
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt about any of the contents of this circular or as to what action to take in relation to this circular, you should consult appropriate independent advisers to obtain independent professional advice.

If you have sold or transferred all your shares in **IRICO Group New Energy Company Limited***, you should at once hand this circular to the purchaser or the transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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IRICO

彩虹集團新能源股份有限公司

IRICO GROUP NEW ENERGY COMPANY LIMITED*

(A joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 0438)

(1) CONTINUING CONNECTED TRANSACTIONS AND (2) NOTICE OF EXTRAORDINARY GENERAL MEETING

**Independent Financial Adviser to
the Independent Board Committee and the Independent Shareholders**



Capitalised terms used in this cover have the same meanings as those defined in this circular.

A letter from the Board is set out on pages 1 to 25 of this circular. A letter from the Independent Board Committee is set out on pages 26 to 27 of this circular. A letter from Octal Capital, the Independent Financial Adviser, containing its advice and recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 28 to 53 of this circular.

The EGM will be held at the conference room of the Company at No. 1 Caihong Road, Xianyang, Shaanxi Province, the PRC at 9:00 a.m., on Friday, 31 December 2021. The notice of the EGM is set out on pages EGM-1 to EGM-3 of this circular.

The forms of proxy for use at the EGM was published on the website of the Stock Exchange at <http://www.hkexnews.hk> on Wednesday, 15 December 2021. If you intend to appoint a proxy to attend the EGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon not less than 24 hours before the time fixed for holding the EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending the EGM and voting in person if you so wish.

15 December 2021

* For identification purpose only

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DEFINITIONS

In this circular, unless the context otherwise requires, the following terms shall have the following meanings:

“associate(s)”	has the same meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“CEC”	China Electronics Corporation* (中國電子信息產業集團有限公司), a wholly state-owned company incorporated in the PRC and the ultimate controlling Shareholder interested in an aggregate of approximately 74.91% of the issued share capital of the Company through IRICO Group and its subsidiary, Rui Bou Electronics (HK) Limited, Zhongdian Financial Investment and Zhongdian IRICO, as at the Latest Practicable Date
“Company”	IRICO Group New Energy Company Limited* (彩虹集團新能源股份有限公司), a joint stock company incorporated in the PRC with limited liability, whose H shares are listed on the Stock Exchange
“connected person(s)”	has the same meaning ascribed thereto under the Listing Rules
“Continuing Connected Transaction Agreements”	the IRICO Group Master Purchase Agreement and the Zhongdian IRICO Master Purchase Agreement
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened to consider and, if appropriate, to approve the IRICO Group Master Purchase Agreement and the Zhongdian IRICO Master Purchase Agreement and the transactions contemplated thereunder (including the respective proposed annual caps)
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China

DEFINITIONS

“Independent Financial Adviser” or “Octal Capital”	Octal Capital Limited, a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, which has been appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the IRICO Group Master Purchase Agreement and the Zhongdian IRICO Master Purchase Agreement and the transactions contemplated thereunder (including the respective proposed annual caps)
“Independent Board Committee”	the committee of Directors consisting of Ms. Wu Xiaoguang, Mr. Li Yong and Ms. Hao Meiping, who are independent non-executive Directors, to advise the Independent Shareholders in respect of the IRICO Group Master Purchase Agreement and the Zhongdian IRICO Master Purchase Agreement and the transactions contemplated thereunder (including the respective proposed annual caps)
“Independent Shareholders”	the Shareholders other than CEC and its associates (including IRICO Group and its subsidiary, Rui Bou Electronics (HK) Limited, Zhongdian Financial Investment and Zhongdian IRICO) who will abstain from voting on the resolutions with respect to the IRICO Group Master Purchase Agreement and the Zhongdian IRICO Master Purchase Agreement and the transactions contemplated thereunder (including the respective proposed annual caps)
“IRICO Group”	IRICO Group Company Limited* (彩虹集團有限公司), a wholly state-owned enterprise and the Shareholder of the Company holding, directly and indirectly, approximately 34.43% of the issued share capital of the Company as at the Latest Practicable Date
“IRICO Group Master Purchase Agreement”	the master purchase agreement dated 26 October 2021 entered into between the Company and IRICO Group in respect of the purchase of packaging materials and raw materials for photovoltaic production business, electricity, facilities and ancillary services by the Group from IRICO Group and its associates

DEFINITIONS

“Latest Practicable Date”	8 December 2021, being the latest practicable date for ascertaining certain information included herein before the printing of this circular
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Previous Zhongdian IRICO Utility Purchase Agreement”	the master purchase agreement dated 23 October 2018 entered into between the Company and Zhongdian IRICO in respect of the purchase of materials and utilities necessary for the solar photovoltaic business and the new materials business, including materials, water, electricity, gas and other utilities and ancillary services by the Company from Zhongdian IRICO
“Previous IRICO Group Master Purchase Agreement”	the master purchase agreement dated 23 October 2018 entered into between the Company and IRICO Group in respect of the purchase of packaging materials and raw materials, electricity and ancillary services by the Company from IRICO Group
“PRC”	the People’s Republic of China, and for the purpose of this circular, excluding the Hong Kong Special Administrative Region of the PRC, the Macau Special Administrative Region of the PRC and Taiwan
“RMB”	Renminbi, the lawful currency of China
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Shareholder(s)”	the shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

DEFINITIONS

“Zhongdian IRICO”	Xianyang Zhongdian IRICO Group Holdings Ltd.* (咸陽中電彩虹集團控股有限公司), which is directly held by CEC and IRICO Group as to 72.08% and 27.92% respectively as at the Latest Practicable Date and a connected person of the Company
“Zhongdian Financial Investment”	Zhongdian Financial Investment Holdings Co., Ltd.* (中電金投控股有限公司), a substantial shareholder of the Company, directly holding approximately 26.17% of the issued share capital of the Company and which is wholly owned by CEC as at the Latest Practicable Date and a connected person of the Company
“Zhongdian IRICO Master Purchase Agreement”	the master purchase agreement dated 26 October 2021 entered into between the Company and Zhongdian IRICO in respect of the purchase of raw materials for solar photovoltaic business, production line facilities and installation services, kinetic operation and maintenance services and medical examination services and others by the Group from Zhongdian IRICO and its associates
“%”	per cent

The English names of the PRC entities adopted in this circular marked “” are translations from their Chinese names for identification purpose only.*

LETTER FROM THE BOARD



IRICO

彩虹集團新能源股份有限公司
IRICO GROUP NEW ENERGY COMPANY LIMITED*

(A joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 0438)

Executive Directors

Tong Xiaofei (*Chairman*)

Jiang Lei

Non-executive Directors

Ni Huadong

Huang Weihong

Independent non-executive Directors

Wu Xiaoguang

Li Yong

Hao Meiping

Legal address and the head office in the PRC:

No. 1 Caihong Road

Xianyang, Shaanxi Province

The People's Republic of China

Postal code: 712021

Principal place of business in Hong Kong:

Units 1607–8, 16/F, Citicorp Centre

18 Whitfield Road, Causeway Bay

Hong Kong

Hong Kong share registrar and transfer office:

Computershare Hong Kong Investor Services Limited

17M/F, Hopewell Centre

183 Queen's Road East

Hong Kong

15 December 2021

To the Shareholders,

Dear Sir or Madam,

(1) CONTINUING CONNECTED TRANSACTIONS AND
(2) NOTICE OF EXTRAORDINARY GENERAL MEETING

LETTER FROM THE BOARD

I. INTRODUCTION

Reference is made to the announcement of the Company dated 26 October 2021 in relation to, among others, the entering into the IRICO Group Master Purchase Agreement and the Zhongdian IRICO Master Purchase Agreement and the transactions contemplated thereunder (including the respective proposed annual caps).

The purpose of this circular is to provide Shareholders with the following information, so that the Shareholders can make properly informed decisions on such resolutions at the EGM:

- (i) details of the IRICO Group Master Purchase Agreement and the Zhongdian IRICO Master Purchase Agreement and the transactions contemplated thereunder (including the respective proposed annual caps);
- (ii) the opinion and recommendation of the Independent Board Committee on the IRICO Group Master Purchase Agreement and the Zhongdian IRICO Master Purchase Agreement and the transactions contemplated thereunder (including the respective proposed annual caps);
- (iii) the letter from Octal Capital to the Independent Board Committee and the Independent Shareholders containing its opinion and recommendation on the IRICO Group Master Purchase Agreement and the Zhongdian IRICO Master Purchase Agreement and the transactions contemplated thereunder (including the respective proposed annual caps);
- (iv) other information required to be disclosed under the Listing Rules; and
- (v) a notice of the EGM at which the resolutions will be proposed to consider and, if thought fit, to approve IRICO Group Master Purchase Agreement and the Zhongdian IRICO Master Purchase Agreement and the transactions contemplated thereunder (including the respective proposed annual caps).

LETTER FROM THE BOARD

II. THE CONTINUING CONNECTED TRANSACTION AGREEMENTS

1. IRICO GROUP MASTER PURCHASE AGREEMENT

A. Background

On 26 October 2021, the Company entered into the IRICO Group Master Purchase Agreement with IRICO Group, to renew the Previous IRICO Group Master Purchase Agreement, and regulate the purchase of packaging materials and raw materials for photovoltaic production business, electricity, facilities and ancillary services by the Group from IRICO Group and its associates for the three years ending 31 December 2024. Details of the IRICO Group Master Purchase Agreement are set out below:

B. Major Terms of IRICO Group Master Purchase Agreement

Date:	26 October 2021
Parties:	(i) the Company; and (ii) IRICO Group
Term:	1 January 2022 to 31 December 2024, subject to early termination by the Company by giving at least three months' prior written notice to IRICO Group. IRICO Group shall not unilaterally terminate the IRICO Group Master Purchase Agreement without written consent of the Company.
Condition precedent:	The IRICO Group Master Purchase Agreement is conditional upon the resolutions regarding the IRICO Group Master Purchase Agreement and the transactions contemplated thereunder (including the proposed annual caps) being approved by the Independent Shareholders at the EGM.

LETTER FROM THE BOARD

Nature of transactions:

The Group shall purchase packaging materials and raw materials for photovoltaic production business, electricity, facilities and ancillary services from IRICO Group and its associates.

Pricing policy:

- (i) The prices for packaging materials and services for photovoltaic production and facilities and ancillary services shall be determined in accordance with the Market Price (as defined below):

“Market Price” shall be determined in accordance with the following order: (a) the prevailing prices being offered or charged by independent third parties in the ordinary and usual course of business for the sales or purchases of the same or similar type of products or services in the selling or purchasing places or its nearby regions; or (b) the prevailing prices being offered or charged by independent third parties in the ordinary and usual course of business for the sales or purchases of the same or similar type of products or services in the PRC.

LETTER FROM THE BOARD

Upon receipt of quotations from IRICO Group, the designated persons of the Group (namely, the business planning executives, who are primarily responsible for the examination and approval of the procurement plans and the execution of purchase contracts) will ascertain the prices offered or charged by independent third parties, generally by way of obtaining quotations for a comparable volume of same or similar category of products or services from at least two independent third parties via emails, fax, phone or tenders by publishing tender notice via various media resources (for instance, the local newspapers), and take average of such quotations as the Market Price. The selling price of each category of products or services will be reviewed by the procurement department of the Group and submitted to the head of such department for approval.

- (ii) The prices for the electricity shall be determined based on arm's length negotiations between the relevant parties with reference to (a) the Government-prescribed Price (as defined below); and (b) reduction from the government incentives offered by Anhui Provincial Government to IRICO Group. After taking into account of the government incentives offered by Anhui Provincial Government to IRICO Group for the building and operation of the electrical transformer substation for the development of the new industrial area in Hefei City, Anhui Province, the overall unit price of electricity supplied by IRICO Group to the Company will be lower than the Government-prescribed Price.

LETTER FROM THE BOARD

“Government-prescribed Price” means the prices of electricity in Anhui Province as prescribed by the State Grid Corporation of China. According to the “Anhui Province Development and Reform Commission on Matters Relating to the Adjustment of Price of Electricity Sales in the Province” (《安徽省發展改革委關於調整我省銷售電價有關事項的通知(皖發價格[2020]654號)》) (for details, please refer to <https://www.wuhu.gov.cn/openness/public/6604551/29704691.html>), which took effect since 1 January 2021, the current state-prescribed rate of electricity for industrial and commercial use is approximately RMB0.9792 per kWh for peak seasons and RMB0.6048 per kWh for regular period. If the PRC government implements relevant policies, regulations or guidelines which amend the state-prescribed rate of electricity, the price of electricity purchased by the Group shall be adjusted accordingly from the implementation date of such policies, regulations or guidelines.

LETTER FROM THE BOARD

Upon receipt of quotations from IRICO Group, the designated persons of the Group (namely, the business planning executives, who are primarily responsible for the examination and approval of the procurement plans and the execution of purchase contracts) will make comparison with relevant prices charged by independent third parties in the same region. In case there is an adjustment to the prices of electricity in Anhui Province as prescribed by the State Grid Corporation of China, the prices will be adjusted correspondingly based on arm's length negotiations between the relevant parties. The quotation of electricity will be reviewed by the procurement department of the Group and submitted to the head of such department for approval.

The Directors are of the view that such pricing policy is fair and reasonable, on normal commercial terms and not prejudicial to the interest of the Shareholders.

