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Solargiga Energy Holdings Limited

陽光能源控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 757)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2021 (continued)

	Note	**At 30 June 2021** ***RMB'000*** **(Unaudited)**	At 31 December 2020 *RMB'000* (Audited)
Non-current liabilities			

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

1. BASIS OF PREPARATION

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

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

The Group has carried out a review of its cash flow forecast for the twelve months ending 30 June 2022. Based on such forecast, the directors believe that adequate sources of liquidity exist to fund the Group's working capital and capital expenditure requirements, and to meet its short-term debt obligations and other liabilities and commitments as they become due in the twelve months ending 30 June 2022. In preparing the cash flow forecast, management has considered historical cash requirements of the Group, as well as other key factors, including unutilised banking (e)0.5 (l)0.5 4cmities es bt

3. SEGMENT REPORTING

In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resources allocation and performance assessment, the Group has identified four reportable segments: (i) the manufacture of, trading of, and provision of proe assets0.5 (e)10.5 (r (m)0.5 (a)0i(s)10.5 (a)0.5 (l)0.5 (l)0.5f(r)0.5 (c)0.5r5 (n)0.5 (a)0.5os)0.5 (e)0.5e

	Six months ended 30 June 2020				
	Segment A	Segment B	Segment C	Segment D	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue from external customers	767,450	1,815,545	13,815	2,851	2,599,661
Intersegment revenue	103,866	775,363	311,531	4,678	1,195,438
Reportable segment revenue	871,316	2,590,908	325,346	7,529	3,795,099
Reportable segment profit/(loss)	18,704	26,499	(85,214)	(2,691)	(42,702)

	As at 31 December 2020				
	Segment A	Segment B	Segment C	Segment D	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)
Reportable segment assets	2,214,286	2,805,411	393,364	188,642	5,601,703
Reportable segment liabilities	2,195,720	2,729,005	230,847	106,135	5,261,707

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

4. OTHER INCOME AND GAINS, NET

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

5. PROFIT/(LOSS) BEFORE TAX

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

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

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

6. INCOME TAX EXPENSE

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

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

(a) Basic earnings/(loss) per share

9. TRADE AND BILLS RECEIVABLES

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

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

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

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

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

10. CONTRACT ASSETS

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

11. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

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

12. TRADE AND BILLS PAYABLES

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

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

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

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

13. OTHER PAYABLES AND ACCRUALS

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

14. CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

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

(b) Share capital

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

	No. of shares	**Amount** *RMB'000*
As at 31 December 2020 (Audited)	3,143,771,133	270,867
Issue of Shares *(no(i)0.5 d)*		

MANAGEMENT DISCUSSION AND ANALYSIS

Market Overview

In the first half of 2021, the global epidemic has been gradually subsiding and economic activities has (t)10.5 Bnb (i)0.6 (e)0.6 (e)0.n (s (t)10.5 Bnr (i)0.6 (e)0.5 (e)0.u (i)0.m (t)0.5 (i)0.n (i)0

According to the data provided by PVInfoLink, the price of silicon materials as at the end of the first half of 2021 has surged by more than 135% compared to the beginning of the year. PVInfoLink anticipated that the price of polysilicon will remain stable in the short term, and given that there will be an upsurge of installation in the second half of the year, it is expected that there will not be much room for the price of modules to drop. In June 2021, the National Energy Administration issued the "Notice on Submitting the Pilot Scheme for the Development of Distributed Photovoltaics on the Roof of the Entire Counties (Cities, Districts)" (• ë õ Ô Æ $€ 9 e • ß ± : Ì ˆ • š ï Ã Ù é Y ·] ‘), it set out specific installation targets on governmental departments, public facilities, industrial and commercial buildings and rural houses, based on two key principles, which were "to make photovoltaic installation as much as possible" and "to make grid connection as much as possible". Since the notice was published, 24 provinces and cities have announced details of their corresponding targets. Distributed photovoltaic installations increased by 7.65 GW in the first half of 2021, representing a growth of 73% as compared to last year, and it is expected that photovoltaic installations for the second half of the year would be further increased. Wang Bohua, the honorary chairman of the China Photovoltaic Industry Association, said that China's addition photovoltaic capacity in 2021 will reach 55–65 GW.

