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HANERGY SOLAR GROUP LIMITED

漢能太陽能集團有限公司

(incorporated in Bermuda with limited liability)

(Stock code: 566)

ANNOUNCEMENT OF 2013 INTERIM RESULTS

The board of directors (the “**Board**”) of Hanergy Solar Group Limited (the “**Company**”) announces the unaudited interim results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 June 2013 together with comparative figures for the corresponding period and selected explanatory notes are as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2013 — unaudited

		Six months ended	
		30 June	
	<i>Notes</i>	2013	2012
		HK\$’000	HK\$’000
REVENUE	4	2,080,167	1,637,087
Cost of sales		(405,245)	(539,755)
Gross profit		1,674,922	1,097,332
Other income and gains	5	63,640	1,668
Selling and distribution expenses		(2,727)	(1,497)
Administrative expenses		(55,121)	(49,147)
Research and development costs		(81,547)	(47,296)
Finance costs	6	(31,574)	(29,331)
PROFIT BEFORE TAX	7	1,567,593	971,729
Income tax expense	8	(125,192)	(199,858)
PROFIT FOR THE PERIOD		1,442,401	771,871

	Six months ended	
	30 June	
	2013	2012
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
PROFIT FOR THE PERIOD	1,442,401	771,871
OTHER COMPREHENSIVE INCOME/(LOSS)		
Exchange reserve:		
Translation of foreign operations	<u>89,714</u>	<u>(22,168)</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>1,532,115</u>	<u>749,703</u>
Profit for the period attributable to:		
Owners of the parent	<u>1,442,401</u>	<u>771,871</u>
Total comprehensive income for the period attributable to:		
Owners of the parent	<u>1,532,115</u>	<u>749,703</u>
	<i>HK Cents</i>	<i>HK Cents</i>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	<i>9</i>	
Basic		
— For profit for the period	<u>6.64</u>	<u>5.75</u>
Diluted		
— For profit for the period	<u>5.82</u>	<u>4.88</u>

Details of dividend are disclosed in note 9 to the condensed consolidated interim financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2013 — unaudited

		30 June 2013 <i>HK\$'000</i>	31 December 2012 <i>HK\$'000</i> (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		175,224	133,848
Goodwill		7,915,318	7,915,318
Intangible assets		519,275	551,091
Available-for-sale investment		85,800	85,800
Deposits paid for the acquisition of property, plant and equipment		7,317	2,376
Deferred tax assets		58,491	44,286
		8,761,425	8,732,719
TOTAL non-current assets			
CURRENT ASSETS			
Inventories		375,166	390,840
Trade and other receivables	10	5,793,551	3,788,428
Bills receivable		—	550
Deposits and prepayments	11	645,827	127,623
Equity investment at fair value through profit or loss		13,720	4,480
Pledged deposits		1,334	8,572
Cash and bank balances		1,204,421	707,958
		8,034,019	5,028,451
TOTAL current assets			
CURRENT LIABILITIES			
Trade and other payables	12	923,690	679,563
Deposits and accruals		123,451	96,638
Convertible Bonds		821,132	789,559
Tax payable		303,849	232,435
		2,172,122	1,798,195
TOTAL current liabilities			
NET CURRENT ASSETS			
		5,861,897	3,230,256
TOTAL ASSETS LESS CURRENT LIABILITIES			
		14,623,322	11,962,975
NON-CURRENT LIABILITIES			
Deferred tax liabilities		250,351	250,875
		250,351	250,875
TOTAL non-current liabilities			
		14,372,971	11,712,100
Net assets			
EQUITY			
Equity attributable to the owners of the parent			
Issued capital	13	54,342	33,577
Reserves		14,318,629	11,678,523
		14,372,971	11,712,100
TOTAL equity			
		14,372,971	11,712,100

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

1. BASIS OF PREPARATION

These unaudited interim condensed consolidated financial statements are prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”).

The accounting policies and the basis of preparation adopted in the preparation of these condensed consolidated financial statements are consistent with those adopted in the annual financial statements for the year ended 31 December 2012, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) (which also include HKASs and Interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosures requirements of the Hong Kong Companies Ordinance, except for the adoption of the new and revised HKFRSs as disclosed in note 2 below.

These condensed consolidated financial statements have been prepared under historical cost convention, except for an equity investment at fair value through profit or loss, which has been measured at fair value. These condensed consolidated financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

2. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current period’s condensed consolidated financial statements.

HKFRS 1 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans</i> ²
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities</i> ²
HKFRS 10	<i>Consolidated Financial Statements</i> ²
HKFRS 11	<i>Joint Arrangements</i> ²
HKFRS 12	<i>Disclosure of Interests in Other Entities</i> ²
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 – <i>Transition Guidance</i> ²
HKFRS 13	<i>Fair Value Measurement</i> ²
HKAS 1 Amendments	Amendments to HKAS 1 <i>Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income</i> ¹

HKAS 19 (2011)	<i>Employee Benefits</i> ²
HKAS 27 (2011)	<i>Separate Financial Statements</i> ²
HKAS 28 (2011)	<i>Investments in Associates and Joint Ventures</i> ²
HK(IFRIC)-Int 20	<i>Stripping Costs in the Production Phase of a Surface Mine</i> ²
Annual Improvements 2009-2011 Cycle	Amendments to a number of HKFRSs issued in June 2012 ²

Other than as further explained below, the adoption of these new and revised HKFRSs has had no significant financial effect on these condensed consolidated financial statements and there have been no significant changes to the accounting policies applied in these condensed consolidated financial statements.

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

The HKFRS 7 Amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral arrangements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with HKAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with HKAS 32. The Group expects to adopt the amendments from 1 January 2013.

HKFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in HKAS 27 *Consolidated and Separate Financial Statements* and HK(SIC)-Int 12 *Consolidation – Special Purpose Entities*. HKFRS 10 replaces the portion of HKAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also addresses the issues raised in HK(SIC)-Int 12. Based on the preliminary analyses performed, HKFRS 10 is not expected to have any impact on the currently held investments of the Group.

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK(SIC)-Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation.

HKFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities previously included in HKAS 27 *Consolidated and Separate Financial Statements*, HKAS 28 *Investments in Associates* and HKAS 31 *Interests in Joint Ventures*. It also introduces a number of new disclosure requirements for these entities.

In July 2012, the HKICPA issued amendments to HKFRS 10, HKFRS 11 and HKFRS 12 which clarify the transition guidance in HKFRS 10 and provide further relief from full retrospective application of these standards, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The amendments clarify that retrospective adjustments are only required if the consolidation conclusion as to which entities are controlled by the Group is different between HKFRS 10 and HKAS 27 or HK(SIC)-Int 12 at the beginning of the annual period in which HKFRS 10 is applied for the first time. Furthermore, for disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before HKFRS 12 is first applied.

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. The standard is not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2013.

The HKAS 1 Amendments change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net gain on hedge of a net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items which will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendments will affect presentation only and have no impact on the financial position or performance. The Group expects to adopt the amendments from 1 January 2013.

HKAS 19 (2011) includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2013.

The *Annual Improvements 2009-2011 Cycle* issued in June 2012 sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1 January 2013. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group's policies are as follows:

- (a) *HKAS 1 Presentation of Financial Statements*: Clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the previous period. The additional comparative information does not need to contain a complete set of financial statements.

In addition, the amendment clarifies that the opening statement of financial position as at the beginning of the preceding period must be presented when an entity changes its accounting policies; makes retrospective restatements or makes reclassifications, and that change has a material effect on the statement of financial position. However, the related notes to the opening statement of financial position as at the beginning of the preceding period are not required to be presented.

- (b) *HKAS 32 Financial Instruments: Presentation*: Clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with HKAS 12 Income Taxes. The amendment removes existing income tax requirements from HKAS 32 and requires entities to apply the requirements in HKAS 12 to any income tax arising from distribution to equity holders.

The Group has not early adopted any other new and revised HKFRSs that was issued but is not yet effective. The Group is in the process of making an assessment of the impact of other new and revised HKFRSs, that have been issued but not yet effective, upon initial application. So far, the Group considers that the adoption of these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

3. OPERATING SEGMENT INFORMATION

From management purpose, the Group has only one operating segment, which is the manufacture of equipment and turnkey production lines for the manufacture of amorphous silicon based thin-film solar photovoltaic modules. Since this is the only operating segment of the Group, no further operating segment analysis thereof is presented.