LETTER FROM THE BOARD

Payment term:

The actual settlement price and the method of payment (including payment by way of cash or such other manners as agreed by the parties) shall be determined based on the principles, instructions, conditions and terms of the IRICO Group Master Purchase Agreement and set out in the specific purchase agreements to be entered into by the parties.

The payment terms shall be entered into on market terms which are no less favourable than those offered by independent third parties.

Other major terms:

IRICO Group agrees and undertakes that such materials and services to be provided to the Company shall satisfy the quality standards as required by the Company from time to time. The transactions for such materials and services shall be conducted on arm's length basis and charged on a reasonable manner. The terms and conditions of the provision of the same type of materials and services shall be no less favourable than those offered by independent third parties to the Company.

The Company and its subsidiaries may enter into specific purchase agreements with IRICO Group and its associates in respect of the transactions contemplated under the IRICO Group Master Purchase Agreement. The specific purchase agreements shall set out the specific materials and services, quantities, prices, term of validity, payment terms and other relevant terms, and comply with the principles, instructions, conditions and terms of the IRICO Group Master Purchase Agreement.

LETTER FROM THE BOARD

The parties shall procure their respective subsidiaries or associates to, and guarantee that they shall, perform the specific purchase agreements in compliance with the terms and conditions stipulated thereunder.

As the specific purchase agreements are simply further elaborations on the purchase of such materials and services contemplated under the IRICO Group Master Purchase Agreement, they do not constitute new categories of connected transactions.

C. Historical Figures

The historical amounts for the continuing connected transactions conducted under the Previous IRICO Group Master Purchase Agreement as well as the respective historical annual caps for the three years ended/ending 31 December 2021 are set out in the table below:

	Historical Transaction Amounts			Historical Annual Caps		
	For the year ended	For the year ended	For the nine months ended	For the year ended	For the year ended	For the year ending
	31 December	31 December	30 September	31 December	31 December	31 December
	2019	2020	2021	2019	2020	2021
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Fees paid by the Group to IRICO Group and its associates under the Previous IRICO Group Master Purchase Agreement	48,437	51,025	45,823	99,326	104,778	122,378

LETTER FROM THE BOARD

D. Proposed Annual Caps and Basis for the Proposed Annual Caps

The Directors propose the annual caps for the three years ending 31 December 2024 in respect of the continuing connected transactions under the IRICO Group Master Purchase Agreement as set out in the table below:

	Proposed Annual Caps		
	For the year	For the year	For the year
	ending	ending	ending
	31 December	31 December	31 December
	2022	2023	2024
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Maximum fees payable by the Group to IRICO Group and its associates under the IRICO Group Master Purchase Agreement	160,309	185,559	191,432
– purchase of packaging materials and raw material	118,308	147,511	153,384
• packaging materials	62,308	91,511	97,384
• raw material	56,000	56,000	56,000
– purchase of electricity	36,725	36,725	36,725
– purchase of facilities and ancillary services	5,276	1,323	1,323

The proposed annual caps for the continuing connected transactions contemplated under the IRICO Group Master Purchase Agreement have been determined primarily based on the following factors:

- (i) the historical amounts of the transactions under the Previous IRICO Group Master Purchase Agreement for the two years ended 31 December 2020 and nine months ended 30 September 2021;

LETTER FROM THE BOARD

- (ii) the Company's estimate of its business needs for the three years ending 31 December 2024, including (a) under various favourable factors such as the policy support from the national "14th Five-Year Plan" for renewable energy development and the achievement of carbon peak and carbon neutral goals that the photovoltaic industry was illustrated as an important focus in energy reform in the PRC with the objective of marketization, low cost, and prioritised development of renewable energy. The Company focuses on the development of its solar photovoltaic glass as main business, by strengthening the development of its photovoltaic glass bases located in Hefei and Yan'an, the Company intends to advance the construction and commissioning of the Xianyang ultrathin and high-transmittance photovoltaic glass production lines, the IRICO Shangrao ultra-thin and high-transmittance photovoltaic glass furnace and ancillary processing and production lines; (b) the estimated electricity usage required for operating the Yan'an, Hefei and Shangrao bases and the Xianyang production lines of the Company; and
- (iii) the Company's current estimation of the stable market prices of the relevant packaging materials and raw materials for photovoltaic production business, facilities and ancillary services or the Government-prescribed Price of the electricity.

The Company anticipates that the increase in production of solar photovoltaic glass products for the four furnaces and increase in production capacity of IRICO Xianyang ultra-thin and high-transmissivity photoelectric glass project (the "**Xianyang Project**"), the production volume will be boosted to approximately 300.0 million square meters per year for the year ending 31 December 2025 from approximately 82.0 million square meters per year for the year ending 31 December 2021, the Company's annual output is expected to further increase the compound annual growth of approximately 38.3% from 2021 to 2025, with reference to the Group's strategy in meeting the increase in demand of the solar photovoltaic glass in view of the increasing trend of new installed capacity of solar photovoltaic modules and favourable government policies in the PRC. As such, the corresponding demand for relevant packaging materials and raw materials for photovoltaic production business, facilities and ancillary services will also substantially increase.

Further, given that (a) the revenue of the Group generated by the solar photovoltaic glass business was approximately RMB1,300.4 million and RMB1,609.2 million, which accounted for approximately 57.9% and 63.9% of total revenue for the years ended 31 December 2019 and 31 December 2020, respectively; (b) our Group's sales of solar photovoltaic glass increased rapidly by approximately 114% from February 2021 to August 2021; (c) the revenue generated from the two major customers for the six months ended 30 June 2021 who purchased from the products of photovoltaic glass increased by approximately 140% as compared to the same period of previous year; and (d) the Company's capacity expansion plan for production of solar photovoltaic glass, the Company expects it will fully utilise its production capacity and increase production volume of photovoltaic glass to cope with the market demand in the coming years.

LETTER FROM THE BOARD

2. ZHONGDIAN IRICO MASTER PURCHASE AGREEMENT

A. Background

On 26 October 2021, the Company entered into the Zhongdian IRICO Master Purchase Agreement with Zhongdian IRICO, to renew the Previous Zhongdian IRICO Utility Purchase Agreement and regulate the purchase of raw materials for solar photovoltaic business, production line facilities and installation services, kinetic operation and maintenance services and medical examination services and others by the Group from Zhongdian IRICO and its associates for the three years ending 31 December 2024. Details of the Zhongdian IRICO Master Purchase Agreement are set out below:

B. Major Terms of Zhongdian IRICO Master Purchase Agreement

Date:	26 October 2021
Parties:	(i) The Company; and (ii) Zhongdian IRICO
Term:	1 January 2022 to 31 December 2024, subject to early termination by either party by giving at least three months' prior written notice to the other party.
Condition precedent:	The Zhongdian IRICO Master Purchase Agreement is conditional upon the resolution regarding the Zhongdian IRICO Master Purchase Agreement and the transactions contemplated thereunder (including the proposed annual caps) being approved by the Independent Shareholders at the EGM.
Nature of transactions:	The Group shall purchase raw materials for solar photovoltaic business, production line facilities and installation services, other kinetic operation and maintenance services and medical examination services and others from Zhongdian IRICO and its associates.

LETTER FROM THE BOARD

Pricing policy:

- (i) The prices for such materials for solar photovoltaic business shall be determined in accordance with the Market Price (as defined below).

“Market Price” shall be determined in accordance with the following order: (a) the prevailing prices being offered or charged by independent third parties in the ordinary and usual course of business for the sales or purchases of the same or similar type of products in the selling or purchasing places or its nearby regions; or (b) the prevailing prices being offered or charged by independent third parties in the ordinary and usual course of business for the sales or purchases of the same or similar type of products in the PRC.

Upon receipt of quotations from Zhongdian IRICO, the designated persons of the Group will ascertain the prices offered or charged by independent third parties, generally by way of obtaining quotations for a comparable volume of same or similar category of products from at least two independent third parties via emails, fax, phone or tenders by publishing tender notice via various media resources (for instance, the local newspapers), and take average of such quotations as the Market Price. The selling price of each category of products will be reviewed by the procurement department of the Group and submitted to the head of such department for approval.

LETTER FROM THE BOARD

- (ii) The prices for production line facilities and installation services, kinetic operation and maintenance services and medical examination services shall be determined in accordance with the following policies:
 - (a) where there is Government-prescribed Price (as defined below), in respect of the procurement of the production line facilities and installation services, kinetic operation and maintenance services and medical examination services, the prices shall be determined based on arm's length negotiations between the independent third parties with reference to the Government-prescribed Price; or
 - (b) where there is no Government-prescribed Price, the prices shall be determined based on arm's length negotiations between the independent third parties with reference to reasonable costs incurred plus reasonable profit of around 5-10% of such reasonable cost (as calculated under the Accounting Standards for Business Enterprises of the PRC and the Directors are of the view that such profit is fair and reasonable). The reasonable costs primarily include raw materials, labour, taxation, management fee, etc.

The Directors are of the view that such pricing policy is fair and reasonable, on normal commercial terms and not prejudicial to the interest of the Shareholders.

LETTER FROM THE BOARD

“Government-prescribed Price” means the guidelines for prices of equipment installation services, kinetic operation and maintenance services and medical examination services under the Zhongdian IRICO Master Purchase Agreement as prescribed in the notices published by Shaanxi Provincial Price Bureau, Shaanxi Provincial Development and Reform Commission and other relevant regulatory authorities from time to time.

To ensure that prices to be charged by Zhongdian IRICO are no less favourable than those available from independent third parties, the designated persons of the Group will make comparison with relevant prices charged by independent third parties in the same or nearby region or the actual costs incurred. In case there is an adjustment to the prices of production line facilities and installation services, kinetic operation and maintenance services and medical examination services as prescribed in the notices published by Shaanxi Provincial Price Bureau, Shaanxi Provincial Development and Reform Commission and other relevant regulatory authorities, the prices will be adjusted correspondingly based on arm’s length negotiations between Zhongdian IRICO and the Company. The quotation of production line facilities and installation services, kinetic operation and maintenance services and medical examination services will be reviewed by the procurement department of the Company and submitted to the head of such department for approval.

LETTER FROM THE BOARD

Payment term:

The actual settlement price and the method of payment (including payment by way of cash or such other manners as agreed by the parties) shall be determined based on the principles, instructions, conditions and terms of the Zhongdian IRICO Master Purchase Agreement and set out in the specific purchase agreements to be entered into by the parties.

The payment terms shall be entered into on market terms which are no less favourable than those offered by independent third parties.

Other major terms:

Zhongdian IRICO agrees and guarantees that such materials and services to be provided to the Company shall satisfy the quality standards as required by the Company from time to time. The prices at which such materials and services will be provided must be fair and reasonable. The conditions of the provision of the same type of materials and services shall be no less favourable than those offered by independent third parties to the Group.

The Group may enter into specific purchase agreements with Zhongdian IRICO and its associates in respect of the specific transactions contemplated under the Zhongdian IRICO Master Purchase Agreement to specify the name, model specification, measurement unit, quantity, price, tax rate and amount of the purchased goods and services. The specific purchase agreements shall set out the term of validity, quality requirements, standards, payment terms, liability for breach of agreement, dispute resolutions, etc. and comply with the principles, instructions, conditions and terms of the Zhongdian IRICO Master Purchase Agreement.

LETTER FROM THE BOARD

The parties shall procure their respective subsidiaries or associates to, and guarantee that they shall, perform the specific purchase agreements in compliance with the terms and conditions stipulated thereunder.

As the specific purchase agreements are simply further elaborations on the purchase of materials and services contemplated under the Zhongdian IRICO Master Purchase Agreement, they do not constitute new categories of connected transactions.

C. Historical Figures

The historical amounts for the continuing connected transactions conducted under the Previous Zhongdian IRICO Utility Purchase Agreement as well as the respective historical annual caps for the three years ended/ending 31 December 2021 are set out in the table below:

	Historical Transaction Amounts			Historical Annual Caps		
	For the year ended	For the year ended	For the nine months ended	For the year ended	For the year ended	For the year ending
	31 December	31 December	30 September	31 December	31 December	31 December
	2019	2020	2021	2019	2020	2021
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Fees payable by the Group to Zhongdian IRICO and its associates under the Previous Zhongdian IRICO Utility Purchase Agreement	57,881	22,245	18,473	105,123	106,169	108,510

D. Proposed Annual Caps and Basis for the Proposed Annual Caps

The Directors propose the annual caps for the three years ending 31 December 2024 in respect of the continuing connected transactions under the Zhongdian IRICO Master Purchase Agreement as set out in the table below:

LETTER FROM THE BOARD

	Proposed Annual Caps		
	For the year	For the year	For the year
	ending	ending	ending
	31 December	31 December	31 December
	2022	2023	2024
	(RMB'000)	(RMB'000)	(RMB'000)
Maximum fees payable by the Group to Zhongdian IRICO and its associates under the Zhongdian IRICO Master Purchase Agreement	184,902	246,156	234,103
– purchase of raw materials	54,602	109,196	132,673
• coating solution	46,575	79,805	93,305
• ink	7,784	28,840	38,752
• thinner	243	551	616
– purchase of production line facilities and installation services ^(Note)	118,930	90,000	26,000
– purchase of kinetic operation and maintenance services	11,020	46,510	74,980
• electricity	7,020	42,510	70,980
• maintenance services	4,000	4,000	4,000
– purchase of medical examination services and others	350	450	450

Note: The maximum fee payable by the Group to Zhongdian IRICO and its associates under the Zhongdian IRICO Master Purchase Agreement for the purchase of production line facilities and installation services during the period from 2022 to 2024 will be mainly used for its three furnaces and ancillary production lines in IRICO Shangrao ultrathin and high-transmissivity photovoltaic glass project (“**Shangrao Project**”) and five production lines in Xianyang Project.