According to a report jointly issued by Wood Mackenzie Power & Renewables ("**Wood (ÿTJETE

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

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

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

Operations Review

Operations Summary

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

As the first batch of domestic photovoltaic enterprises engaged in the production of czochralski monocrystalline silicon ingots, through 20 years of experience in manufacturing monocrystalline silicon ingot, the Group now has accumulated mature experience in terms of technology, domestic and overseas market development, industrial chain cooperation, brand effect, etc.. Subsidiaries of the Group have obtained 150 National patents, 28 provincial and municipal science and technology first prizes, second prizes, achievement awards, are awarded titles of: National high-tech enterprise, National green factory, Global Top 500 New Energy Companies (No.228), Top 100 New Energy Companies Global Competitiveness (No.92), Top 500 PRC Energy Group

Silicon ingot and wafer business

The Group is one of the earliest enterprises in PRC to invest in the production of monocrystalline silicon ingots and wafers. At present, monocrystalline silicon ingot products are mostly used for the internal production of monocrystalline silicon wafers within the Group, and less engaged in external sales. Monocrystalline silicon wafer products of the Group are mostly sold to thiro e (t)0.5 (e)0.5 (r)0.5 (n)0.5 (a)0.5 (l)10.5 (

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

Module businesses

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

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

The current main base of the Group for monocrystalline module production is located in Yancheng, Jiangsu. In addition to the various preferential investment policies from the local government, the Company could take the advantage of significantly lower the investment in capital expenditure

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apcity in Yancheng, Jiangsu, to further enhance the efficiency of

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

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

Operation Strategy

As a clean energy source, photovoltaic power generation had to rely on government subsidies to compete with the selling price of traditional petrochemical energy in the past. If production costs can be reduced and be competitive in the market without government subsidies, photovoltaic power generation may lead to a wid2.5 (e)0.5 (r)10.5

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

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

Operating Performance

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

During the period, market demand for monocrystalline silicon ingots and wafers continued to rise and the Group's high-efficiency production capacity has been greatly released, thus, the shipment volume increased significantly. For photovoltaic module products, in the first half of this year, the cost of raw and auxiliary materials for the production of photovoltaic modules continued the trend of irrational increase since the second half of 2020. This led to increase of purchase cost of the Group for raw and auxiliary materials. This also subsequently caused unsmooth production and sales of modules. As a result, the external shipments of modules declined during the period and failed to experience a signire.5 (c)0ce apefoothes c exialed tg th s the perio sose piasiod

For the monocrystalline modules, apart from the mainstream P-type PERC monocrystalline modules, the Group devoted to the development and sales of monocrystalline high-efficiency module products, such as P-type double-sided double glass modules, half-cell photovoltaic modules, multi busbar cell module, and related high-end products. In particular, BS module products of N-type monocrystalline IBC cell uses the internationally leading and the first domestic FPC module packaging technology, and is in the leading position in the industry. Having a black surface with beautiful design, the products are uniquely produced as rectangular, square, triangular and other special-shaped modules. It could be connected to each other with perfectly matching roof shape to achieve efficient use of space, representing highest-end product of roof modules. The FPC packaging technology of BS modules is still the packaging process with the world's highest precision. It is the benchmark for the monocrystalline

Financial Review

Revenue

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

Cost of sales

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

Gross profit and gross profit margin

The Group recorded a gross profit of RMB366.134 million and a gross profit margin of 13.0% in the first half of 2021, as compared to a gross profit of RMB279.135 million and a gross profit margin of 10.7% in the corresponding period in 2020, which increased significantly by 31% and 2.3% respectively. The growth was mainly attributed to the 55% increase from the corresponding period last year in sales of the Group's major product, monocrystalline solar wafers, the gross profit margin of which was higher than other products. However, as mentioned above, the raw and auxiliary material cost of photovoltaic modules, another major product of the Group, has increased irrationally, causing the subsequent production and sales performance of modules not as smooth as expected. In addition, during the period, some module orders were signed before the price of raw and auxiliary materials rose, and most of the sales unit prices of such orders had already been fixed. For the above reasons, the operating performance of module products was not as expected. N N N N N N N 5 (v)0.5 (e)10.5

Finance costs

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

Income tax

Income tax expense amounted to RMB44.574 million in the first half of 2021, while an income tax expense amounted to RMB6.379 million in the first half of 2020. The income tax expense for the period was mainly d mamamamxxpen for the period ty ty periode ome

Trade receivables turnover days

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

Trade payables turnover days

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

Liquidity and financial resources

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

Earnings before interest, taxes, depreciation and amortisation

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

Net cash inflow from operating activities

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

Foreign currency risk

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

Human resources

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

Future prospects and strategies

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

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

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

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