4. REVENUE

Revenue which is also the Group's turnover, represents the net invoiced value of goods sold and an appropriate proportion of contract revenue of construction contracts during the period.

5. OTHER INCOME AND GAINS

An analysis of other income and gains is as follows:

	Six months ended	
	30 June	
	2013	2012
	HK\$'000	HK\$'000
Government grants	32,318	—
Exchange gain	18,896	—
Fair value gain on an equity investment at fair value through profit or loss	9,240	350
Bank interest income	1,749	964
Others	1,437	354
	63,640	1,668

6. FINANCE COSTS

An analysis of finance costs is as follows:

	Six months ended 30 June	
	2013	2012
	HK\$'000	HK\$'000
Imputed interest expenses on convertible bonds	31,574	29,331
	<u>31,574</u>	<u>29,331</u>

7. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2013	2012
	HK\$'000	HK\$'000
Depreciation of items of property, plant and equipment	21,048	8,219
Total amortisation of intangible assets	38,233	26,144
Less: Capitalised to inventories	(2,452)	(164)
	<u>35,781</u>	<u>25,980</u>

8. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising from Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	Six months ended 30 June	
	2013	2012
	HK\$'000	HK\$'000
Current tax:		
— The People's Republic of China ("PRC")		
Income tax expense for the period	138,384	127,365
Under-provision in respect of prior periods	927	—
	<u>139,311</u>	<u>127,365</u>
Deferred tax (credit)/charge		
Current period	(14,119)	72,493
Total tax charge for the period	<u>125,192</u>	<u>199,858</u>

Certain of the Group's subsidiaries in the PRC were designated as "High and New Technology Enterprise" and accordingly can enjoy a preferential Corporate Income Tax rate of 15%.

Approved by the tax authority, a PRC subsidiary of the Group was subject to Corporate Income Tax on a deemed profit basis during the reporting period.

9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculations of basic and diluted earnings per share are based on:

	Six months ended	
	30 June	
	2013	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
Earnings for the period		
Profit attributable to ordinary equity holders of the parent, used in basic earnings per share calculation:	1,442,401	771,871
Imputed interest expenses on convertible bonds	<u>31,574</u>	<u>29,331</u>
Profit for the purpose of diluted earnings per share calculation	<u>1,473,975</u>	<u>801,202</u>
	Number of shares	
	2013	2012
	<i>'000</i>	<i>'000</i>
Weighted average number of ordinary shares in issue during the period used in basic earnings per share calculation	21,736,907	13,431,022
Effect of dilution — weighted average number of ordinary shares:		
Assumed issue at no consideration on deemed exercise of all share options outstanding during the period	996,311	419,420
Deemed conversion of all convertible bonds	<u>2,576,090</u>	<u>2,576,090</u>
Weighted average number of ordinary shares in issue during the period used in diluted earnings per share calculation	<u>25,309,308</u>	<u>16,426,532</u>

10. TRADE AND OTHER RECEIVABLES

	<i>Notes</i>	30 June 2013 HK\$'000	31 December 2012 HK\$'000 (Audited)
Trade receivables — net	<i>(i)</i>	39	39
Gross amount due from customers works and account receivables from customers — net	<i>(ii)</i>	5,763,980	3,764,258
Other receivables	<i>(iii)</i>	29,532	24,131
		<u>5,793,551</u>	<u>3,788,428</u>

Notes:

(i) Trade receivables — net

Trade receivables are settled in accordance with the terms of the respective contracts. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Based on invoice date or payment terms as stipulated in the relevant contracts, the ageing analysis of the Group's net trade receivables is as follows:

	30 June 2013 HK\$'000	31 December 2012 HK\$'000 (Audited)
0 — 30 days	—	—
Over 180 days	39	39
Trade receivables — net	<u>39</u>	<u>39</u>

(ii) Gross amount due from customers for contract works and account receivables from customers — net

All the gross amount due from customers for contract works as at 30 June 2013 was related to contracts with the Hanergy Holding Group Limited or its subsidiaries (the "Hanergy Group"), of which HK\$3,700,558,000 progress payments was past due as at 30 June 2013 (31 December 2012: HK\$782,321,000). Subsequent to the end of the reporting period on 28 August 2013, the Hanergy Group has settled HK\$1,037,425,000 of the past due account receivables from customers. On 30 August 2013, the Hanergy Group commit to settle the rest of the past due progress payments by 30 September 2013.

(iii) Other receivables

None of the above assets is either past due or impaired. The financial assets included in the above balance related to receivables for which there was no recent history of default.

The directors of the Company considered that the fair value of trade and other receivables are not materially different from their carrying amounts because these amounts have short maturity periods at their inception.

11. DEPOSITS AND PREPAYMENTS

Included in prepayments as at 30 June 2013 was an amount prepaid to the Hangery Group amounted to HK\$590,933,000, which were mainly related to supply agreement with the Hangery Group. Subsequent to the end of the reporting period, the Hangery Group has delivered thin-file solar panels amounted HK\$321,951,000 (Including 17% VAT).

12. TRADE AND OTHER PAYABLES

The Group was granted by its suppliers credit periods as stipulated in the relevant contracts. Based on the invoice date, the ageing analysis of the Group's trade payables is as follows:

	30 June 2013 HK\$'000	31 December 2012 HK\$'000 (Audited)
0 — 30 days	66,095	128,751
31 — 60 days	3,207	38,707
61 — 90 days	8,568	8,858
Over 90 days	142,507	37,755
	<hr/>	<hr/>
Trade payables	220,377	214,071
Other payables	703,313	465,492
	<hr/>	<hr/>
	923,690	679,563

Included in other payables as at 30 June 2013 was an amount due to the Hangery Group amounted to HK\$88,450,000.

All amounts are short term and hence the carrying amounts of trade and other payables are considered to be a reasonable approximation of their fair values.

13. SHARE CAPITAL

Shares

	Number of shares '000	Nominal value HK\$'000
Authorised:		
At 1 January 2012, 31 December 2012 and 30 June 2013 (ordinary shares of HK\$0.0025 each)	64,000,000	160,000
Issued and fully paid:		
At 1 January 2012, 31 December 2012 and 1 January 2013 (ordinary shares of HK\$0.0025 each)	13,431,022	33,577
Exercise of share options	8,305,885	20,765
	<hr/>	<hr/>
At 30 June 2013 (ordinary shares of HK\$0.0025 each)	21,736,907	54,342

BUSINESS REVIEW

For the six months ended 30 June 2013, the Group recorded a revenue of HK\$2,080,167,000, representing an increase of about 27% as compared to HK\$1,637,087,000 of the same period last year. Gross profit increased to HK\$1,674,922,000 for the period, representing an increase of about 53% as compared to HK\$1,097,332,000 of the same period last year.

For the period under review, the Group has recorded a net profit of HK\$1,442,401,000, representing an increase of about 87% as compared to HK\$771,871,000 of the same period last year. Such increase is primarily due to a number of reasons including but not limited to (i) an increase in sales and revenues; and (ii) an increase in the gross profit margin.

A. A brighter future for the solar industry

During the review period, the solar power industry continues to face market challenges that had troubled the sector over the recent past. Arising from the over-supply situation in solar modules largely associated with China, the global solar market veered towards a trade dispute involving the European Union (“EU”), the United States (“US”), as well as some parts of Asia. An anti-dumping conflict ensued leading to certain import tariffs being imposed upon Chinese manufactured poly-crystalline silicon modules that were in turn countered by similar retaliatory measures imposed upon reciprocal exports to China from those same countries across a number of different industries, including poly-crystalline silicon and other popular consumer goods e.g., luxury cars and wines. Even prior to the outbreak of the anti-dumping conflict, certain solar companies across the world were making significant losses and some even filing for bankruptcies as the Average Selling Price of solar modules (“ASP”) continued to fall significantly, the uncertainties that were created from the trade dispute just amplified the stresses already felt by these companies. The recent overcapacity problem of the solar power industry has exacerbated the problems faced by highly leveraged companies in the industry leading to their downfall.

Despite the challenges faced by the industry, there are signs that a brighter future is dawning. Module ASPs are beginning to show signs of stabilisation. Sector-wide consolidation has been occurring in the market with some strategic acquisitions being made by stronger participants to snap-up technologically able but financially weak companies. Hanergy Group has led the market by completing a number of high profile acquisitions of technological companies around the world. Regulatory support has been strong sending positive sentiments in the market. The Group believes that these are encouraging signs and it will be well placed to continue to pursue its global expansion strategy in both its upstream and downstream segments during 2H 2013.