The proposed annual caps for the continuing connected transactions contemplated under the Zhongdian IRICO Master Purchase Agreement have been determined primarily based on the following factors:

- (i) the historical amounts of the transactions under the Previous Zhongdian IRICO Utility Purchase Agreement for the two years ended 31 December 2020 and for the nine months ended 30 September 2021;

LETTER FROM THE BOARD

- (ii) the Company's estimate of its business needs for the three years ending 31 December 2024, including (a) to ensure normal operation of the Company's Hefei and Yan'an bases; (b) to meet the production capacity of the Company's Xianyang ultra-thin and high-transmittance photovoltaic glass production lines, the full production capacity and operation of IRICO Shangrao's ultra-thin and high-transmittance photovoltaic glass furnace and ancillary processing and production lines and subsequent expansion needs; (c) the estimated costs of equipment and installation services required for the Company's Hefei phase III furnace and the abovementioned furnaces and ancillary processing and production lines; (d) the estimated costs of operation and maintenance of the Company's Yan'an and Hefei bases; and
- (iii) the Company's current estimation of the stable market prices or the Government-prescribed Price of the relevant materials and services.

The Company anticipates that with the increase in production plan and utilities usage of the furnace in the Company's existing production lines and Xianyang new production line and the Shangrao new production line in 2022, 2023 and 2024, the production volume will be boosted to approximately 300.0 million square meters per year for the year ending 31 December 2025 from approximately 82.0 million square meters per year for the year ending 31 December 2021, representing an increase in the compound annual growth of approximately 38.3% from 2021 to 2025, with reference to the Group's strategy in meeting the increase in demand of the solar photovoltaic glass in view of the increasing trend of new installed capacity of solar photovoltaic modules and favourable government policies in the PRC. The expected production volume from the newly setup production lines under the commencement of production in the Xianyang Project, where the Xianyang 1st Batch New Production Line is expected to reach its full production capacity in 2022, which the total production capacity will increase to approximately 113.1 million square meters, representing an increase of approximately 37.9% of total production capacity in 2022. As such, the corresponding demand for relevant raw materials for solar photovoltaic business, production line facilities and installation services, kinetic operation and maintenance services and medical examination services and others will also substantially increase. However, mainly due to the completion of the constructions of the Xianyang Project in 2023 and the Shangrao Project in 2024, we expect there will be a decrease in demand of on the materials and services provided by Zhongdian IRICO and therefore resulting the decrease in the proposed annual cap for the year ending 31 December 2024.

LETTER FROM THE BOARD

III. REASONS FOR AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS

The Board is of the view that the entering into of the aforesaid Continuing Connected Transaction Agreements is essential to the normal operations of and beneficial to the Company. In forming such view, the Board has taken into account the following factors:

- (i) the Company and each of IRICO Group and Zhongdian IRICO have established a long-term relationship, and understand their respective planning of business operations, quality control as well as certain specific requirements of both parties; and
- (ii) the purchase of products by the Company from IRICO Group or Zhongdian IRICO (as the case may be) will assist in decreasing the management and operational costs of the Company due to the close proximity between the Company and these companies. The bulk purchase and sales of products/services are also economically beneficial to both the Company and IRICO Group or Zhongdian IRICO (as the case may be).

IV. INTERNAL CONTROL MEASURES ON CONTINUING CONNECTED TRANSACTIONS

To safeguard the interests of the Shareholders as a whole, including the minority Shareholders, the Company has put in place internal approval and monitoring procedures relating to the continuing connected transactions, which include the following:

- 1. The business planning executives will be responsible for the pricing management and will guide various departments and units to establish the procedures and mechanism of professional price management, so as to ensure that the pricing standard is fair and reasonable, and conforms with the market principle. Market prices will be obtained through, among other things, open tenders/quotations from independent third party suppliers and service providers, recent transaction prices of the Company with independent third parties, pricing information obtained through subscription service and researches on industry websites. The market price information will be circulated by the procurement department to other departments of the Company to enable them to determine the prices for the continuing connected transactions.

LETTER FROM THE BOARD

2. The Company will regularly review the transactions to be entered into with each of IRICO Group and Zhongdian IRICO to identify any transactions that may be at risk of exceeding the annual cap and any measures to be introduced in response to such transactions. The finance department of the Company is responsible for the counting and monitoring of the actual amount of continuing connected transactions at the end of each month, reporting to the Board regarding, among other things, implementation of the continuing connected transactions and the actual monetary amount of the continuing connected transactions conducted during each quarter from January to September and at the end of each month from October to December (or more frequently if necessary). In the event that the transaction amount reaches 80% of the annual cap at any point of the year, the management would seek advice from the audit committee of the Company and the Board would consider follow-up measures, including making announcements and seeking Independent Shareholders' approval for the increase in the annual cap (where applicable).
3. The Company has formulated a series of internal measures and policies to ensure that the continuing connected transactions will be carried out in accordance with the terms of each of the IRICO Group Master Purchase Agreement and the Zhongdian IRICO Master Purchase and the relevant pricing principles.
4. The independent non-executive Directors shall, and the Company shall engage its external auditors to, conduct annual review of the continuing connected transactions every year in accordance with the requirements of the Listing Rules.

V. LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, IRICO Group is the Shareholder of the Company holding, directly and indirectly, approximately 34.43% of the issued share capital of the Company and thus is a connected person of the Company under the Listing Rules. Therefore, the transactions contemplated under the IRICO Group Master Purchase Agreement between the Company and IRICO Group constitute continuing connected transactions of the Company.

Zhongdian IRICO, which is directly held as to 72.08% by CEC and 27.92% by IRICO Group as at the Latest Practicable Date, is an associate of CEC and IRICO Group and thus a connected person of the Company under the Listing Rules. Therefore, the transactions contemplated under the Zhongdian IRICO Master Purchase Agreement between the Company and Zhongdian IRICO constitute continuing connected transactions of the Company.

LETTER FROM THE BOARD

Since the applicable percentage ratios for the highest proposed annual caps for each of the three years ending 31 December 2024 in respect of the continuing connected transactions contemplated under each of the IRICO Group Master Purchase Agreement and the Zhongdian IRICO Master Purchase Agreement exceed 5%, the continuing connected transactions contemplated under IRICO Group Master Purchase Agreement and the Zhongdian IRICO Master Purchase Agreement (including the respective proposed annual caps) are subject to the announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

VI. GENERAL INFORMATION ON THE PARTIES

The Company

The Company is principally engaged in the production and sales of solar photovoltaic glass; and the processing of quartz sand, an upstream material for photovoltaic glass.

IRICO Group

IRICO Group, in addition to operating businesses through the Company, is principally engaged in the research and development, production and trading of businesses relating to colour picture tubes, display panels and their components, colour television sets and electronic products.

Zhongdian IRICO

Zhongdian IRICO is principally engaged in the research, development, service and transfer of electronic information technology, industrial investment and assets operation management services, property investment and property operation management services.

VII. EGM

The EGM will be held at the conference room of the Company at No. 1 Caihong Road, Xianyang, Shaanxi Province, the PRC at 9:00 a.m., on Friday, 31 December 2021. The notice of the EGM is set out on pages EGM-1 to EGM-3 of this circular. The Company has already sent the notice of the EGM and the form of proxy for the use at the EGM to Shareholders on 15 December 2021. The aforesaid documents are also published on the Stock Exchange's website (www.hkexnews.hk) and the Company's website (www.irico.com.cn).

LETTER FROM THE BOARD

CEC and its associates, including IRICO Group and its subsidiary, Rui Bou Electronics (HK) Limited, Zhongdian Financial Investment and Zhongdian IRICO, who are interested in an aggregate of approximately 74.91% of the issued share capital of the Company as at the Latest Practicable Date, will be required to abstain from voting on the resolutions approving the IRICO Group Master Purchase Agreement and the Zhongdian IRICO Master Purchase Agreement and the transactions contemplated thereunder (including the respective proposed annual caps) at the EGM. Save as mentioned above, to the Directors' knowledge, information and belief, no other Shareholder has any material interest in the transactions contemplated under each of the IRICO Group Master Purchase Agreement and the Zhongdian IRICO Master Purchase Agreement and therefore will be required to abstain from voting to approve the relevant resolutions at the EGM.

At the Board meeting held to approve the transactions contemplated under the IRICO Group Master Purchase Agreement and the Zhongdian IRICO Master Purchase Agreement (including the respective proposed annual caps), certain Directors, namely Mr. Si Yuncong and Mr. Fan Laiying, by virtue of their respective senior positions in IRICO Group and CEC, respectively, may be deemed to have material interests in the transactions contemplated under the IRICO Group Master Purchase Agreement and Zhongdian IRICO Master Purchase Agreement (including the respective proposed annual caps). As such, each of them has abstained from voting on the Board resolutions approving the relevant agreements and the transactions contemplated thereunder (including the respective proposed annual caps). Mr. Si Yuncong and Mr. Fan Laiying resigned their positions as Directors on 18 November 2021. Save as mentioned above, none of the other Directors has a material interest in the transactions contemplated under IRICO Group Master Purchase Agreement and the Zhongdian IRICO Master Purchase Agreement.

The Independent Board Committee has been formed in accordance with the Listing Rules to advise the Independent Shareholders on the transactions contemplated under the IRICO Group Master Purchase Agreement and the Zhongdian IRICO Master Purchase Agreement (including the respective proposed annual caps). In this connection, Octal Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the transactions contemplated under the IRICO Group Master Purchase Agreement and the Zhongdian IRICO Master Purchase Agreement (including the respective proposed annual caps).

LETTER FROM THE BOARD

For the purpose of determining eligibility to attend and vote at the EGM, the register of the members of the Company will be closed from Tuesday, 28 December 2021 to Friday, 31 December 2021, both days inclusive. During such period, no transfers of the Company's Shares will be registered. Holders of H Shares whose names appear on the Company's register of the members of H Shares on Tuesday, 28 December 2021 are entitled to attend the EGM, and are entitled to appoint one or more proxies, to attend and vote on his behalf at the EGM according to the Articles of Association. A proxy needs not be a Shareholder. In order to be entitled to attend and vote at the EGM, holders of H Shares whose transfers have not been registered shall deposit the transfer documents together with the relevant share certificates at the H Share registrar of the Company, Computershare Hong Kong Investor Services Limited, at 17M/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Friday, 24 December 2021.

The appointment of the proxy by completing the enclosed "Form of Proxy for the EGM to be held on 31 December 2021" (the "**Form of Proxy**") must be in writing by hand of the appointer or his attorney duly authorized in writing. If the Form of Proxy is signed by the attorney or any other person authorised by the appointer, the power of attorney or other authority must be notarised. If the appointer is a corporation, the Form of Proxy shall be executed under seal or shall be executed by its director or a duly authorised person. In respect of the holders of H Shares, the notarised power of attorney or other authority together with the Proxy Form must be delivered to the Company's H Share registrar, Computershare Hong Kong Investor Services Limited at 17M/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no less than 24 hours before the time appointed for holding the EGM or any adjournment thereof (i.e. no later than 9:00 a.m. on Thursday, 30 December 2021).

VIII. RECOMMENDATIONS

Based on the relevant information disclosed herein, the Directors, including the independent non-executive Directors, believe that the terms and conditions of the IRICO Group Master Purchase Agreement and the Zhongdian IRICO Master Purchase Agreement (including the respective proposed annual caps) are on normal commercial terms and fair and reasonable, and that the transactions contemplated under the IRICO Group Master Purchase Agreement and Zhongdian IRICO Master Purchase Agreement (including the respective proposed annual caps) are conducted in the ordinary or usual course of business of the Company and in the interests of the Company and the Shareholders as a whole.

Accordingly, the Board recommends that the Shareholders or the Independent Shareholders (as the case may be) vote in favor of all the resolutions at the EGM.

LETTER FROM THE BOARD

IX. VOTING BY POLL

Voting on all the resolutions to be proposed at the EGM will be taken by poll in accordance with the Rule 13.39(4) of the Listing Rules.

X. ADDITIONAL INFORMATION

Your attention is drawn to the letter from the Independent Board Committee set out on pages 26 to 27, the letter from Octal Capital set out on pages 28 to 53 and the other information set out in the appendix to this circular.

