of its various product lines; and (4) strong client base in China and overseas. It is expected to lead to continuous growth in the Group's future external shipment volume and revenue, it is also expected that the magnitude of decrease in cost of the Group's products will be greater than that of the decrease in unit selling price, hence driving the Group's gross profit ratio to return to a normal level.

The road to grid parity may be a painful change, but the expected explosive growth in the market after reaching grid parity will provide an opportunity for the industry. The Group is fully prepared and will, at its utmost, embrace the growth and development in the photovoltaic industry in the good times after reaching grid parity.

EVENT AFTER REPORTING PERIOD

Given the dynamic circumstances and uncertainties across the global markets due to the recovery from the outbreak of the coronavirus disease 2019 ("COVID-19"), as of the reporting date, there was no material adverse effect on the financial statement as a result of the outbreak. However, the Group will continue to closely monitor the development of the situation and accordingly evaluate the impact on the financial position and performance, which will be reflected in the Group's 2020 interim and annual financial statements.

AUDIT COMMITTEE

The Company's Audit Committee has reviewed the accounting principles and practices adopted by the Group and the Group's consolidated financial results for the year ended 31 December 2019, and has discussed and reviewed the risk management, internal control and reporting matters.

DIVIDEND

No final dividend was paid in 2019 (2018: Nil). The Directors do not recommend the payment of a final dividend for 2019 (2018: Nil).

DELISTING OF TAIWAN DEPOSITARY RECEIPTS

The Company received a notice from the Taiwan Stock Exchange on 2 October 2019, whereby the Taiwan Stock Exchange indicated that it shall require the TDRs to be delisted with effect from 12 November 2019 pursuant to the relevant rules of the Taiwan Stock Exchange as the net assets value of the Group fell below one-third of the sum of the share capital and the share premium of the Company as set out in the unaudited consolidated interim financial results of the Company for the six months ended 30 June 2019. As such, the last trading day of the TDRs shall fall on 11 November 2019.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 25 June 2020 to 30 June 2020, both days inclusive, during which period no transfer of shares will be effected. In order to be eligible to attend and vote at the forthcoming annual general meeting of the Company, all transfers accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 1712–16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 22 June 2020.

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

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of its listed securities.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions as set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by the Directors. Specific enquiries have been made by the Company of the Directors and all Directors have been complied with the Model Code throughout the financial year ended 31 December 2019.

CORPORATE GOVERNANCE

The Company reviews and enhances its corporate governance practices continuously and is committed to a high standard of corporate governance. The Company has complied with the Corporate Governance Code and Corporate Governance Report (the "Corporate Governance Code") set out in Appendix 14 of the Listing Rules throughout the year ended 31 December 2019.

PUBLICATION OF FINANCIAL INFORMATION

The 2019 annual report containing all the detailed information will be dispatched to the shareholders of the Company and published on the respective websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.xslargigacom) in due course.

SCOPE OF WORK OF AUDITOR

The figures in respect of the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of financial position of the Group, and the related notes thereto for the year as set out in this announcement have been agreed by our auditors, Messrs. Ernst & Young, to the amounts set out in the Group's audited consolidated financial statements for the year.

The work performed by the Group's auditor, Ernst & Young, in this respect in consequence does not constitute audits, reviews and other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the Group's auditor on the preliminary results announcement.

ANNUAL GENERAL MEETING

It is proposed that the annual general meeting of the Company be held on 30 June 2020. Notice of the annual general meeting will be published and issued to shareholders in due course.

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

Hong Kong, 31 March 2020

As at the date of this announcement, Mr. Tan Wenhua (Chairman), Mr. Tan Xin and Mr. Wang Junze are executive Directors of the Company, Mr. Hsu Yu Yuan is a non-executive Director of the Company, and Dr. Wong Wing Kuen, Albert, Ms. Fu