(i) *Anti-dumping and anti-subsidy conflict between China and the EU: Retreat of Crystalline Silicon, Prospects for Thin-film*

On 4 June 2013, the European Commission (“EC”) announced that it would impose a provisional anti-dumping duty of 11.8% effective from 6 June 2013 to 5 August 2013 (subsequently superseded by a formal duty rate of 47.6%) on crystalline silicon modules including their key component parts imported from China. After a period of negotiations, the trade dispute has subsequently been largely resolved between China and the EU with the implementation of price undertaking agreement effective from 6 August 2013. Based on market information, the mutual agreement indicated that the price undertaking for poly-crystalline silicon PV modules would be set at around 0.56 euros per-watt with an annual export cap of 7GW. Any excesses over this maximum level would be subject to the imposition of anti-dumping duties. Moreover, the price undertaking is on a voluntary basis, and enterprises unwilling to accept the price undertaking would remain subject to the sanction of anti-dumping duties at a rate of 47.6% imposed by the EU.

This trade dispute between China and EU was evidently targeted mainly at poly-crystalline silicon Photovoltaic (“PV”) modules by setting up a price floor and quantity restriction on the products imported from China. As thin-film PV modules are not subject to such restrictions, they would enjoy more favorable conditions due to better access being created for the entry of Chinese thin-film PV products into the European market. The Group believes that this has created a wide window of opportunity for thin-film players to take advantage of the market opening and to expand their market share in the global solar industry.

(ii) *Stabilization of the ASP of PV modules*

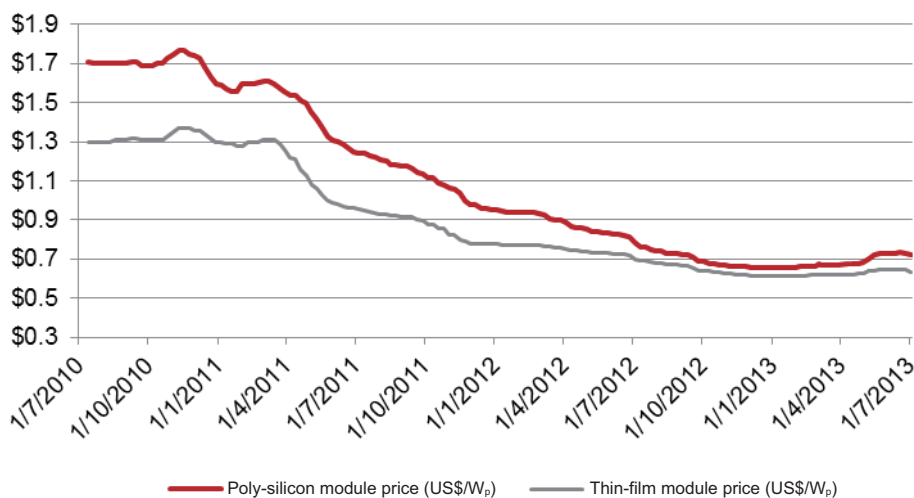
With subsidy reductions in major European countries, anti-dumping trade disputes, over-supply of PV modules, strong competition and dramatic fall in the ASP of PV modules, the global PV market has experienced a difficult time over the past few years.

More recently, with the withdrawal of many less competitive manufacturers from the market, roll-out of favourable government policies in various emerging markets, and provisional agreement reached on the anti-dumping dispute between China and the EU, the solar energy industry showed signs of recovery and the outlook is brighter.

As illustrated in the graph below, the ASP of poly-crystalline silicon modules and thin-film modules fell from their peaks of approximately US\$1.8/W_p and US\$1.4/W_p in Q4 of 2010 to approximately US\$0.66/W_p and US\$0.6/W_p, respectively, towards Q1 of 2013.

Since then, the ASPs of poly-crystalline silicon modules and thin-film modules have stabilised and during the period under review, and have enjoyed their first experience of an increase to levels of approximately US\$0.72/W_p and US\$0.64/W_p, respectively.

ASP Historical Trend of PV modules (US\$/Watt)



Source: PV insights

The growth in global demand, together with the stabilised yet increasing trend of PV module ASP, points towards a promising future for the solar industry.

(iii) Positive Regulatory Support

On 15 July 2013, the State Council of China issued an official guideline (the “Guideline”) to expand the domestic market of distributed PV power generation by encouraging end-users to consider building distributed PV power generation systems in accordance with the “self-generation for self-use” concept with the excess power stabilized, adjusted and sold to the grid.

Distributed PV power generation denotes the power generation system by using PV modules to transform solar energy directly into electricity. It is a new and promising mode of power generation and integrated energy usage with strong development potential. It advocates the principle of “close proximity”: power generation in close proximity, selling to the local grid in close proximity, transformation and usage in close proximity by users. This would not only effectively improve the power generation capacity compared to the PV power plants with the same scale, but also resolves the problem of power losses during step-up and long-range transmission. Distributed PV systems can be built close to the rural, pastoral, mountainous areas, developing urban areas or commercial districts as to meet the demand of local power users.

On 24 July 2013, the PRC Government issued a draft policy within this Guideline suggesting that a trial subsidy would be introduced in pilot scheme areas of distributed PV usage at the rate of RMB0.42 per kWh. This draft policy indicates a major trend of distributed PV power generation in solar power industry development. With the advantages of partial-transparency, color-adjustability, flexibility and bendability and the ability to generate power under low irradiance and higher tolerance to high temperature, thin-film solar power technology is the most suitable PV technology to cater for the distributed PV power generation. It is especially applicable for Building-Integrated Photovoltaic (“BIPV”) and Building-Attached Photovoltaic (“BAPV”) Projects. This policy development is also consistent with the Group’s future expansion strategy into the downstream market.

The Guideline issued by the State Council also sets out the requirements of photo-electric conversion efficiency ratios for future new build projects, the conversion efficiency ratios must be greater than or equal to 20% for mono-crystalline silicon modules, 18% for poly-crystalline silicon modules and 12% for thin-film solar modules respectively. In addition, relating to the manufacture of poly-crystalline silicon, the guideline also stipulates that the total integrated energy consumption for such a process cannot exceed an average of 100 kWh per kg of poly-crystalline silicon material produced, further restricting the energy payback formula for poly-crystalline silicon producers.

In response to the recent regulatory changes, the Group will continue to focus on more advanced thin-film PV technologies, nano-crystalline silicon and Copper Indium Gallium Selenide (“CIGS”), which have higher conversion efficiencies that will meet the minimum threshold set by the Guideline. With the higher conversion efficiency thresholds, a large number of low-end enterprises will be eliminated enhancing the overall market competitiveness and competency.

Furthermore, with the rapid development of thin-film solar power technology, its production cost will continue to decline while conversion efficiency will continue to be enhanced. Together with the advantages of thin-film PV on flexible substrates, the Group believes that it will thrive in this more competitive solar power market.

B. Increase in shareholdings by controlling shareholder of the Company

On 27 February 2013, two tranches of 7,964,611,584 and 300,000,000 shares were issued to Hanergy Investment Limited (“Hanergy Investment”) and Hanergy Option Limited (“Hanergy Option”) respectively (collectively, the “Transactions”), which resulted in the interests held by Hanergy Group and its concert parties increasing from 20.28% to 50.65% of the issued share capital of the Company. As a result, Hanergy Group became the controlling shareholder of the Company as from that date. This marks a significant milestone underscoring the strategic partnership between the Group and Hanergy Group. With Hanergy Group as a strategic partner, the Group can substantially advance its thin-film solar power technology. In addition, Hanergy

Group has the ability to rapidly facilitate the Group's venture into new upstream technologies as well as the downstream domestic and international solar power markets. The Transactions have provided additional funding which allow the Group to make further investments to strengthen its R&D capability, increase its production capacity and pursue other potential expansion opportunities.

In June 2013, Hanergy Investment further increased its controlling stake via open market acquisitions totaling 497,190,000 shares in the Company. This further underlines the importance of the strategic partnership and signifies Hanergy Group's long-term commitment and confidence towards the prospects of the Group.