By order of the Board
IRICO Group New Energy Company Limited*
Tong Xiaofei
Chairman

* *For identification purpose only*



IRICO

彩虹集團新能源股份有限公司
IRICO GROUP NEW ENERGY COMPANY LIMITED*

(A joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 0438)

Legal address and the head office in the PRC:

No. 1 Caihong Road
Xianyang, Shaanxi Province
The People's Republic of China
Postal code: 712021

Principal place of business in Hong Kong:

Units 1607–8, 16/F, Citicorp Centre
18 Whitfield Road, Causeway Bay
Hong Kong

Hong Kong share registrar and transfer office:

Computershare Hong Kong Investor Services Limited
17M/F, Hopewell Centre
183 Queen's Road East
Hong Kong

15 December 2021

To the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

We refer to the circular of the Company dated 15 December 2021 (the “**Circular**”), of which this letter forms a part. Terms defined therein shall have the same meanings when used in this letter unless the context otherwise requires.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

We have been appointed by the Board as the Independent Board Committee to advise you as to whether in our opinion, the terms of the transactions contemplated under the IRICO Group Master Purchase Agreement and the Zhongdian IRICO Master Purchase Agreement (including the respective proposed annual caps) are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

Octal Capital Limited has been appointed by the Company as the Independent Financial Adviser to advise the Independent Board Committee on the fairness and reasonableness of the terms of the transactions contemplated under the IRICO Group Master Purchase Agreement and the Zhongdian IRICO Master Purchase Agreement (including the respective proposed annual caps). Details of the advice from the Independent Financial Adviser, together with the principal factors taken into consideration in arriving at such advice, are set out in its letter on pages 28 to 53 of the Circular.

We wish to draw your attention to the letter from the Board set out on pages 1 to 25 of the Circular. Having considered the information contained in the letter from the Board, the interests of the Independent Shareholders and the advice and recommendations given by the Independent Financial Adviser, we consider that the terms and conditions of the IRICO Group Master Purchase Agreement and the Zhongdian IRICO Master Purchase Agreement (including the respective proposed annual caps) are on normal commercial terms and fair and reasonable, and that the transactions contemplated under the IRICO Group Master Purchase Agreement and the Zhongdian IRICO Master Purchase Agreement (including the respective proposed annual caps) are conducted in the ordinary or usual course of business of the Company and in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend that the Independent Shareholders vote in favour of the resolutions regarding the transactions contemplated under the IRICO Group Master Purchase Agreement and the Zhongdian IRICO Master Purchase Agreement (including the respective proposed annual caps) to be proposed at the EGM.

Yours faithfully,

Wu Xiaoguang	IRICO Group New Energy Company Limited*	
	Li Yong	Hao Meiping
	Independent Board Committee	

* For identification purpose only

LETTER FROM OCTAL CAPITAL



801-805, 8/F, Nan Fung Tower,
88 Connaught Road Central,
Hong Kong

15 December 2021

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

RENEWAL OF THE CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our engagement to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Continuing Connected Transaction Agreements and the proposed annual caps related thereto, particulars of which are set out in the letter from the Board (the “**Letter from the Board**”) of the circular to the Shareholders dated 15 December 2021 (the “**Circular**”) and in which this letter is reproduced. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as given to them under the definitions section of the Circular.

As set out in the Letter from the Board, the Company announced on 26 October 2021 that:

- (i) the Company entered into the IRICO Group Master Purchase Agreement with IRICO Group, to renew the Previous IRICO Group Master Purchase Agreement, and regulate the purchase of packaging materials and raw materials for photovoltaic production business, electricity, facilities and ancillary services by the Group from IRICO Group and its associates for the three years ending 31 December 2024; and
- (ii) the Company entered into the Zhongdian IRICO Master Purchase Agreement with Zhongdian IRICO, to renew the Previous Zhongdian IRICO Utility Purchase Agreement and regulate the purchase of raw materials for solar photovoltaic business, production line facilities and installation services, kinetic operation and maintenance services and medical examination services and others by the Company from Zhongdian IRICO and its associates for the three years ending 31 December 2024.

As at the Latest Practicable Date, IRICO Group is the Shareholder of the Company holding, directly and indirectly, approximately 34.43% of the issued share capital of the Company and thus is a connected person of the Company under the Listing Rules. Therefore, the transactions contemplated under the IRICO Group Master Purchase Agreement between the Company and IRICO Group constitute continuing connected transactions of the Company.

LETTER FROM OCTAL CAPITAL

Zhongdian IRICO, which is directly held as to 72.08% by CEC and 27.92% by IRICO Group as at the Latest Practicable Date, is an associate of CEC and IRICO Group and thus a connected person of the Company under the Listing Rules. Therefore, the transactions contemplated under the Zhongdian IRICO Master Purchase Agreement between the Company and Zhongdian IRICO constitute continuing connected transactions of the Company.

In addition, the applicable percentage ratios for the highest proposed annual caps for each of the Review Period in respect of the continuing connected transactions contemplated under each of the Continuing Connected Transaction Agreements exceed 5%, the continuing connected transactions contemplated under Continuing Connected Transaction Agreements (the “**Continuing Connected Transactions**”) (including the respective proposed annual caps) are subject to the announcement, annual review and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

An Independent Board Committee comprising all of the independent non-executive Directors namely Ms. Wu Xiaoguang, Mr. Li Yong, and Ms. Hao Meiping, has been formed to advise the Independent Shareholders in respect of the Continuing Connected Transaction Agreements and the transactions contemplated thereunder (including the respective proposed annual caps).

We, Octal Capital Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the fairness and reasonableness of the terms of the Continuing Connected Transaction Agreements and the proposed annual caps related thereto in this regard. We are not connected with the directors, chief executive and substantial shareholders of the Group, Zhongdian IRICO, IRICO Group or CEC or any of their respective subsidiaries or associates and do not have any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group as at the Latest Practicable Date and therefore is considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholders.

LETTER FROM OCTAL CAPITAL

During the last two years, we were engaged as an independent financial adviser to the Company (the “**Previous Engagements**”) in respect of (i) the further subscription of H Shares by Zhongdian IRICO and other independent third parties, details of which were stated in the circular of the Company dated 31 December 2019; and (ii) the disposal of three subsidiaries to IRICO Group, disposal of an associate to Zhongdian IRICO and the purchase of the system equipment and related services by Hefei Photovoltaic from IRICO Group, details of which were stated in the circular of the Company dated 8 December 2020. Under the Previous Engagements, we were required to express our opinion on and give recommendation to the Independent Board Committee and/or the Independent Shareholders in respect of the relevant transactions. Apart from normal professional fees payable to us by the Company in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company or the directors, chief executive and substantial shareholders of the Group or Zhongdian IRICO or IRICO Group or CEC or any of their respective subsidiaries or associates.

In formulating our opinion, we have relied on the accuracy of the information and representations contained in the Circular and have assumed that all information and representations made or referred to in the Circular were true at the time they were made and continue to be true as at the Latest Practicable Date. We have also relied on our discussion with the management of the Company regarding the Group, including the information and representations contained in the Circular. We have also assumed that all statements of belief, opinion and intention made by the Directors and management of the Company in the Circular were reasonably made after due enquiry. We consider that we have reviewed sufficient information to reach an informed view, to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice, among other things, (i) the development plan and production plan of the Group for the three years ending 31 December 2024; (ii) list of estimated purchases of materials, utilities and services for the three years ending 31 December 2024; (iii) samples of quotations of the comparable products and utilities and comparable services under the Company’s existing construction projects for the services to be sought for under the Previous IRICO Group Master Purchase Agreement and the Previous Zhongdian IRICO Utility Purchase Agreement during the two years ended 31 December 2020 and the nine months ended 30 September 2021; (iv) the interim report of the Company for the six months ended 30 June 2021; (v) the annual report of the Company for the year ended 31 December 2020; and (vi) internal control policies governing the connected transactions of the Company. We have no reason to suspect that any material facts have been omitted or withheld from the information contained or opinions expressed in the Circular nor to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and management of the Company. We have not, however, conducted an independent in-depth investigation into the business and affairs of the Group, Zhongdian IRICO, IRICO Group, CEC and their respective controlling shareholder(s) and associates nor have we carried out any independent verification of the information supplied.

LETTER FROM OCTAL CAPITAL

THE CONTINUING CONNECTED TRANSACTIONS AND THE PROPOSED ANNUAL CAPS

Principal factors and reasons considered

In arriving at our opinion regarding the Continuing Connected Transactions (including the respective proposed annual caps) for the three years ending 31 December 2024 (the “**Review Period**”), we have considered the following principal factors and reasons:

1. *Background of and reasons for the Continuing Connected Transactions and the proposed annual caps*

General information of the parties of the Continuing Connected Transactions

As set out in the Letter from the Board, the Company is principally engaged in the production and sales of solar photovoltaic glass; and the processing of quartz sand, an upstream material for photovoltaic glass.

IRICO Group, in addition to operating businesses through the Company, is principally engaged in the research and development, production and trading of businesses relating to colour picture tubes, display panels and their components, colour television sets and electronic products.

Zhongdian IRICO is principally engaged in the research, development, service and transfer of electronic information technology, industrial investment and assets operation management services, property investment and property operation management services.

Summary of the product and service offerings under the Continuing Connected Transaction Agreements

Set out below is a summary of the nature of the transactions contemplated under each of the Continuing Connected Transaction Agreements:

Agreement	Description of transactions
The IRICO Group Master Purchase Agreement	Purchase of packaging materials and raw materials for photovoltaic production business, electricity, facilities and ancillary services from IRICO Group and its associates
The Zhongdian IRICO Master Purchase Agreement	Purchase of raw materials for solar photovoltaic business, production line facilities and installation services, other kinetic operation and maintenance services and medical examination services and others from Zhongdian IRICO and its associates

LETTER FROM OCTAL CAPITAL

The Company entered into the Continuing Connected Transaction Agreements so as to renew the Previous IRICO Group Master Purchase Agreement and the Previous Zhongdian IRICO Utility Purchase Agreement, both of which will be expired on 31 December 2021.

Based on our review of the proposed product and service mix provided by the Group, we understood that the packaging materials and raw materials to be procured under the IRICO Group Master Purchase Agreement are mainly used in the packaging of the solar photovoltaic glass products produced by the Group (the “**IRICO Group Materials**”) for the production lines where its factories are located in Yan’an, Hefei and Xianyang. The facilities and ancillary services (the “**IRICO Group Services**”) and electricity (the “**IRICO Group Utilities**”) provided by IRICO Group under the IRICO Group Master Purchase Agreement are procured by the Group for the construction and maintenance of furnaces currently in operation or to be constructed by the Group for the three years ending 31 December 2024, as further discussed in the sub-paragraph in this section headed “*Development plan of the Group and expected growth in production capacity*”.

On the other hand, the raw materials to be procured under the Zhongdian IRICO Master Purchase Agreement are mainly used in the production of the solar photovoltaic glass produced by the Group (the “**Zhongdian IRICO Materials**”) for the production lines where its factories are located in Yan’an, Hefei, Shangrao and Xianyang. The production line facilities and installation services, other kinetic operation and maintenance services and medical examination services (together the “**Zhongdian IRICO Services**”) and electricity (the “**Zhongdian IRICO Utilities**”) provided by Zhongdian IRICO under the Zhongdian IRICO Master Purchase Agreement are procured by the Group for the construction and maintenance of furnaces currently in operation or to be constructed by the Group for the three years ending 31 December 2024, as further discussed in the sub-paragraph in this section headed “*Development plan of the Group and expected growth in production capacity*”.

As set out in the Letter from the Board, the Board is of the view that the entering into of the Continuing Connected Transaction Agreements is essential to the normal operations of, and beneficial to, the Company given:

- (i) the Company and each of IRICO Group and Zhongdian IRICO have established a long-term relationship, and understood their respective planning of business operations, quality control as well as certain specific requirements of both parties;
- (ii) the purchase of products by the Company from IRICO Group or Zhongdian IRICO (as the case may be) will assist in decreasing the management and operational costs of the Company due to the close proximity between these companies. The bulk purchase and sales of products is also economically beneficial to both the Company and IRICO Group or Zhongdian IRICO (as the case may be);

Industry overview

At present, with the emergence of low-carbon economy globally, developing new energy becomes a strategic requirement for the PRC's current and future energy development. Regarding the overall development of solar photovoltaic industry in the PRC, the idea of gradual transforming the grid parity between the solar power and conventional electricity sources from subsidy-driven to become market-oriented was highlighted in various national development schemes in recent years. Xi Jinping, General Secretary of the Communist Party of China, solemnly announced at the General Debate of the 75th session of the UN General Assembly that "China will scale up its Intended Nationally Determined Contributions by adopting more vigorous policies and measures. We aim to have CO₂ emissions peak before 2030 and achieve carbon neutrality before 2060". In the National "Fourteenth Five-Year" Plan, it is proposed that carbon emissions intensity be reduced, places where conditions permit be supported to take the lead in reaching carbon emissions peak, and an action plan for carbon emissions peak before 2030 be formulated. According to the "Notice on the Preparation of the '14th Five-Year Plan' for Renewable Energy Development" (《關於做好可再生能源發展“十四五”規劃編制工作有關事項的通知》) issued by the National Energy Administration of the PRC on 15 April 2020, the photovoltaic industry was illustrated as an important focus in energy reform in the PRC with the objective of marketisation, low cost, and prioritised development of renewable energy during the "14th Five-Year Plan" period. Such initiatives were further reinforced with reference to "2020 Wind Power and Photovoltaic Power Parity Grid Notice" (《關於公佈2020年風電、光伏發電平價上網專案的通知》) jointly issued by the National Development and Reform Commission and the National Energy Administration of the PRC in 31 July 2020.

The emphasis on the energy reform in the PRC was coherent with the growth of the solar photovoltaic power generation scale in the PRC. According to the statistics from the National Energy Administration of the PRC, in 2020, the cumulative installed capacity of the solar photovoltaic grid-connected modules in the PRC reached 253.43 gigawatt, reaching a three-year high and representing a year-on-year increase of 24.1%. With reference to the "2020–2021 National Electricity Supply and Demand Analysis and Forecast Report" (《2020–2021年度全國電力供需形勢分析預測報告》) published by the China Electricity Council of the PRC, photovoltaic power generation in the PRC reached 261.1 billion kilowatt-hours during the same year, representing a year-on-year increase of 16.6%. In addition, according to China Photovoltaic Industry Association's forecast published in the "China Photovoltaic Industry Development Roadmap" (《中國光伏產業發展路線圖》), in 2021, the new installed capacity of solar photovoltaic grid-connected modules in the PRC is expected to reach more than 60 gigawatt, with a compound annual growth rate of approximately 9% from 2020 to 2025.

Based on the above, we are of the view that the demand for solar photovoltaic glass, which is the major component of the solar photovoltaic grid-connected modules, will benefit from the increasing demand in solar photovoltaic power generation in the PRC.

LETTER FROM OCTAL CAPITAL

Business strategy and recent development of the Group

Since the reformation and reorganisation regarding the industrial transformation of IRICO Group in 2012, we noted that the business strategy of the Group has been looking for opportunities to off-load the non-core businesses and loss-making companies of the Group, in order to focus on the development of the solar photovoltaic business. During the recent years, the Group has been making adjustments to its existing principal businesses and in particular, as supplemented in the annual report of the Company for the year ended 31 December 2020 (“**FY2020**”) (the “**2020 Annual Report**”), with the focus of the Group on the development of the principal business of photovoltaic glass, and completed the disposals of its new materials, modules and power station and other businesses, where the Company completed several equity transfer agreements in order to transfer its equity interests in certain operating entities in new materials, modules and power station and other businesses (the “**Disposals**”).

As further stated in the 2020 Annual Report, the Group will accelerate the construction of new production lines such as ultra-thin and high-transmissivity photovoltaic glass and further expand the production capacity of photovoltaic glass in the next two to three years, as well as establish an integrated research and development platform for production, education, research and application around the thin and large-sized photovoltaic glass, materials related to the photovoltaic glass industry chain, intelligent equipment, integrated energy-saving of buildings and special functional glass.

Regarding the development of the solar photovoltaic business of the Group, with reference to the 2020 Annual Report, during FY2020, the Group’s Hefei and Yan’an photovoltaic glass bases achieved robust production and sales, and recorded increase both in volume and prices. The Group made breakthroughs in new photovoltaic glass products including the thin, large-sized and double-glazed photovoltaic glass, and maintained its global leading position in oxygen-fuel combustion and environmentally-friendly furnace technology. At the same time, the Group accelerated the development of industrial bases such as Hefei phase III ultra-thin and high-transmissivity photoelectric glass project (the “**Hefei Phase III Project**”), IRICO Xianyang ultra-thin and high-transmissivity photoelectric glass project (the “**Xianyang Project**”) and IRICO Shangrao ultra-thin and high-transmissivity photovoltaic glass project (the “**Shangrao Project**”), and the effective expansion of production capacity will enable the Group to quickly share the market opportunities brought by the development of the photovoltaic industry. In addition, in order to highlight the principal business and expand and strengthen the photovoltaic glass business, the Group completed the offloading of new materials, modules and power station and other businesses.

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Furthermore, as stated in the announcement of the Company dated 23 July 2021 on its recent development of thin photovoltaic glass products and further confirmed by the management of the Company, the furnace of the Hefei Phase III Project was ignited successfully on 23 July 2021. The Hefei Phase III Project has obtained an additional investment amounting to approximately RMB550 million, and will have an annual production capacity of approximately 38.6 million sqm of photovoltaic glass upon reaching its target output, which will further highlight the scale effect and cost advantage. The implementation of such project has great strategic significance for the Company to implement its development strategy, lead technological innovation in the industry, enhance its economic benefits and promote social benefits.

Performance of the solar photovoltaic business of the Group

As set out in the 2020 Annual Report, based on technological innovation, quality improvement and aggressive marketing strategies, the average sales volume- to-production ratio of solar photovoltaic glass of the Group exceeded 100% for FY2020. In particular, with the development and mass production efforts of the Group, the output of thin photovoltaic glass and other products increased by 200% year-on-year, which demonstrated the increasing demand on the Group's solar photovoltaic products and potential for enhancement of the Group's photovoltaic glass capacity to keep up the market demand.

Based on the efforts of the Group in expanding its solar photovoltaic glass business, under the review period of the Previous IRICO Group Master Purchase Agreement and the Previous Zhongdian IRICO Utility Purchase Agreement, we noted that the principal business of solar photovoltaic glass of the Group was growing. The revenue of the Group generated by the solar photovoltaic glass business was approximately RMB1,300.4 million and RMB1,609.2 million, which accounted for approximately 57.9% and 63.9% of total revenue for the years ended 31 December 2019 and 31 December 2020, respectively.

Taking into account the adjustment of assets structure and corporate structure, as disclosed in the interim report of the Company for the six months ended 30 June 2021 (the “**2021 Interim Report**”), the revenue of the Group generated by the solar photovoltaic glass business amounted to approximately RMB1,167.4 million, which accounted for approximately 99.2% of the revenue of the Group for the six months ended 30 June 2021.

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As set out in the 2021 Interim Report, benefiting from the rapid development of the global photovoltaic industry, the Group focused on its main business of solar photovoltaic glass and continuously enhanced its competitive strength by optimizing its product structure, improving its purchase and marketing strategies, strictly controlling its costs and strengthening its capital operation. During the six months ended 30 June 2021, the Group recorded operating revenue of RMB1,176.6 million, representing a year-on-year increase of RMB173.2 million or 17.3%, mainly due to the increase in sales volume of solar photovoltaic glass and the overall increases in product prices. Total profit of the Group for the six months ended 30 June 2021 amounted to RMB223.9 million, representing a year-on-year increase of RMB188.5 million or 532.2%, which was mainly attributable to the increased gross profit margin from the sales of the solar photovoltaic glass.

Development plan of the Group and expected growth in production capacity

Based on our review of the development and production plan of the Group during the “Fourteenth Five-year” period (the “**Development Plan**”), we understood that it is the intention of the Group to focus its resources on its core business area in development of solar photovoltaic glass business, with one of the objectives, apart from cost control and iteration of technology development, promotes the development of the segment by enhancing the Company’s market share and production capacity.

With respect to the proposed construction and development of ultra-thin and high-transmissivity photoelectric glass project industrial bases, based on the Development Plan, we understood that the Group has completed the construction of base for Hefei Phase III Project and commenced the construction of bases of Xianyang Project and Shangrao Project. Apart from the four furnaces in the existing production lines in Yan’an and Hefei as at the Latest Practicable Date (the “**Existing Production Lines**”), the production lines under the commencement of production in the Xianyang Project and the Shangrao Project which are expected to be setup during the Review Period, where (a) the first production line (the “**Xianyang 1st Batch New Production Line**”), the second and third production line (the “**Xianyang 2nd Batch New Production Line**”), and the fourth and fifth production line (the “**Xianyang 3rd Batch New Production Line**”, together with the Xianyang 1st Batch New Production Line and the Xianyang 2nd Batch New Production Line, the “**Xianyang New Production Line**”) of the Xianyang Project is expected to reach its full production capacity in 2022, 2023 and 2024, respectively; and (b) the first and second furnace of the Shangrao Project (the “**Shangrao New Production Line**”) is expected to reach its full production capacity in the first and third quarter of 2023, respectively. In addition, with reference to the Development Plan, the production base in Hefei, where the Hefei Phase III Project ignited in July 2021, is anticipated to reach full production in the second quarter of 2022.

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It is further expected by the management of the Company that ten ultra-thin and high-transmissivity photovoltaic glass furnaces and supporting processing production lines will be constructed by the end of the “Fourteenth Five-year” period in 2025 and production capacity of solar photovoltaic glass products will be boosted to approximately 300.0 million square meters per year for the year ending 31 December 2025 from approximately 82.0 million square meters per year for the year ending 31 December 2021, representing an estimated compound annual growth of approximately 38.3% from 2021 to 2025.

Long-term cooperation relation and close proximity between the connected parties

Based on our discussion with the management of the Company, as the Group has established a long-term cooperative relationship with IRICO Group and Zhongdian IRICO since its incorporation, in particular, the cooperation in raw materials, services and utilities provided by IRICO Group and Zhongdian IRICO as set out in precedent continuing connected transactions among the Group, IRICO Group and Zhongdian IRICO. The long-term supply relationship has allowed the IRICO Group and Zhongdian IRICO to develop thorough understanding of planning of business operations, quality control, technical requirements and specifications required by the Group and become familiar with the production cycle and operation needs of the Group, thereby ensuring the timely supply of the materials and utilities and quality supply of construction and ancillary services to be procured by the Group which (i) meets the necessary quality and standards as required by the Group; and (ii) minimises any disruptions to the Group’s existing business operations. The cooperation with the connected parties would provide extra options for stable and high quality supply/provision of utilities and products, as set forth in the Continuing Connected Transactions, for the Group’s production of solar photovoltaic glass.

In addition, given the close proximity of the locations of the production lines, warehouses and power stations between the Group, the IRICO Group and Zhongdian IRICO, we concur with the view of the management of the Company that the purchase of the packaging materials and raw materials and the procurement of the utilities from IRICO Group and Zhongdian IRICO will assist in minimizing the management and operational costs of the Group due to the close proximity between the production lines and power stations.

Based on the forgoing and having regard to (i) the Continuing Connected Transactions between the Group and relevant connected parties have been in existence for years; and (ii) the reduction in operational costs and business disruption from close proximity between production lines and warehouses between the Group and the connected parties, we consider that the transactions contemplated under the Continuing Connected Transaction Agreements are carried out in the ordinary and normal course of business for the Group to enter into with the relevant connected parties.

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From the above, we understood that (i) it is the Group's development focus on the solar photovoltaic business; (ii) the outlook of the solar industry will be optimistic upon the support of clear industry guidance set out by the PRC government which is favorable for the development of the Group's business; and (iii) the long-term cooperation with the connected parties can ensure a stable and high quality provision of utilities and products for the Group's production of solar photovoltaic glass and provision of quality services which meet the Group's needs. Therefore, we are of the view that the transactions contemplated under the Continuing Connected Transaction Agreements are in the interest of the Company and its shareholders as a whole.

2. *The existing annual caps and historical transaction amounts*

Based on information provided by the Company, we summarised in the following table (i) the existing annual caps of the Continuing Connected Transactions for each of the three financial years ending 31 December 2021; and (ii) the historical transaction amounts for the two years ended 31 December 2020 and the nine months ended 30 September 2021.

Nature of transactions		Historical transaction amounts			Existing annual caps		
		For the	For the	For the nine	For the	For the	For the
		year ended	year ended	months ended	year ended	year ended	year ending
		31 December	31 December	30 September	31 December	31 December	31 December
		2019	2020	2021	2019	2020	2021
		(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Fees paid by the Group to IRICO Group and its associates under the Previous IRICO Group Master Purchase Agreement	Purchase of packaging materials and raw materials, electricity and ancillary services by the Company from IRICO Group	48,437	51,025	45,823	99,326	104,778	122,378
Utilisation rate					48.77%	48.70%	49.93% (Annualised) (Note)
Fees paid by the Group to Zhongdian IRICO and its associates under the Previous Zhongdian IRICO Utility Purchase Agreement	Purchase of materials and utilities necessary for the solar photovoltaic business and the new materials business, including materials, water, electricity, gas and other utilities and ancillary services by the Company from Zhongdian IRICO	57,881	22,245	18,473	105,123	106,169	108,510
Utilisation rate					55.06%	20.95%	22.70% (Annualised) (Note)

Note: Based on the historical transaction amount for the nine months ended 30 September 2021 divided by nine months and multiply by 12.

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The fee paid by the Company to IRICO Group and Zhongdian IRICO under the Previous IRICO Group Master Purchase Agreement and Previous Zhongdian IRICO Utility Purchase Agreement for the two years ended 31 December 2020 and the nine months ended 30 September 2021 did not exceed their relevant annual caps. The Company is of the view that the transaction amount under both agreements for the year ending 31 December 2021 by the Group are expected not to exceed the relevant annual cap.

Based on the above table, the utilisation rates of the annual caps for the Previous IRICO Group Master Purchase Agreement were approximately 48.8%, 48.7% and 49.9% for the two years ended 31 December 2020 and the nine months ended 30 September 2021 on an annualised basis, respectively. The utilisation rates of the annual caps for the Previous Zhongdian IRICO Utility Purchase Agreement were approximately 55.1%, 21.0% and 22.7% for the two years ended 31 December 2020 and the nine months ended 30 September 2021 on an annualised basis, respectively. We noted that the existing annual caps in respect of the Previous IRICO Group Master Purchase Agreement and the Previous Zhongdian IRICO Utility Purchase Agreement for the two years ended 31 December 2020 and the nine months ended 30 September 2021 was not fully utilised.

With reference to the basis of determination of existing annual caps under the Previous IRICO Group Master Purchase Agreement as set out in the circular of the Company dated 3 December 2018 (the “**2018 Circular**”) and the breakdown of the purchase of the raw materials under the Previous IRICO Group Master Purchase Agreement provided by the management of the Company, we noted that the shortfall was mainly due to the shutdown of the No.4 furnace (the “**No.4 Furnace**”) of Xianyang Photovoltaic Glass Factory* (咸陽光伏玻璃廠) in June 2019, which procurement of raw materials, packaging materials and corresponding utilities from IRICO Group from the second half of 2019 for such production base has been stalled from production suspension.