C. Delivery of turnkey production lines to Hanergy Group

The Group entered into two master sales contracts with Hanergy Group for the sale of equipment and turnkey production lines for the manufacture of thin-film solar PV modules to Hanergy Group in 2010 and 2011 respectively. The table below shows an analysis of the related sales capacity committed and contract revenue recognized in the Group's financial statements:

	2010	2011
	Sales Contract	Sales Contracts
1. Total sales capacity	3,000MW	7,000MW
2. Sales capacity committed by Hanergy Group as at 30/6/2013	1,000MW	2,000MW
	<i>HK\$'mil</i>	<i>HK\$'mil</i>
3. Total contract sum	19,800	46,400
4. To the extent sales capacity committed by Hanergy Group:		
(i) Contract sum attributed to the sales capacity committed	6,600	13,257
(ii) Total cumulative down payment made by Hanergy Group as at 30/6/2013	1,864	860
(iii) Contract revenue (net of VAT and relevant taxation) recognized in:		
Year ended 31/12/2010	2,310	0
Year ended 31/12/2011	1,446	1,009
Year ended 31/12/2012	0	2,756
Period ended 30/6/2013	0	2,080

Pursuant to the two master sales contracts, production lines delivered to Hanergy Group will undergo several phases from move-in and installation, followed by Start of Production (“SOP”) and then End of Ramping (“EOR”), before mass production can begin.

During the period under review, the progress of the Group’s production lines delivered to Hanergy Group’s manufacturing bases is summarised as follows:

(i) *Shuangliu base II (Sichuan) supplementary line, Wujin (Jiangsu) supplementary line and Fab 2.0 Program, Changxing (Zhejiang) supplementary line, Yucheng (Shandong) supplementary line*

Production lines were delivered and installed to the above Hanergy Group’s manufacturing bases. The Group is now expeditiously fine-tuning the manufacturing lines.

(ii) *Shuangliu base I (Sichuan) Fab 2.0 Program, Changxing (Zhejiang)*

Production lines have successfully undergone the SOP stage.

D. Major breakthroughs in research and development (the “R&D”) of the Company

The Group’s technological advancement continues to break new grounds. In June 2013, the Group announced its Fab 2.0 Program to its manufacturing processes that resulted in a significant improvement in the performance of the turnkey production lines as well as allowing its customers to save on its module production costs. The following is a summary of the Fab 2.0 Program:

- (i) The upgrade of the Plasma Enhanced Chemical Vapour Deposition (“PECVD”) tools results in further improvement in the conversion efficiency of PV modules produced by its turnkey lines and the reduction in the usage of key source gases for each solar module manufactured, significantly reducing direct material costs. In addition, by replacing aluminum with silver for the back contact of the PV modules, light absorption by the photo-electrically active layers in the modules is also enhanced.
- (ii) The process cycle time (including box carrier in and out time) for each PECVD unit is reduced from approximately 5.5 hours to 3.4 hours, and as such, the output capacity of the PECVD unit is enhanced by approximately 61.8%. The upgraded PECVD process further shortens the production time of each 72-plate batch from 5.5 hours to 3.2 hours such that the output of each PECVD unit increases from 300 pieces to over 520 pieces of glass plates per day. According to an equilibrium capacity analysis, the output tempo of certain parts of the production line is quickened from 8 seconds to 5.8 seconds per module. Accordingly, to match the output tempo of 5.8 seconds, the Group has applied certain newly upgraded systems to the rest of the production line, including thermal annealing,

lamination, laser scribing and Physical Vapour Deposition (the “PVD”) or sputtering systems, and carried out transformation and adjustment to equipment for glass seaming, washing, shunt busting, laser scribing, laser edge deletion and foil bonding.

In addition, certain manual processes such as sheet dispensing, potting and module unloading have been automated to enhance the level of automation and production efficiency, reducing the number of workers required in the production line by 16% and saving the related manpower costs.

With the Fab 2.0 Program, the conversion efficiency of solar modules, the output speed of the production line and the production capacity are further enhanced. Together with more automated operating processes which significantly reduce the manpower used, as a result, the total manufacturing costs of solar modules could be substantially decreased by approximately 9.34% on a per-watt basis. The output of the turnkey lines could be increased by 50% while the number of PECVD units used remain the same. This implies an increase in the gross profit margin of the Group’s turnkey line business.

The Group has developed new butyl edge sealing equipment and process, an upgraded encapsulation (lamination) technology which significantly enhances the reliability and the useful life of the solar PV modules, and increases the competitiveness of its customers’ products. Internal reliability tests have been performed for solar modules manufactured using this upgraded encapsulation technology under the standard testing environments of 85°C high temperature and 85% high humidity (the “Double85 test”) set by the International Electrotechnical Institute Commission 61646 (the “IEC 61646”). The Group’s solar modules can sustain over 6,000 hours under the Double85 test, far more than the standard 1,000 hours as required by the IEC 61646. Under the Double85 test environment, during the 6,000-hour accelerated life cycle, the percentage change in conversion efficiency remains minimal and wet leakage current is below the safety ceiling of 20 Microampere (the “ μ A”), proving the safety, stability and reliability of its solar modules.

The Group’s R&D function is critical to its success. Its extensive research work helps the Group to face the challenges not only from decreasing ASP but also from increasing competition in both thin-film and poly-crystalline silicon market participants all over the world. The Group’s R&D department is instrumental in achieving the enhanced results in its Fab2.0 Program and the Group expects it to get stronger as it continues to invest in acquiring leading edge technologies around the world to complement its product development going into 2H 2013 and beyond.

E. Venturing into downstream solar business in future

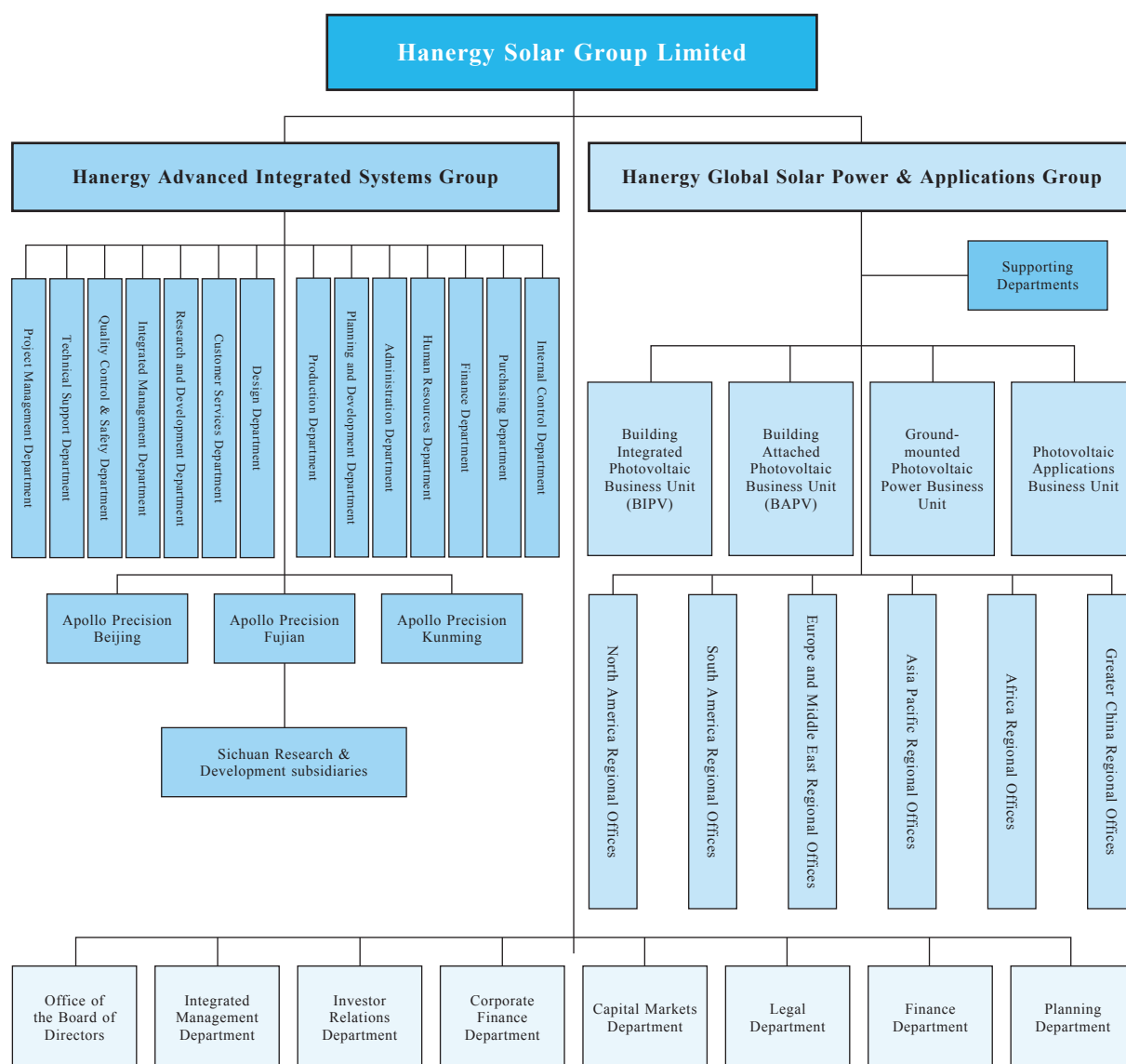
(i) Current status of downstream solar projects

As disclosed in the Company's announcements dated 12 March 2013, 20 March 2013 and 29 April 2013 regarding the possible acquisitions of downstream solar power projects, the Group can provide the latest developments. With respect to the 4.4MW Portugal project, the Group and the seller did not reach an agreement on the terms of the possible acquisition, therefore the project has been terminated. With respect to the 1.05MW US project, the agreement was duly signed on 31 July 2013.

(ii) Establishment of the Power Group for venturing into downstream solar segment

In May 2013, the Group has resolved to form the newly established Hanergy Global Solar Power and Applications Group, which will be comprising four business units and six regional offices. Leveraging its solid strengths in upstream thin-film solar technology, the Group is committed to becoming the industry leader of the global high-tech thin-film solar business through actively venturing into the downstream business of global solar power generation market and new solar applications for industrial, commercial and household uses around the world on a large-scale basis.

Expected Future Group Structure



Hanergy Global Solar Power and Applications Group comprises of four major business units:

- (i) **Building integrated photovoltaic business unit (BIPV):** Focusing on the use of colourful and/or partially-transparent thin-film solar modules which are integrated with building materials such that solar power can be generated as part of the overall building design. The key target markets of the BIPV Unit are commercial buildings and large-scale public buildings.
- (ii) **Building attached photovoltaic business unit (BAPV):** Adopting the thin-film solar modules with flexible substrates which are light, bendable and size adjustable, which are suitable for all types of roof-tops, in particular those industrial and commercial roof-tops and low density residential roof-tops.

- (iii) **Ground-mounted photovoltaic power business unit:** Principally engaged in developing large-scale ground-mounted solar power generation plants globally. Leveraging on the advantages of the thin-film solar power technology, such as the ability to generate solar power even under low irradiance conditions and conversion efficiencies less affected by high temperature environments, the Group can achieve power generation with thin-film solar technology with a lower cost advantage.
- (iv) **Photovoltaic applications business unit:** Committed to apply thin-film solar technology and flexible solar power technology to other business sectors to develop innovative solar products such as solar home appliances, solar lamps, solar portable products and automotive alternative power systems.

The six regional offices which are located in the North America, South America, Africa, Europe & Middle East, Asia Pacific and the PRC, are responsible for providing assistance and facilitating the development of business units, and are in charge of market development, public relations, communications and network building. Under the guidance of the business units, the regional offices will manage the development and related operations of the downstream solar power projects.

The development of thin-film and flexible solar power modules is a clear trend of the future solar power industry. The objectives of the establishment of Hanergy Global Solar Power and Applications Group and its business units are to provide products and system solutions with unique technology advantages to customers around the world, and to maximise the applications of a wide range of thin-film solar modules and flexible solar technologies in various market segments so that the Group can fully leverage its unique advantage in technology and to capture the most extensive market potentials.

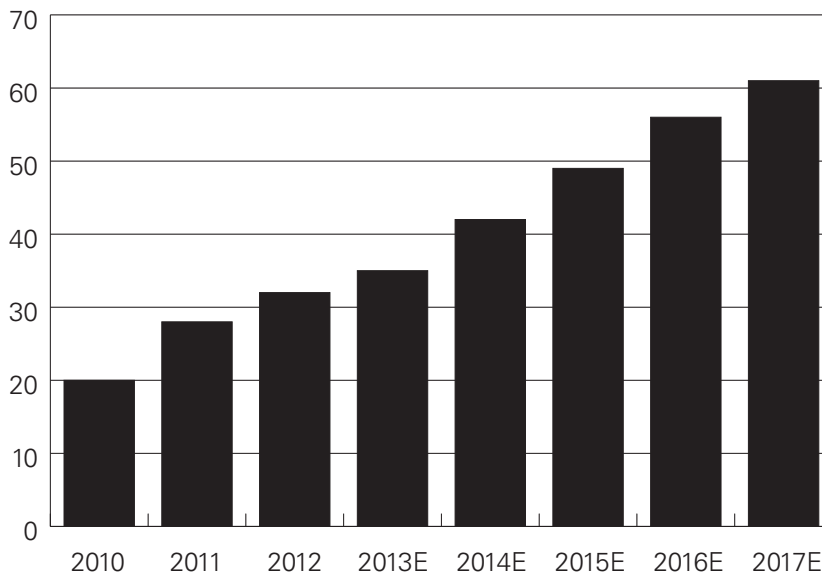
OUTLOOK

A. Current global solar energy market

Attributable to a more diversified global demand for energy, demand for solar installation remains strong. Emerging PV markets such as the PRC, Japan and the US are playing an increasing role. At the same time, global public awareness for environmental protection is increasing, pushing up demand for clean and renewable energy sources. With the anti-dumping conflict largely resolved and continued support for the industry by regulators, the global solar demand is expected to grow at a significant pace in the next few years.

According to independent research on global PV demand projections, the PV industry is expected to continue to grow in 2013 and exceed 35GW for the first time, an increase of 9.4% from 2012. There will be cumulative new PV demand of 242GW during 2013-2017 with annual demand expected to reach 61GW in 2017 forecasting a 5 year CAGR growth of around 15%.

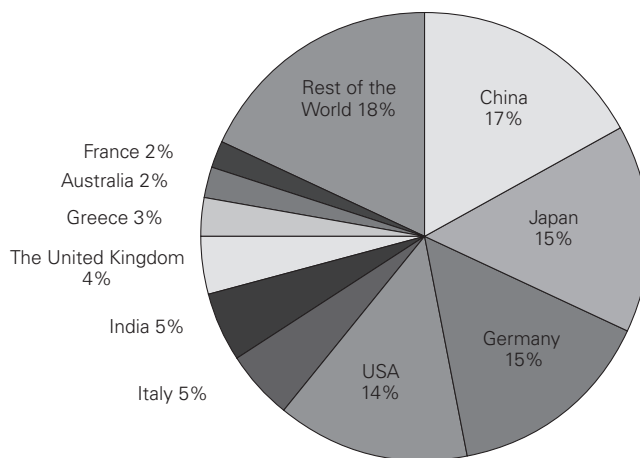
Worldwide PV Installation Forecast (GW) 2013



Source: IHS research

As illustrated in the pie chart below, it is estimated that the PRC will, for the first time, outpace Germany to become the global leading PV consumer in 2013. In addition, Japan and the US are set to become the second and fourth largest single-country market in the world in 2013, respectively.

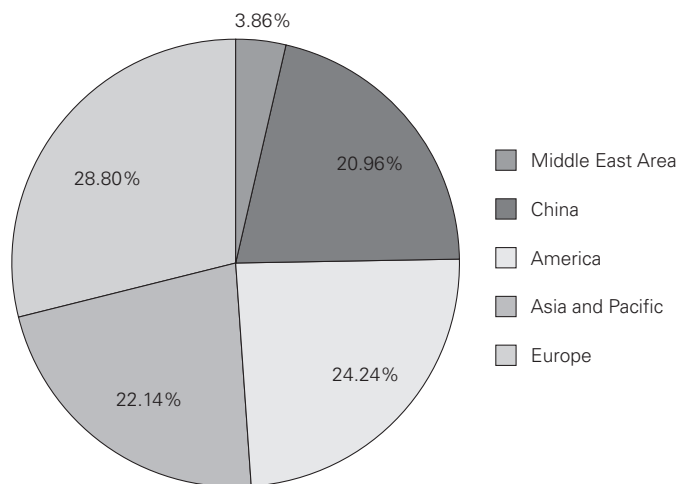
Top 10 Global Solar PV Markets in 2013



Source: IHS research

As shown in the pie chart below and going forward up to 2017, the PRC is expected to remain as a significant player in global PV market, further underlining the Group’s expansion potential.