On the other hand, with reference to the basis of determination of existing annual caps under the Previous Zhongdian IRICO Utility Purchase Agreement as mentioned in the 2018 Circular and the breakdown of the purchase of the raw materials under the Previous Zhongdian IRICO Utility Purchase Agreement provided by the management of the Company, we noted that the shortfall was mainly due to (i) the shutdown of the No.4 Furnace, and procurement of materials and corresponding utilities from Zhongdian IRICO was stalled from production suspension; and (ii) the gradual decrease in production and divestment of photoresist business and new material business of Shaanxi IRICO New Materials Company Limited, the then subsidiary of the Company which was disposed under the Disposals, which led to the decrease and absence in demand of the material and utilities as prescribed in the Previous Zhongdian IRICO Utility Purchase Agreement.

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3. *The proposed annual caps*

The proposed annual caps under the IRICO Group Master Purchase Agreement

The proposed annual caps in respect of the Continuing Connected Transactions for the Review Period under the IRICO Group Master Purchase Agreement as set out below:

	Proposed annual caps		
	For the	For the	For the
	year ending	year ending	year ending
	31 December	31 December	31 December
	2022	2023	2024
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Transactions	The IRICO Group Master Purchase Agreement		
Nature of transactions	Purchase packaging materials and raw materials for photovoltaic production business, electricity, facilities and ancillary services from IRICO Group and its associates		
Fees paid/payable by the Group to IRICO Group and its associates under the IRICO Group Master Purchase Agreement	160,309	185,559	191,432
– purchase of packaging materials and raw materials	118,308	147,511	153,384
• packaging materials	62,308	91,511	97,384
• raw materials	56,000	56,000	56,000
– purchase of electricity	36,725	36,725	36,725
– purchase of facilities and ancillary services	5,276	1,323	1,323

The proposed annual caps for the continuing connected transactions contemplated under the IRICO Group Master Purchase Agreement have been determined primarily based on the aforementioned factors as set out in the Letter from the Board.

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We noted that the proposed annual cap under IRICO Group Master Purchase Agreement for the year ended 31 December 2022 represented an increment of approximately RMB99.2 million (the “**IRICO Group Annual Cap Increment**”) or an increase of approximately 1.6 times as compared to the annualised historical transaction amount in 2021, with a year-on-year increase of approximately 15.8% and 3.2% for the years ending 31 December 2023 and 31 December 2024, respectively. IRICO Group Materials accounting for over two-third of the proposed annual caps for the Review Period, whereas IRICO Group Utilities and IRICO Group Services together accounting for less than a third of the proposed annual caps for the Review Period. We discussed with the Company and understand that the proposed annual caps under the IRICO Group Master Purchase Agreement are determined based on (i) the sales of solar photovoltaic glass increased rapidly by approximately 114% from February 2021 to August 2021; (ii) the revenue from the two major customers for the six months ended 30 June 2021 who purchased from the products of photovoltaic glass business increased by approximately 140% as compared to the same period of previous year; (iii) achieved mass sales due to the solar photovoltaic glass product have been accredited by top ten domestic users and the Company received awards for the achievements in self-developed “photovoltaic glass oxygen-fuel combustion furnace technology with an output of 750 tones and industrialization”; (iv) the increase of total production capacity of solar photovoltaic glass by approximately 31.1 million sqm, 104.9 million sqm and 82.0 million sqm in 2022, 2023 and 2024, respectively, where IRICO Group will provide IRICO Group Materials, IRICO Group Services and IRICO Group Utilities to Yan’an, Heifei and Xianyang, and Yan’an, Heifei and Xianyang production capacity is expected to increase from approximately 82.0 million sqm in 2021 to 113.1 million sqm, 155.9 million sqm and 161.0 million sqm in 2022, 2023 and 2024, respectively; (v) usual practice of the Group to keep inventory of solar photovoltaic glass in stock; (vi) the four furnaces, the Existing Production Lines and the new production lines of the Group requires to operate 24 hours, hence the Company expects it will fully utilise on its production capacity of the Existing Production Lines and new production lines as well as increase production volume of solar photovoltaic glass to cope with the market demand in the coming years; and (vii) the favourable government policies as mentioned in “industry overview” of this letter. Upon our review of the Development Plan, the breakdown of estimation of the existing annual caps for the two years ended 31 December 2020 and the year ending 31 December 2021 and the breakdown of historical transaction amounts provided by the management of the Company, we noted that IRICO Group Annual Cap Increment were mainly attributable to the aforementioned shortfall resulted from the shutdown of the No.4 Furnace in June 2019 which led to absence of such procurement amount for the years ended 31 December 2019 and 31 December 2020 and the nine months ended 30 September 2021, coupled with (i) the expected increase in demand of raw materials due to the increase of the Group’s production of solar photovoltaic glass products for the Existing Production Lines with total production capacity of approximately 82.0 million sqm; (ii) the expected production volume from the newly setup production lines under the commencement of production in the Xianyang Project, where the Xianyang 1st Batch New Production Line is expected to reach its full production capacity in 2022, which the total production capacity will

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increase to approximately 113.1 million sqm, representing an increase of approximately 37.9% of total production capacity in 2022; and (iii) the estimated electricity usage required for production of solar photovoltaic glass products for the Existing Production Lines and those to be constructed in Xianyang for the year ended 31 December 2022. On the other hand, the further increment in procurement volume of the IRICO Group Materials in 2023 and 2024 are mainly due to (i) the Xianyang 2nd Batch New Production Line is expected to reach its full production in 2023, which the total production capacity in Xianyang will increase to approximately 24.4 million sqm, representing an increase of approximately 162.4% of total production capacity of Xianyang in 2023; and (ii) Xianyang 3rd Batch New Production Line of the Xianyang Project is expected to reach its full production capacity of approximately 29.5 million sqm in 2024, which the total production capacity of Xianyang will increase from approximately 24.4 million sqm to approximately 29.5 million sqm, representing an increase of approximately 20.9% of total production capacity of Xianyang in 2024.

In assessing the fairness and reasonableness of the proposed annual caps under the IRICO Group Master Purchase Agreement, we have discussed with the management of the Company the bases and assumptions underlying the projections of such proposed annual caps. In respect of the proposed annual caps of RMB160,309,000, RMB185,559,000 and RMB191,432,000 to be sought for the purchase of the IRICO Group Materials, the IRICO Group Services and the IRICO Group Utilities by the Company from the IRICO Group for each of the three financial years during the Review Period, we have obtained from the Company production plans of photovoltaic glass products under (i) the Existing Production Lines; (ii) the anticipated achievement of full production capacity for the Hefei Phase III Project in June 2022; and (iii) the new production lines under the Xianyang New Production Line and the Shangrao New Production Line, which together laid out the expected production amount in the Review Period. As discussed with the management of the Company, we understood from the Company that the level of the proposed annual caps for the Review Period were determined after taking into consideration the expected demand of the IRICO Group Materials, the IRICO Group Services and the IRICO Group Utilities with reference to the aforementioned factors.

We understood that the expected demand of IRICO Group Materials shows a gradual year-on-year growth of over 20% for the year ending 31 December 2023 and approximately 4% for the year ending 31 December 2024, during the Review Period due to the increasing demand of materials resulting from (i) the Existing Production Lines; (ii) the anticipated achievement of full capacity for the Hefei Phase III Project in June 2022; and (iii) the completion of construction of furnaces and commencement in production of photovoltaic glass products for the new production lines under the Xianyang New Production Line in 2022, 2023 and 2024, respectively. Under the estimation of the Development Plan, the production volume will be boosted to approximately 300.0 million

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square meters per year for the year ending 31 December 2025 from approximately 82.0 million square meters per year for the year ending 31 December 2021, representing an estimated compound annual growth of approximately 38.3% from 2021 to 2025, with reference to the Group's strategy in meeting the increase in demand of the solar photovoltaic glass as a component of the solar photovoltaic modules in view of the increasing trend of new installed capacity of solar photovoltaic modules and favourable government policies in the PRC. Hence, we are of the view that the proposed quantity of purchase of the IRICO Group Materials by the Company from the IRICO Group is fair and reasonable.

In respect of the procuring prices of the IRICO Group Materials under the IRICO Group Master Purchase Agreement, we have obtained and reviewed the list of products to be procured from IRICO Group which mainly includes packaging materials and raw materials used for the solar photovoltaic glass produced by the photovoltaic glass production lines in Hefei, Yan'an and Xianyang. Based on our discussion with the management of the Company, we noted that the unit price for each type of the IRICO Group Materials in each of the three years during the Review Period is determined based on the prevailing market price and assumed to be the same throughout the period. We have discussed with the management of the Company and understood the process of price determination. Based on our enquiry on the price comparison process and upon our review of the Company's internal control manual, we understood that upon receipt of quotations from IRICO Group, the designated persons of the Group (namely, the business planning executives, who are primarily responsible for the examination and approval of the procurement plans and the execution of purchase contracts) will ascertain the prices offered or charged by independent third parties, generally by way of obtaining quotations for a comparable volume of same or similar category of products or services from at least two independent third parties via emails, fax, phone or tenders by publishing tender notice via various media resources (for instance, the local newspapers), and take average of such quotations as the prevailing market price.

Based on our discussion with the management of the Company, we were advised that the prices of IRICO Group Materials were based on the prevailing market price and past transactions during the two years ended 31 December 2020 and the nine months ended 30 September 2021. For our due diligence purpose, we have obtained and reviewed the prices of IRICO Group Materials including packaging materials and raw materials being procured by the Company during the Previous IRICO Group Master Purchase Agreement which will also procure under the IRICO Group Master Purchase Agreement during the Review Period, on sample basis, where we have chosen five out of 12 major category items from the exhaustive list of products to be procured from IRICO Group, which contributes over 69% of the total procurement amount, and compared each of the items with at least five samples of invoices from independent third parties showing the previous procurement prices of the same items which were issued during the two years ended 31 December 2020 and

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the eleven months ended 30 November 2021. Given that (i) the list of products to be procured from IRICO Group is exhaustive; (ii) the population of the samples contributed over 69% of the total procurement amount; and (iii) covers the historical period from 31 December 2019 up to 30 November 2021, we consider the sample selection is fair and representative. Upon comparison, we noted that the unit price of the IRICO Group Materials used in the proposed annual caps is within the range, close to the average of the historical unit price and comparable to unit price of the same items provided by the other independent third parties to the Company, hence we consider the unit price for the IRICO Group Materials is fair and reasonable. After reviewing the relevant documents throughout the price determination process, we consider that the selling prices of IRICO Group Materials are based on arm's length negotiations between the relevant parties, hence the prices and terms are no less favourable to the Company or the relevant connected parties and are carried out in the ordinary course of business of the Group.

On the other hand, the volume of usage of the IRICO Group Materials is expected to increase for the year ending 31 December 2022 as compared with the year ending 31 December 2021 and such increase is mainly attributable to the expected growth in the production volume under the commencement of production of the new production line in Hefei Phase III Project in 2022 and the volume of usage of the IRICO Group Materials is expected to increase gradually for each of the years ending 31 December 2023 and 2024 under the gradual completion of construction and commencement of production for the Xianyang New Production Line in 2022, 2023 and 2024, respectively. We have reviewed the Development Plan and the current estimates of procurement volume for the year ending 31 December 2021, projected the expected increase in production volume and noted that the procurement amount, taking into account the aforementioned expansion in production scale and the consumption needs in the cold-end production lines in the Xianyang New Production Line, is generally in line with the estimated production volume. Therefore, we are of the view that the prices and volume of the IRICO Group Materials are fairly and reasonably determined.

In respect of the prices of the IRICO Group Services under the IRICO Group Master Purchase Agreement which include operation and maintenance service of constructions in production lines, we have obtained and reviewed the list of services which mainly include (i) maintenance service of Hefei Photovoltaic 12-megawatt power station; (ii) construction service of the Hefei Photovoltaic 1-megawatt distributed photovoltaic power station project; (iii) construction service of Yan'an Photovoltaic 1.363-megawatt distributed photovoltaic power station; and (iv) roof renovation service of the Hefei Phase III Project, and the proposed annual caps for the Review Period represents the aggregated estimated project sum of the aforementioned projects. As discussed with the management of the Company, we further understood that the relevant projects will be assigned through bid negotiation and the proposed annual caps would only be utilised when the connected parties won the bid. Otherwise, the project will be assigned to a winning bidder who is

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an independent third party to the Company and its associates. We further noted that the estimated project sum was estimated with comparable services under the Company's existing construction projects. Upon our review of the list of the major services, its service fees and estimated usage of the services, we are of the view that the proposed annual caps are fairly estimated. Further, after reviewing the relevant assessment mechanism in regard of the price determination, we consider that the service fee agreed as proposed under the IRICO Group Master Purchase Agreement, where IRICO Group become the winning bidder, will be no less favorable than that quoted by independent third parties, hence we are of the view that the prices and terms of the IRICO Group Services are fair and reasonable and the corresponding project sum is reasonable estimated.