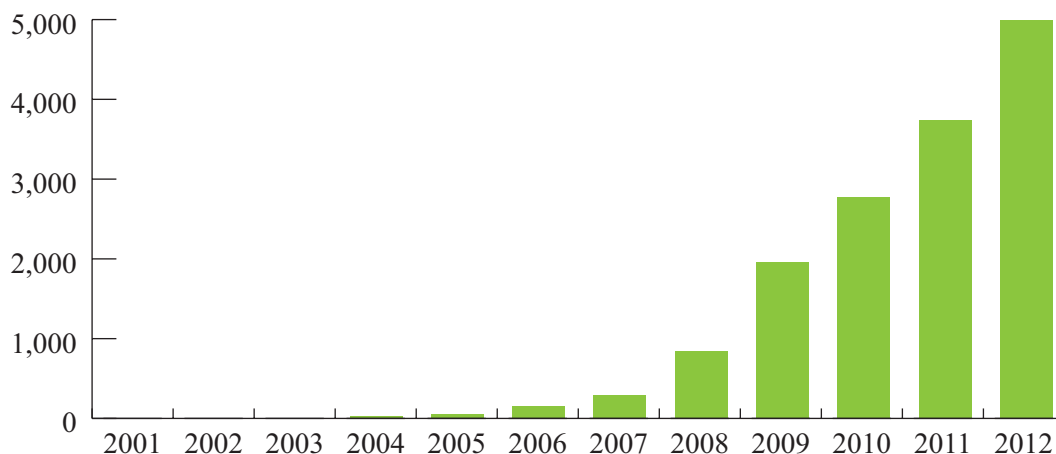
Cumulative New PV Demand by Location during 2013-2017



Source: EPIA Global Market Outlook for Photovoltaic (2013-2017)

Due to the issues of sustainability of poly-crystalline silicon supply and anti-dumping disputes on poly-crystalline silicon PV modules, thin-film technology is growing in importance and has been developing rapidly over the past few years.

2001-2012 Global Thin-film Modules Production Volume (in MW)



Source: OFweek research

The chart above highlights that the global thin-film PV module production before 2005 was relatively small, with an annual output of less than 100MW. This has expanded rapidly and by 2009, global thin-film solar power modules production for the first time exceeded 1GW, reaching close to 2GW, and by 2012, this had reached 5GW, a 5 year CAGR growth of around 50%.

B. Encouraging support from the Central People’s Government of the PRC (the “PRC Government”)

The National Development and Reform Committee of the PRC Government (the “NDRC”), indicated on 2 August 2013 that the PRC will reduce reliance on traditional fossil fuels for power generation which accounted for 72.5% of total power generation, down to approximately 30% by 2050, where renewable energy will play a decisive role.

(i) “12th 5-year Development Plans on green buildings and green eco-city” (the “Green Plan”)

The Ministry of Housing and Urban-Rural Development of the State Council released on 3 April 2013 the Green Plan which requires 50% of new buildings in urban areas to meet green building standards by the end of 2015, including the application of renewable energy, such as solar PV. In particular, green building standards stipulate that the renewable resource proportion of the total energy consumption shall be greater than 5% and 2% for residential and public buildings, respectively. This will be favourable to thin-film PV development on distributed solar power generation, as it enjoys comparative advantages over poly-crystalline silicon and other renewable energy sources particularly in urban areas.

(ii) Directive policies on environmental protection outlined at the executive meeting of the State Council on 14 June 2013

Further, on 14 June 2013, during the executive meeting of the State Council, certain directive policies to control nationwide pollution issues were outlined, including (i) upgrading current capacity, prevention of over-supply of capacity in solar power, and increasing emission standards in high pollution and energy consumption sectors; and (ii) accelerating energy structural reforms and increasing the use of clean and renewable energy sources.

The State Council indicated that it is expected to clarify a series of supportive policies, including, among others, (i) strengthening industrial policy guidance, focusing on promoting distributed solar applications; (ii) grid development to be concurrent with solar power project development and priority for PV grid access; (iii) the implementation of a layered national Feed-in Tariff (“FiT”) scheme for distributed solar power generation, increasing renewable energy funding sources and ensuring solar power subsidies to project developers in a timely manner; (iv) encouraging financial institutions to support solar PV companies with a leading cost structure and technological edge; and (v) encouraging industry consolidation and limiting “blind” capacity expansion.

(iii) “Guidelines from the State Council on encouraging healthy solar industry developments) document [2013] No. 24

On 15 July 2013, the State Council issued the Guideline which covers the following areas:

The State Council reiterated a target for solar installed capacity of 10GW per annum between 2013 and 2015, bringing the total solar installed capacity to 35GW by 2015. In response to this, the Group will continue to focus on more advanced thin-film technologies including nano-crystalline silicon and CIGS, which currently have higher conversion efficiencies. A requirement relating to the manufacture of poly-crystalline silicon, the Guideline also stipulates that the total integrated energy consumption for such a process cannot exceed an average of 100kWh per kg of poly-crystalline silicon produced, strictly controlling the development of poly-crystalline silicon solar powered projects, effectively closing sub-scale poly-crystalline silicon facilities. As thin-film is produced in a relatively more environmentally-friendly way with significantly lower energy consumption, no such restrictions currently apply.

In fact, the PRC Government has continued to promote the distributed PV power generation market by encouraging self-generating solar power for self-use with the excess sold to the grid. Such distributed PV power generation guidelines will lead to more BIPV or BAPV projects than traditional ground-mounted power generation plants. The PRC Government will give higher priority to those distributed power generation plants on industrial or commercial buildings where there are higher electricity costs, while at the same time encouraging smaller scale distributed power generation plants for public utilities such as schools, hospitals, government buildings, residential and other social facilities.

In terms of financial support, the Guideline indicates that the PRC Government would promulgate detailed policies on FiT for on-grid and subsidies for distributed solar power projects with a timeframe of 20 years. Allowable deductions will be given to eligible R&D expenses on solar technology for taxation purposes. Tax breaks will be offered to solar companies that acquire others, merge or re-organise their operations to improve performance. In addition, the PRC Government has encouraged financial institutions to provide credit support to solar PV companies with profitable orders, advanced technology, independent intellectual property rights and large development potential.

To ensure sufficient funding for FiT and subsidies for distributed solar power operators, the PRC Government will increase the current renewable energy surcharges imposed on all electricity users for energy from non-renewable sources. According to market commentators, the surcharge may increase conservatively from RMB0.008/kWh to RMB0.015/kWh, which implies a receipt for the renewable energy fund of approximately RMB40 billion (equivalent to approximately HK\$50 billion) per annum.

(iv) Proposed FiT/Subsidies

The current market expectation on FiT proposed by NDRC for ground-mounted PV stations is likely to be RMB0.8/kWh, RMB0.9/kWh, RMB1/kWh and RMB1.05/kWh (according to different regions) and the eventual subsidies for distributed PV power will likely range from RMB0.2/kWh, RMB0.4/kWh and RMB0.6/kWh (industrial, commercial and residential respectively). This is pending finalisation by NDRC and is expected to be released in due course. With its positive effects, local government has introduced higher standards of indigenous subsidy policies for distributed PV power generation prior to the ones from NDRC. The Group believes that the proposed FiT and subsidies, together with the policy coordination between central and local authorities, demonstrates that the PRC Government is fully supportive and committed to the development of the domestic distributed solar power market.

(v) Possible Reduction in Value Added Tax (“VAT”) for the Solar Industry

The State Council indicated that there is a need to unify the mechanism for central financial support for PV development and solar power generation to bring it in-line with the preferential 50% VAT reduction that is currently applicable to wind power operators. PV power plant operations are currently subject to the standard rate of VAT at 17%. According to market reports, the relevant PRC authorities are expected to provide the preferential VAT treatment for the PV operators in the near future thereby help the PV industry in reducing upfront costs leading to a more attractive downstream solar power market for investors.

With the above policies and directions, the PRC Government is dedicated to the development of distributed solar power generation plants. To achieve this, the PRC Government is attempting to remove possible hurdles for solar PV grid-connection by providing priority to PV going on-grid, setting clear policies and prices for sales of solar power on-grid, making it compulsory for grid companies to purchase all excess solar power generated, and ensuring grid-development is in place with PV generation power development. All these policies will help provide a formal framework for the development of distributed PV power generation.

Thin-film PV is expected to benefit more from these policies on distributed power generation as thin-film can be installed flat or side-by-side on rooftops or vertical walls. Thin-film modules can also be made semi-transparent which can be integrated into buildings as windows for BIPV projects. Light weight thin-film modules can be fixed and installed on the surface of buildings more easily for BAPV projects. Thin-film PV devices can also be made on flexible substrates such that they are bendable for rooftops with curved surfaces. The Group believes that thin-film and flexible PV technology are a perfect match for distributed solar power generation, the future trend in the distributed solar power market.

In addition, the aforementioned encouraging policies set a favourable environment for the PRC to becoming the world's largest solar market, overtaking Germany in 2013. The target for new solar installed capacity of 10GW in 2013, representing 100% growth compared to 2012 provides market participant with hope to drive the development of this new frontier. The PRC Government expects that total installed capacity of solar power industry will reach 35GW by 2015 and 100GW by 2020. The Group will accelerate the delivery of its turnkey production lines to its customers in order to meet the increasing demand for solar modules for downstream development. The Group believes that a bright future lies ahead for the solar power industry and that it is well positioned to take advantage of these changes for its own expansion and development.

C. Strengthening Co-operation with Hanergy Group

Hanergy Group is a private company mainly engaged in the clean energy business including investment in hydro power, wind power and solar power projects. Hanergy Group's developments in the solar energy industry include both mid-stream production of solar PV modules and downstream development of global solar power plants or roof-top projects, including BIPV and BAPV.

Hanergy Group became the Group's largest and controlling shareholder on 27 February 2013 and at the same time has dedicated the Group as its sole solar business flagship. During the past six months, the Group has significantly increased its delivery of turnkey production lines to Hanergy Group which has resulted in the superior 1H 2013 financial performance presented in this set of the interim results. The reasons as detailed in the Positive Profit Alert Announcement made by the Group on 1 August 2013 include an over 80% increase in profit driven by a substantial increase in the capacity of the turnkey production lines delivered. At the same time, the Group's profitability also improved significantly as a result of the Group's Fab2.0 Program Upgrade to its production line that increased productivity without a significant corresponding increase in costs.

Going forward, the Group expects this effective cooperation with Hanergy Group to continue in the areas of upstream turnkey production line enhancements and delivery as well as developing leading thin-film related solar PV technologies for the future.

D. Continuous R&D investment on leading edge thin-film technology

Following the significant technology breakthroughs announced by the Group in 2012 and 2013 which enhanced its turnkey production line's performance, the Group has maintained its leading position and focus on its R&D activities. With the Group's R&D centre of excellence in Shuangliu of Sichuan Province housing the world's leading scientists to carry out research into the latest thin-film PV technological advancements, the Group has benefited from this extensive expertise and superb creativity that have led to major improvements in the conversion efficiency of the solar modules, cutting manufacturing time, automating certain labour intensive tasks and reducing raw material input costs for its customers. The Group expects to continue to

invest in R&D both organically and externally. It will look to acquire attractive assets that are complementary to its existing businesses as well as internally enhance production methods to bring better performance to its existing equipment and processes.

- (i) In light of the latest regulatory changes as announced by the State Council of China regarding the minimum photo-electric conversion efficiency values for newly constructed solar PV module manufacturing bases (12% for thin-film, 18% for poly-crystalline silicon and 20% for mono-crystalline silicon), the Group has intensified its R&D efforts in nano-crystalline silicon thin-film PV technology as well as researching other new technologies, including CIGS. The Group is formulating a strategy that will meet the minimum conversion efficiency thresholds stipulated by the latest regulation to further its future expansion program.

The Group expects that as a result of the new minimum conversion efficiency ratio criteria, it will recalibrate its internal efforts towards the more advanced technology of nano-crystalline silicon but this will not sabotage the existing amorphous-silicon expertise and capital expenditure already acquired or spent. The nano-crystalline silicon technology is an upgrade to the existing technology by the replacement of amorphous silicon-germanium bottom cell with a nano-crystalline silicon solar cell in the multi-junction thin film PV product.

In addition, the Group believes that the thin-film PV end-user market could be diverse thus creating a wider demand catering for different technology requirements from existing amorphous-silicon through to other new technologies. The Group's future product mix will be led by the ultimate customer market in the downstream sector and depending on the prevailing trends, the Group will adapt its product capabilities, expertise, manpower and R&D efforts towards a complete alignment with market requirements.

- (ii) In addition to the Group's continued R&D efforts towards improving its existing amorphous-silicon and nano-crystalline silicon technology, the Group will expand its efforts to include research into the latest CIGS technology. The Group's R&D teams will work together with a common goal of producing turnkey production lines that meets customers' requirements as well as delivering products that incorporates the latest technologies which leads to achieving the lowest cost and the highest conversion efficiencies for its customer's modules
- (iii) The Group believes that flexible thin-film PV modules possess a greater competitive edge as compared to traditional rigid poly-crystalline silicon modules for roof-top (BIPV and BAPV) projects due to its lighter weight, better low-irradiance performance, higher response to indirect sunlight, lower sensitivity to higher operating temperatures, as well as their simpler attachment onto buildings and rooftops. By striving to acquire the world's leading thin-film technologies via global acquisitions and investing in its R&D function, the Group has set BIPV and BAPV as its key business model direction and will steer its R&D focus towards those areas of attractive new market development.

- (iv) In addition to the above BIPV, BAPV and solar farm projects, the Group will also carry out other R&D work on consumer and smaller scale products that utilises thin-film solar technology. This includes possible research into everyday products including car solar sun-roofs, in-car battery charging devices, back-pack charging devices as well as incorporating thin-film solar modules onto bus stop roof-tops, sun parasols and street lamps to create leading edge products that utilises thin-film solar power as a potential clean and sustainable source of energy.

Going forward, the Group continues to believe that R&D is at the core of its future development. In terms of direction, the Group will increasingly identify itself with thin-film solar products with a focus on newer technologies as well as flexible substrate capabilities and will steer its R&D investments in further making leading discoveries in these areas. From an external perspective, the Group will continue to review and possibly acquire CIGS technologies to widen its scope of product choice to its customers.

E. Future business model to include emphasis on the downstream solar energy industry segment

The solar industry in general has had its challenges over the recent past. Although the market has stabilized and rebounded to an extent, the future trend in terms of module prices remains in a downward direction. Given this backdrop and the continued support provided by the regulatory initiatives around the world and in particular in China, the Group believes that it is imperative for it to expand its business model into the downstream sector. The rationale of this strategy is to enable the Group to take advantage of falling prices of PV modules and balance of system components to achieve higher returns available in the downstream sector that will enhance the profitability within its business mix. The Group also believes that the downstream sector has better market potential in terms of scale while it will also widen its revenue source to new areas of operation.

The Chinese regulatory initiatives relating to BIPV and BAPV solar projects as well as solar farms indicate that the Chinese Government is fully committed to promoting the development of the solar energy industry in China. The favorable FiT as well as the subsidies for distributed power generation as tools for promoting self-use power generation has underlined the Chinese Government's intentions for an aggressive build-up of end user market for solar power in the country. China's State Council has outlined the plan for the country to construct 10GW of new solar powered installed capacity in each of 2013 to 2015 with a target of reaching a total installed capacity of 35GW by 2015 and reportedly towards 100GW by 2020.

The Group is well positioned to take advantage of this surge in capacity build-up in China and the distributed power focus of this new regulatory environment will no doubt favour the Group's thin-film PV technology as the preferred technology within the requirements of the BIPV and BAPV projects. In order to fully capture the downstream expansion drive, the Group has positioned itself into three distinct areas of operation in the downstream segment:

(i) *Engineering, procurement and construction (“EPC”)*

This is a contracting arrangement under which the Group will act as a contractor to design, install and procure the solar modules for the construction of the solar farms or roof-top projects for customers, either directly or by subcontracting the work to third parties. The remuneration for the Group will be in the form of receiving contracting fees for each EPC contract. The Group will recruit the necessary manpower and expertise in the PRC and various overseas countries who have rich experience in ground mounted, BIPV and BAPV solar projects.

(ii) *Building and operation*

The Group may build and operate the solar farms or roof-top power stations by itself. The power stations will be connected to electricity grids such that the Group can enjoy a stable revenue stream from selling electricity to the electricity grids. For roof-top projects, the electricity generated from solar modules can be connected to the power grid or supplied directly to the underlying or adjacent buildings such that electricity generated from solar power can be consumed directly.