In respect of the procuring prices of IRICO Group Utilities, we have obtained and reviewed the list of IRICO Group Utilities provided by management which includes electricity that are used in the operation of the furnace for the solar photovoltaic glass production in the production lines in Hefei. We have compared the unit price of electricity to the relevant Government-prescribed price of Anhui Province and noted that both prices are similar. We have also obtained and reviewed the price of electricity being procured by the Company on sample basis, where we have obtained five samples of invoices showing the previous procurement prices of electricity by the Company and noted that the prices are comparable to the unit price of electricity proposed under the IRICO Group Master Purchase Agreement. In addition, as discussed with the management of the Company, we noted that the procurement of the IRICO Group Utilities from independent third parties does not commercially sound due to the transmission cost of the distance between power stations of the independent third parties and the factories of production lines of the Group, as well as the specification of the required power output of power stations, except for direct procurement from the state grid of the local government. Therefore, we consider that the overall unit price of electricity which is lower than the unit price of electricity that the Company could otherwise obtain from the State Grid Corporation of the PRC is fair and reasonable. Hence, we are of the view that the terms and conditions should be no less favorable than those offered by independent third parties to/by the Group. In addition, based on our review of the Development Plan and as supplemented by the management of the Company, we noted that the volume of the electricity to be used for production, on a per unit production basis, is comparable at large with the historical amounts for the review period under the Previous IRICO Group Master Purchase Agreement. In view of that, we are of the view that the volume of the IRICO Group Utilities is fairly estimated.

Based on the above, we are of the view that the relevant proposed annual caps under the IRICO Group Master Purchase Agreement are fair and reasonable.

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The proposed annual caps under the Zhongdian IRICO Master Purchase Agreement

The proposed annual caps in respect of the Continuing Connected Transactions for the Review Period Zhongdian IRICO Master Purchase Agreement as set out in the table below:

	Proposed annual caps		
	For the	For the	For the
	year ending	year ending	year ending
	31 December	31 December	31 December
	2022	2023	2024
	(RMB'000)	(RMB'000)	(RMB'000)
Transaction	The Zhongdian IRICO Master Purchase Agreement		
Nature of transactions	Purchase raw materials for solar photovoltaic business, production line facilities and installation services, other kinetic operation and maintenance services and medical examination services and others from Zhongdian IRICO and its associates		
Maximum fees payable by the Group to Zhongdian IRICO and its associates under the Zhongdian IRICO Master Purchase Agreement	184,902	246,156	234,103
– purchase of raw materials	54,602	109,196	132,673
• coating solution	46,575	79,805	93,305
• ink	7,784	28,840	38,752
• thinner	243	551	616
– purchase of production line facilities and installation services (<i>Note</i>)	118,930	90,000	26,000
– purchase of kinetic operation and maintenance services	11,020	46,510	74,980
• electricity	7,020	42,510	70,980
• maintenance services	4,000	4,000	4,000
– purchase of medical examination services and others	350	450	450

Note: The maximum fee payable by the Group to Zhongdian IRICO and its associates under the Zhongdian IRICO Master Purchase Agreement for the purchase of production line facilities and installation services during the period from 2022 to 2024 will be mainly used for its three furnaces and ancillary production lines in Shangrao Project and five production lines in Xianyang Project.

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The proposed annual caps for the continuing connected transactions contemplated under the Zhongdian IRICO Master Purchase Agreement have been determined primarily based on the aforementioned factors as set out in the Letter from the Board.

We noted that the proposed annual cap under Zhongdian IRICO Master Purchase Agreement for the year ended 31 December 2022 represented an increment of approximately RMB160.27 million (the “**Zhongdian IRICO Annual Cap Increment**”) or an increase of approximately 6.5 times as compared to the annualised historical transaction amount in 2021, with an increase of approximately 33.1% for the years ended 31 December 2023. Zhongdian IRICO Materials accounting for over 29%, 44% and 56% of the proposed annual caps during the Review Period, whereas Zhongdian IRICO Services accounting for over 66%, 38% and 13% of the proposed annual caps for each of the Review Period, and Zhongdian IRICO Utilities cover the remaining annual caps. We discussed with the Company and understand that the proposed annual caps under the IRICO Group Master Purchase Agreement are determined based on (i) the sales of solar photovoltaic glass increased rapidly by approximately 114% from February 2021 to August 2021; (ii) the revenue from the two major customers for the six months ended 30 June 2021 who purchased from the products of photovoltaic glass business increased by approximately 140% as compared to the same period of previous year; (iii) achieved mass sales due to the solar photovoltaic glass product have been accredited by top ten domestic users and the Company received awards for the achievements in self-developed “photovoltaic glass oxygen-fuel combustion furnace technology with an output of 750 tones and industrialization”; (iv) the increase of total production capacity of solar photovoltaic glass of 31.1 million sqm, 104.9 million sqm and approximately 82.0 million sqm in 2022, 2023 and 2024, respectively, where Zhongdian IRICO will provide Zhongdian IRICO Materials, Zhongdian IRICO Services and Zhongdian IRICO Utilities to Yan’an, Heifei, Xianyang and Shangrao, and Yan’an, Heifei, Xianyang and Shangrao production capacity is expected to increase from approximately 82.0 million sqm in 2021 to approximately 113.1 million sqm, 218.0 million sqm and 300.0 million sqm in 2022, 2023 and 2024 respectively; (v) usual practice of the Group to keep inventory of solar photovoltaic glass in stock; (vi) the four furnaces, the Existing Production Lines and the new production lines of the Group requires to operate 24 hours, hence the Company expects it will fully utilise on its production capacity of the Existing Production Lines and new production lines as well as increase production volume of solar photovoltaic glass to cope with the market demand in the coming years; and (vii) the favourable government policies as mentioned in “industry overview” of this letter. Upon our review of the Development Plan, the breakdown of estimation of the existing annual caps for the two years ended 31 December 2020 and the year ending 31 December 2021 and the breakdown of historical transaction amounts provided by the management of the Company, we noted that the Zhongdian IRICO Annual Cap Increment was mainly attributable to the aforementioned shortfall resulted from the shutdown of the No.4 Furnace which led to absence of such procurement amount for the years ended 31 December 2019 and 31 December 2020 and the nine months ended 30 September 2021, as well as the gradual decrease in production and divestment of photoresist business and new material business of Shaanxi IRICO New Materials

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Company Limited, the then subsidiary of the Company which was disposed under the Disposals, which led to the decrease and absence in demand of the material and utilities as prescribed in the Previous Zhongdian IRICO Utility Purchase Agreement, coupled with (i) the expected increase in demand of raw materials for the Group's production of solar photovoltaic glass products for the Existing Production Lines with total production capacity of approximately 82.0 million sqm; and (ii) the expected production volume from the newly setup production lines under the commencement of production in the Xianyang Project and the Shangrao Project, where the Xianyang 1st Batch New Production Line, which is expected to reach its full production capacity in 2022, which the total production capacity will increase to approximately 113.1 million sqm, representing an increase of approximately 37.9% of total production capacity in 2022. On the other hand, the further increment in procurement volume of the Zhongdian IRICO Materials in 2023 and 2024 are mainly due to (i) the Xianyang 2nd Batch New Production Line is expected to reach its full production in 2023 and the Shangrao New Production Line is expected to reach its full production capacity in the first and third quarter of 2023, which the total production capacity will increase to approximately 218.0 million sqm, representing an increase of approximately 93% of total production capacity in 2023; and (ii) Xianyang 3rd Batch New Production Line of the Xianyang Project is expected to reach its full production capacity in 2024, which the total production capacity will increase from approximately 218.0 million sqm to approximately 300.0 million sqm, representing an increase of approximately 37.6% of total production capacity in 2024 and (iii) the estimated electricity usage required for production of solar photovoltaic glass products for the Shangrao New Production Line during the Review Period. Meanwhile, we noted that the demand of Zhongdian IRICO Services decrease by approximately 23.4% in 2023 as compared to 2022 which is mainly due to majority of the constructions of the Xianyang Project and Shangrao Project is expected to complete in 2023. Further, the proposed annual caps for the year ended 31 December 2024 decreased by approximately 4.9% as compared to that of the year ended 31 December 2023, which is mainly due to the completion of the constructions of the Xianyang Project in 2023 and the Shangrao Project in 2024 hence decrease in demand of Zhongdian IRICO Services.

In assessing the fairness and reasonableness of the proposed annual caps under the Zhongdian IRICO Master Purchase Agreement, we have discussed with the management of the Company the bases and assumptions underlying the projections of such proposed annual caps. In respect of the proposed annual caps of RMB184,902,000, RMB246,156,000 and RMB234,103,000 to be sought for the purchase of the Zhongdian IRICO Materials, the Zhongdian IRICO Services and the Zhongdian IRICO Utilities by the Company from Zhongdian IRICO for each of the three financial years during the Review Period, we have obtained the Development Plan which laid out the expected production amount during the Review Period. We also understood from the Company that the level of the proposed annual caps for the Review Period were determined after taking into

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consideration the expected demand of the utilities with reference to production plan and the utilities usage of the furnace in the Company's Existing Production Lines and under the gradual completion of construction and commencement of production for the Xianyang New Production Line and the Shangrao New Production Line in 2022, 2023 and 2024, respectively. Under the estimation of the Development Plan, the production volume will be boosted to approximately 300.0 million square meters per year for the year ending 31 December 2025 from approximately 82.0 million square meters per year for the year ending 31 December 2021, representing an estimated compound annual growth of approximately 38.3% from 2021 to 2025, with reference to the Group's strategy in meeting the increase in demand of the solar photovoltaic glass as a component of the solar photovoltaic modules in view of the increasing trend of new installed capacity of solar photovoltaic modules and favourable government policies and the in the PRC. Hence, we are of the view that the proposed quantity of purchase of Zhongdian IRICO Materials by the Company from the Zhongdian IRICO is fair and reasonable.

In respect of the procuring prices of Zhongdian IRICO Materials, we have obtained and reviewed the list of materials to be procured from Zhongdian IRICO which mainly includes mounting liquid, ink and thinner used in production. We have obtained and reviewed the prices of the Zhongdian IRICO Materials which include mounting liquid, ink and thinner being procured by the Company, where we have obtained five samples of invoices showing the previous procurement prices by the Company and noted that the prices are comparable to the unit price proposed under the Previous Zhongdian IRICO Utility Purchase Agreement. We have discussed with the management of the Company and understood the process of price determination. Based on our enquiry on the price comparison process and upon our review of the Company's internal control manual, we understood that upon receipt of quotations from Zhongdian IRICO, the designated persons of the Group will ascertain the prices offered or charged by independent third parties, generally by way of obtaining quotations for a comparable volume of same or similar category of products or services from at least two independent third parties via emails, fax, phone or tenders by publishing tender notice via various media resources (for instance, the local newspapers), and take average of such quotations as the market price.

After reviewing the relevant documents throughout the price determination process, we consider that the selling prices of Zhongdian IRICO Materials are based on arm's length negotiations between the relevant parties, hence the prices and terms are no less favourable to the Company or the relevant connected parties and are carried out in the ordinary course of business of the Group.

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In respect of the prices of the Zhongdian IRICO Services under the Zhongdian IRICO Master Purchase Agreement which include kinetic operation and maintenance services and medical examination services, we have obtained and reviewed the list of services which mainly include kinetic operation and maintenance services for the Shangrao Project and the proposed annual caps for the Review Period represents the aggregated estimated project sum of the aforementioned projects. As discussed with the management of the Company, we further understood that the kinetic operation and maintenance services for the Shangrao Project will be assigned through tender and the proposed annual caps would only be utilised when the connected parties won the bid. Otherwise, the project will be assigned to a winning bidder who is an independent third party to the Company and its associates. We further noted that the estimated project sum was estimated with comparable services under the Company's existing construction projects. For due diligence purpose, we obtained and reviewed all tender documents of kinetic operation and maintenance services for the factories in Hefei during the two years ended 31 December 2020 and nine months ended 30 September 2021 which contributed 100% of total of kinetic operation and maintenance services for the Company's Hefei construction projects during the two years ended 31 December 2020 and nine months ended 30 September 2021 and the only kinetic operation and maintenance services for the Company's construction projects that is provided by independent third party. We noted that the tenders for kinetic operation and maintenance services for the factories in Hefei provided the same types of services for Shangrao Project under the Zhongdian IRICO Master Purchase Agreement. Given the above, we consider the sample selection is fair and representative. Upon comparison, we noted that all bidders who won the tender bidding for the factories in Hefei, being independent third parties, had the lowest bidding price. We further noted that the service coverage of Shangrao Project is larger than the one in Hefei and the Company took reference to the prices of kinetic operation and maintenance services under the service contracts provided by independent third party for the factories in Hefei to estimate the project sum plus additional cost of workers to perform the services. After reviewing the kinetic operation and maintenance services cost provided by independent third party for the Company's existing construction projects in Hefei and the annual cost of workers provided by independent third party, we consider the price determination based on the Company's existing construction projects and annual workers cost provided by independent third parties formulate a fair and reasonable basis. Further, after reviewing the relevant assessment mechanism in regard of the price determination, we consider that the service fee agreed as proposed under the Zhongdian IRICO Master Purchase Agreement, where Zhongdian IRICO become the winning bidder, will be no less favorable than that quoted by independent third parties. On the other hand, the medical examination services are assigned to the clinics of Zhongdian IRICO, where we noted that the service fee charged are based on the fee structure as strictly regulated by the PRC government. Upon our review of the list of the major services, its service fees and estimated usage of the services, we are of the view that the proposed annual caps are fairly estimated. Given the above, we are of the view that the prices and terms of the Zhongdian IRICO Services are fair and reasonable and the corresponding project sum is reasonable estimated.