The Group will assemble a strong workforce of seasoned professionals who have extensive experience and expertise in operating solar power projects around the world to lead this important new business development area in the near future.

(iii) *Build and sell*

The Group may build the solar farms or roof-top power stations and once connected to the electricity grids, the power stations could be sold to long term investors such as pension/mutual funds, sovereign wealth funds, private equity investors or strategic utility players. In addition, the Group will consider using various financial instruments to finance the solar power projects such as securitisation, Real Estate Investment Trust (“REIT”) or other forms of steady income trusts to transfer the Group’s interests in these solar power projects to investors.

The Group targets both roof-top and ground mounted projects both in the PRC and overseas markets. The Group believes that the successful execution of the downstream strategy will be key to the future sustainability and expansion of its business model. In order to optimise the success rate of this strategy, the Group will continue to actively look for opportunities in investing in all of its six regional areas of operation (North America, South America, Africa, Middle East & Europe, Asia Pacific, Greater China) by acquiring early stage existing solar projects that can utilise the Group’s solar modules or developing the solar projects on its own. The Group will also assess its investment strategies in light of the prevailing subsidy schemes available in the respective downstream operating regions.

The Group's increased emphasis on the downstream sector will provide an additional source of income stream that complements its existing upstream revenues. The integration of the upstream and downstream segments will consolidate the Group's business model into a solid and sustainable platform through which it can conduct its solar power energy expansion into global markets in becoming a world leading solar power company.

F. Group restructuring

As part of the Group's business model evolution, it will continue to undergo the necessary organisational restructuring to cater for the development of the new downstream business unit as well as acquiring new solar technologies. It is envisaged that the Group's new downstream business division will focus on four business areas (BIPV, BAPV, solar farms and consumer products) that will be geographically split into six separate regional offices (North America, South America, Africa, Middle East & Europe, Asia Pacific and Greater China) with significant professional personnel presence. As the Group's business model evolves from a pure upstream turnkey line producer to that including downstream solar power generation businesses, the contribution from the downstream portion is expected to form a significant part of the Group's total revenue and profitability going forward.

The Group will invest heavily both in capital investment and human resources for the new downstream business unit. The Group will recruit the necessary people globally including (i) a strong solar project management team to equip them with the capabilities in sourcing and operating solar farms or roof-top projects; (ii) construction teams capable of managing the EPC of solar farms or roof-top projects which will be formed in all six operating regions; (iii) sales teams to identify potential buyers for the Group's solar power plants and products; and (iv) a finance team to source financing for the downstream projects. It is expected that the Group's total future headcount will increase substantially, with the workforce for the new downstream business exceeding that of the current turnkey operations.

G. Acquisition of solar technology

The solar power industry is a fast moving, ever changing and recently challenging environment. The Group believes that technology is key to surviving and excelling in such a demanding environment. Therefore, it dedicates significant resources and manpower to seek out the latest and necessary technologies within the entire path of its supply chain to allow for any meaningful improvements to be gained via acquisitions or internally researched technologies. This philosophy is adopted throughout the Group's operations to achieve the highest results for its turnkey lines.

Up to now, the Group had focused its efforts in amorphous-silicon and more recently in nano-crystalline silicon thin-film PV module manufacturing technology. Going forward, the Group believes that the future market development will centre on mass produced flexible CIGS thin-film technology that is highly efficient and produced at the lowest cost. This would lead to thin-film solar modules competing with the ones made with traditional crystalline silicon and

the aim is to even surpass the levelised cost for conventional electric power, thus making thin-film solar power the leading candidate to achieving widespread grid parity in the solar power industry. The Group will actively and aggressively pursue market leading technologies that will enhance the Group's businesses to be in-line with the above strategic direction. It will aggressively carry out this strategy through both external and internal means by utilizing all of its available resources.

H. Going global

The Group believes that the solar market is very much globally connected. The European solar market has this year for the second time shown signs of slowing down mainly due to the slow-down in newly installed capacity in Germany, which despite this slow-down, remains to be the largest solar market in the world. Other markets, for example, Japan, US and China have grown rapidly and are expected to take over as the largest and fastest growing solar regions in the future global solar market. As a result, the Group believes that it needs to take this opportunity to capture global market share, especially in the downstream market in order to secure a more widespread use of thin-film solar modules. The Group will utilise its new downstream business unit through its 6 regional offices in order to realize its strategy of building a truly global solar thin-film PV platform that delivers the latest technology to its customers.

INTERIM DIVIDEND

The Board does not recommend declaring an interim dividend for the six months ended 30 June 2013 (2012: Nil).

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2013, the Group did not have any bank borrowings (31 December 2012: Nil) while the cash and bank balances amounted to approximately HK\$1,204,421,000 (31 December 2012: approximately HK\$707,958,000).

Gearing ratio (total borrowings (exclude convertible bonds) over shareholders' equity) as at 30 June 2013 was 0% (31 December 2012: 0%).

TREASURY POLICIES AND EXCHANGE & OTHER EXPOSURES

The Group's monetary transactions and deposits continued to be in the form of US dollars, Renminbi and Hong Kong dollars. The Group expected that the exposure to exchange rates fluctuation was not significant and therefore had not engaged in any hedging activities.

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 30 June 2013 (31 December 2012: Nil).

CHARGES ON ASSETS

As at 30 June 2013, the Group did not have any charges on its leasehold land and buildings (31 December 2012: Nil).

PERSONNEL

The number of employees of the Group as at 30 June 2013 was 549 (31 December 2012: approximately 424) of whom approximately 132 (31 December 2012: approximately 126) were office administration staff.

Remuneration of employees and directors of the Group are determined according to individual performance and the prevailing trends in different areas and reviewed on an annual basis. The Group has also contributed mandatory provident fund, retirement funds and provided medical insurance to its employees.

Bonuses are awarded based on individual performance and overall group performance, and are made to certain employees of the Group.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has complied with the Corporate Governance Code as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2013.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six month period ended 30 June 2013.

DISCLOSURE OF CHANGE OF INFORMATION OF DIRECTORS UNDER RULES 13.51B(1) AND 13.51(2) OF THE LISTING RULES

The monthly remunerations of Mr. Frank Mingfang Dai, Dr. Li Yuan-min, Mr. Hui Ka Wah, Ronnie J.P., Mr. Chen Li, Mr. Li Guangmin, Ms. Zhao Lan, Mr. Wong Wing Ho, and Mr. Wang Tongbo have been increased to HK\$270,040, HK\$15,000, HK\$340,000, HK\$98,333, HK\$56,666, HK\$10,000, HK\$10,000 and HK\$10,000 respectively since 1 March 2013 with reference to their respective duties and responsibilities in the Group as well as the prevailing market condition.

Save those changes mentioned above, there is no change of information of each Director that is required to be disclosed under Rules 13.51B(1) and 13.51(2) of the Listing Rules, since the publication of 2012 Annual Report.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard set out in Appendix 10 of the Listing Rules (the “Model Code”). Having made specific enquiry of all the Directors, all the Directors confirmed that they have complied with the required standard set out in the Model Code and the code of conduct regarding securities transactions by Directors adopted by the Company.

REVIEW OF INTERIM FINANCIAL STATEMENTS

The unaudited interim financial statements for the six months ended 30 June 2013 (“Interim Financial Statements”), had been reviewed by the Company’s audit committee, who are of opinion that the Interim Financial Statements comply with applicable accounting standard and the Listing Rules, and that adequate disclosures have been made.

APPRECIATION

Our Group’s success depends on all our staff’s commitment, dedication and professionalism. On behalf of the Board, I would like to thank every staff for their diligence and dedication. I would also take this opportunity to express my sincere appreciation to our shareholders, customers and suppliers for their continuous and valuable support.

On behalf of the Board

Frank Mingfang Dai

Chairman and Chief Executive Officer

Hong Kong, 30 August 2013

As at the date of this announcement, the executive Directors are Mr. Frank Mingfang Dai (Chairman and Chief Executive Officer), Dr. Li Yuan-min (Deputy Chairman and Chief Technology Officer), Mr. Hui Ka Wah, Ronnie J.P. (Finance Director and Senior Vice-President), Mr. Chen Li and Mr. Li Guangmin; and the independent non-executive Directors are Ms. Zhao Lan, Mr. Wong Wing Ho and Mr. Wang Tongbo.