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In respect of the procuring prices of Zhongdian IRICO Utilities, we have obtained and reviewed the list of Zhongdian IRICO Utilities provided by management which includes electricity that are used in the operation of the furnace for the solar photovoltaic glass production in the Shangrao New Production Line. We have compared the unit price of electricity to the relevant Government-prescribed price of Jiangxi Province and noted that both prices are similar. We have also obtained and reviewed the price of electricity being procured by the Company on sample basis, where we have obtained five samples of invoices showing the previous procurement prices of electricity by the Company and noted that the prices are comparable to the unit price of electricity proposed under the Zhongdian IRICO Master Purchase Agreement. In addition, as discussed with the management of the Company, we noted that the procurement of the Zhongdian IRICO Utilities from independent third parties does not commercially sound due to the transmission cost of the distance between power stations of the independent third parties and the factories of production lines of the Group, as well as specification of the required power output of power stations of independent third parties, except for direct procurement from the state grid of the local government. Therefore, we consider that the overall unit price of electricity which is lower than the unit price of electricity that the Company could otherwise obtain from the State Grid Corporation of the PRC is fair and reasonable. Hence, we are of the view that the terms and conditions should be no less favorable than those offered by independent third parties to/by the Group. In addition, based on our review of the Development Plan and as supplemented by the management of the Company, we noted that the volume of the electricity to be used for production, on a per unit production basis, is comparable at large with the historical amounts for the review period under the Previous Zhongdian IRICO Utility Purchase Agreement. In view of that, we are of the view that the volume of the Zhongdian IRICO Utilities is fairly estimated.

Based on the above, we are of the view that the relevant proposed annual caps of the Zhongdian IRICO Master Purchase Agreement are fair and reasonable.

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4. *The conditions*

As the respective proposed annual caps will exceed HK\$10 million and the relevant applicable ratios under Rule 14.07 of the Listing Rules exceed 5%, the respective proposed annual caps of the Continuing Connected Transactions are subject to reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Company will therefore seek the approval by the Independent Shareholders of the Continuing Connected Transactions and the respective proposed annual caps subject to the following conditions:

1. The Continuing Connected Transactions will be:
 - (i) entered into by the Group in the ordinary and usual course of its business;
 - (ii) conducted on normal commercial terms or better; and
 - (iii) entered into in accordance with the terms of the relevant framework agreements governing the Continuing Connected Transactions that are fair and reasonable and in the interests of the Shareholders of the Company as a whole;
2. The transacted amount of the transactions under the Continuing Connected Transactions shall not exceed the respective proposed annual caps; and
3. The Company will comply with all other relevant requirements under the Listing Rules.

In assessing whether the Company has put in place effective internal control procedures for the Continuing Connected Transactions, we have obtained and reviewed the following documents: (i) the internal control policies governing the connected transactions of the Company provided by the management of the Company in order to understand the design of the Company's internal control system; (ii) the documentation of estimated price and quantity for determining the proposed annual caps which have been properly reviewed and approved by the Board; (iii) quotations from independent third parties obtained by the business planning executives and relevant assessment records by the head of procurement department of the Group; (iv) the board resolutions concerning the Continuing Connected Transactions; (v) the independent non-executive Directors' letter of confirmation for the year 2020 concerning historical connected transactions, in particular, the Continuing Connected Transactions; and (vi) the auditors' report for years ended 31 December 2019 and 31 December 2020 concerning the historical connected transactions. We note that the above documents were prepared in accordance with the internal control policies of the Company and they were in compliance with the relevant requirements under the Listing Rules. Therefore, we are of the view that the Company has put in place effective internal control procedures for the Continuing Connected Transactions.

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Taking into account the conditions attached to the Continuing Connected Transactions, in particular (i) the restriction by way of setting the respective proposed annual caps; and (ii) the compliance with all other relevant requirements under the Listing Rules (which include the annual review and/or confirmation by the independent non-executive Directors and auditors of the Company on the actual execution of the Continuing Connected Transactions), we consider that the Company has taken appropriate measures to govern the Group in carrying out the Continuing Connected Transactions thereby safeguarding the interests of the Shareholders thereunder.

RECOMMENDATION

Having considered the above principal factors, we are of the opinion that the terms of the Continuing Connected Transactions (including the respective proposed annual caps) are on normal commercial terms, in the ordinary and usual course of business of the Group, fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders, and we advise the Independent Shareholders, to vote in favour of the ordinary resolutions to be proposed at the EGM for approving the terms of the Continuing Connected Transactions (including the respective proposed annual caps).

Yours faithfully,

For and on behalf of

Octal Capital Limited

Alan Fung

Louis Chan

Managing Director

Director

Note: Mr. Alan Fung has been a responsible officer of Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities since 2003. Mr. Fung has more than 28 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions in respect of mergers and acquisitions, connected transactions and transactions subject to the compliance to the Takeovers Code of listed companies in Hong Kong.

Mr. Louis Chan has been a responsible officer of Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities since 2008. Mr. Chan has more than 20 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions in respect of mergers and acquisitions, connected transactions and transactions subject to the compliance to the Takeovers Code of listed companies in Hong Kong.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS**(a) Interests and Short Positions of Directors, Supervisors, Chief Executive and Senior Management**

As at the Latest Practicable Date, none of the Directors, Supervisors, chief executives or senior management members of the Company and their respective associates had any interest or short position in the shares, underlying shares and/or debentures (as the case may be) of the Company and/or any of its associated corporations (within the meaning of Part XV of the SFO) which was (a) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interest and short position which any such Director, Supervisor, chief executive or member of senior management was taken or deemed to have under such provisions of the SFO); (b) required to be recorded in the register of interests required to be kept by the Company pursuant to section 352 of the SFO; or (c) otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 to the Listing Rules in force as at the Latest Practicable Date.

Mr. Jiang Lei acts as Director of the Company and concurrently acts as the chief accountant of IRICO Group. Mr. Chen Xiaoning acts as the supervisor and chairman of supervisory committee of the Company and concurrently acts as the vice general manager and the Communist Party Committee of IRICO Group.

Saved as disclosed as above, as at the Latest Practicable Date, none of the Directors was a director or employee of a company which had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

3. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or, so far as is known to them, any of their respective close associates (as defined in the Listing Rules) was interested in any business (apart from the Group's business) which competes or is likely to compete either directly or indirectly with the Group's business (as would be required to be disclosed under Rule 8.10 of the Listing Rules as if each of them were a controlling Shareholder).

4. INTERESTS IN THE GROUP'S ASSETS OR CONTRACTS OR ARRANGEMENTS SIGNIFICANT TO THE GROUP

As at the Latest Practicable Date, none of the Directors or Supervisors had any interest in any assets which have been, since 31 December 2020 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, none of the Directors or Supervisors was materially interested in any contract or arrangement, subsisting at the date of this circular, which is significant in relation to the business of the Group.

5. CONSENT AND QUALIFICATION OF EXPERT

- (a) The following is the qualification of the expert who has given an opinion or advice which is contained in this circular:

Name	Qualification
Octal Capital Limited	a licensed corporation permitted under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities

- (b) As at the Latest Practicable Date, the above expert did not have any shareholding directly or indirectly in any member of the Group or any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group and it had no interest, either directly or indirectly, in any assets which have been, since the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.
- (c) On the Latest Practicable Date, the above expert has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its report and reference to its name and letter, where applicable, in the form and context in which it appears.

6. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors or Supervisors had any existing or proposed service contract with any member of the Group (excluding contracts expiring or terminable by the employer within a year without payment of any compensation (other than statutory compensation)).

7. MATERIAL ADVERSE CHANGE

As the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2020, the date to which the latest published audited consolidated financial statements of the Group were made up.

8. MATERIAL LITIGATION

As at the Latest Practicable Date, the Company is not engaged in any litigation or claims of material importance and, so far as the Directors are aware, no litigation or claims of material importance is pending or threatened against any member of the Group.

9. MISCELLANEOUS

The English language text of this circular shall prevail over the Chinese language text in case of any inconsistency.

10. DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.irico.com.cn) from the date of this circular up to and including the date of the EGM:

- (i) the IRICO Group Master Purchase Agreement;
- (ii) the Zhongdian IRICO Master Purchase Agreement;
- (iii) the letter from the Independent Board Committee as set out on pages 26 to 27 of this circular;
- (iv) the letter from Octal Capital as set out on pages 28 to 53 of this circular; and
- (v) the written consent of the Independent Financial Adviser as referred to in the paragraph headed “Consent and Qualification of Expert” in this appendix.

NOTICE OF EXTRAORDINARY GENERAL MEETING



彩虹集團新能源股份有限公司 IRICO GROUP NEW ENERGY COMPANY LIMITED*

(A joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 0438)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the extraordinary general meeting (the “EGM”) of IRICO Group New Energy Company Limited* (the “**Company**”) will be held at 9:00 a.m. on Friday, 31 December 2021 at the conference room of the Company at No. 1 Caihong Road, Xianyang, Shaanxi Province, the PRC for the purpose of considering and, if thought fit, passing the following resolutions. Unless otherwise indicated, capitalised terms used in this notice and the following resolutions shall have the same meanings as those defined in the circular of the Company dated 15 December 2021 (the “**Circular**”):

ORDINARY RESOLUTIONS

1. “**THAT:**

- (a) the entering into of the IRICO Group Master Purchase Agreement dated 26 October 2021 between the Company and IRICO Group, a copy of which has been produced to the meeting marked “A” and signed by the chairman of the meeting for identification purpose, and the continuing connected transactions contemplated thereunder (including the corresponding proposed annual caps), details of which are described in the Circular, be and are hereby generally and unconditionally approved, ratified and confirmed; and
- (b) any one Director of the Company be and hereby authorised to do all such acts and things and to sign all documents and to take any steps which in their absolute discretion considered to be necessary, desirable or expedient for the purpose of implementing and/or giving effect to the transactions contemplated under the IRICO Group Master Purchase Agreement.”

NOTICE OF EXTRAORDINARY GENERAL MEETING

2. “THAT:

- (a) the entering into of the Zhongdian IRICO Master Purchase Agreement dated 26 October 2021 between the Company and Zhongdian IRICO, a copy of which has been produced to the meeting marked “B” and signed by the chairman of the meeting for identification purpose, and the continuing connected transactions contemplated thereunder (including the corresponding proposed annual caps), details of which are described in the Circular, be and are hereby generally and unconditionally approved, ratified and confirmed; and
- (b) any one Director of the Company be and hereby authorised to do all such acts and things and to sign all documents and to take any steps which in their absolute discretion considered to be necessary, desirable or expedient for the purpose of implementing and/or giving effect to the transactions contemplated under the Zhongdian IRICO Master Purchase Agreement.”

By order of the Board
IRICO Group New Energy Company Limited*
Tong Xiaofei
Chairman

Shaanxi Province, the PRC
15 December 2021

As at the date of this notice, the Board consists of Mr. Tong Xiaofei and Mr. Jiang Lei as executive Directors, Mr. Ni Huadong and Mr. Huang Weihong as non-executive Directors, and Ms. Wu Xiaoguang, Mr. Li Yong and Ms. Hao Meiping as independent non-executive Directors.

NOTICE OF EXTRAORDINARY GENERAL MEETING

Notes:

1. For the purpose of determining eligibility to attend and vote at the EGM, the register of the members of the Company will be closed from Tuesday, 28 December 2021 to Friday, 31 December 2021, both days inclusive. During such period, no transfers of the Company's Shares will be registered. In order to be entitled to attend and vote at the EGM, holders of H shares whose transfers have not been registered shall deposit the transfer documents together with the relevant share certificates at the H Share registrar of the Company, Computershare Hong Kong Investor Services Limited, at 17M/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Friday, 24 December 2021.
2. Holders of H Shares whose names appear on the Company's register of the members of H Shares on Tuesday, 28 December 2021 are entitled to attend the EGM, and are entitled to appoint one or more proxies, to attend and vote on his behalf at the EGM according to the Articles of Association. A proxy need not be a Shareholder.
3. The appointment of the proxy by completing the enclosed "Form of Proxy for the EGM to be held on 31 December 2021" (the "**Form of Proxy**") must be in writing by hand of the appointer or his attorney duly authorised in writing. If the Form of Proxy is signed by the attorney or any other person authorised by the appointer, the power of attorney or other authority must be notarised. If the appointer is a corporation, the Form of Proxy shall be executed under seal or shall be executed by its director or a duly authorised person. In respect of the holders of H Shares, the notarised power of attorney or other authority together with the Form of Proxy must be delivered to the Company's H Share registrar, Computershare Hong Kong Investor Services Limited at 17M/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no less than 24 hours before the time appointed for holding the EGM or any adjournment thereof (i.e. no later than 9:00 a.m. on Thursday, 30 December 2021).
4. A Shareholder or proxy attending the EGM should produce his/her identity certificate.
5. Voting at the EGM will be taken by poll.
6. The EGM is expected to last for half a day. Shareholders (in person or by proxy) attending the EGM are responsible for their own transportation and accommodation expenses.
7. CEC and its associates (including IRICO Group, Zhongdian IRICO, Zhongdian Financial Investment and Rui Bou Electronics (HK) Limited (瑞博電子(香港)有限公司)) will abstain from voting in respect of resolutions 1 and 2.

* *For identification purpose only*