
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.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.



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 IN RESPECT OF
REVISION OF THE EXISTING ANNUAL CAPS UNDER
THE ZHONGDIAN IRICO MASTER PURCHASE AGREEMENT; 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 17 of this circular. A letter from the Independent Board Committee is set out on pages 18 to 19 of this circular. A letter from Octal Capital Limited, the Independent Financial Adviser, containing its advice and recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 20 to 38 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 Wednesday, 19 October 2022. The notice of the EGM is set out on pages EGM-1 to EGM-2 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 Monday, 26 September 2022. 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.

26 September 2022

* For identification purpose only

CONTENTS

| | <i>Pages</i> |
|--|--------------|
| DEFINITIONS | ii |
| LETTER FROM THE BOARD | 1 |
| LETTER FROM THE INDEPENDENT BOARD COMMITTEE | 18 |
| LETTER FROM THE INDEPENDENT FINANCIAL ADVISER | 20 |
| APPENDIX I – GENERAL INFORMATION | I-1 |
| NOTICE OF EGM | EGM-1 |

DEFINITIONS

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

| | |
|---------------------------|---|
| “Articles of Association” | the existing articles of association of the Company |
| “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 established in the PRC with limited liability and the ultimate controlling Shareholder of the Company holding approximately 74.91% of the issued share capital of the Company through IRICO Group and its subsidiaries, 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 Main Board of the Stock Exchange (stock code: 0438) |
| “connected person(s)” | has the same meaning ascribed thereto under the Listing Rules |
| “Director(s)” | the director(s) of the Company |
| “EGM” | the extraordinary general meeting of the Company to be convened by the Company to consider and, if thought fit, to approve the Proposed Revised Annual Caps under the Zhongdian IRICO Master Purchase Agreement |
| “Group” | the Company and its subsidiaries |
| “Hong Kong” | the Hong Kong Special Administrative Region of the PRC |

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 Proposed Revised Annual Caps under the Zhongdian IRICO Master Purchase Agreement |
| “Independent Board Committee” | the committee of Directors consisting of Mr. Su Kun, Mr. Li Yong and Ms. Hao Meiping, who are independent non-executive Directors, which will be formed by the Company to advise the Independent Shareholders in respect of the Proposed Revised Annual Caps under the Zhongdian IRICO Master Purchase Agreement |
| “Independent Shareholders” | the Shareholders other than CEC and its associates (including IRICO Group and its subsidiaries, Rui Bou Electronics (HK) Limited, Zhongdian Financial Investment and Zhongdian IRICO) who will abstain from voting on the resolution with respect to the Zhongdian IRICO Master Purchase Agreement and the Proposed Revised Annual Caps thereunder |
| “IRICO Group” | IRICO Group Company Limited* (彩虹集團有限公司), a company incorporated in the PRC with limited liability and the controlling 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 |
| “Latest Practicable Date” | 19 September 2022, 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 |
| “PRC” | the People’s Republic of China, and for the purpose of this circular, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan |

DEFINITIONS

| | |
|-----------------------------------|---|
| “Proposed Revised Annual Caps” | the proposed revised annual caps of RMB334,902,000, RMB467,156,000 and RMB515,103,000 respectively for the year ended 31 December 2022, 2023 and 2024 under the Zhongdian IRICO Master Purchase Agreement |
| “Purchase Agreement Announcement” | the announcement of the Company dated 26 October 2021, in relation to, <i>inter alia</i> , the Zhongdian IRICO Master Purchase Agreement entered into by the Company with Zhongdian IRICO on 26 October 2021 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 |
| “Purchase Agreement Circular” | the circular of the Company dated 15 December 2021, in relation to, <i>inter alia</i> , the entering into of the Zhongdian IRICO Master Purchase Agreement and the transactions contemplated thereunder |
| “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 holder(s) of the shares of the Company |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “Zhongdian Financial Investment” | Zhongdian Financial Investment Holdings Co., Ltd.* (中電金投控股有限公司), a company established in the PRC with limited liability and a substantial shareholder of the Company, directly holding approximately 26.17% of the issued share capital of the Company, which is wholly owned by CEC as at the Latest Practicable Date and a connected person of the Company |

DEFINITIONS

| | |
|---|---|
| “Zhongdian IRICO” | Xianyang Zhongdian IRICO Group Holdings Ltd.* (咸陽中電彩虹集團控股有限公司), a company established in the PRC with limited liability which is held as to 72.08% and 27.92% by CEC and IRICO Group respectively 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 |
| “%” | Percent |

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

Mr. Tong Xiaofei
Mr. Jiang Lei

Non-executive Directors

Mr. Ni Huadong
Mr. Huang Weihong

Independent non-executive Directors

Mr. Su Kun
Mr. Li Yong
Ms. 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
Rooms 1712-1716, 17/F, Hopewell Centre
183 Queen's Road East
Hong Kong

26 September 2022

To the Shareholders,

Dear Sir or Madam,

**(1) CONTINUING CONNECTED TRANSACTIONS IN RESPECT OF
REVISION OF THE EXISTING ANNUAL CAPS UNDER
THE ZHONGDIAN IRICO MASTER PURCHASE AGREEMENT; AND
(2) NOTICE OF EXTRAORDINARY GENERAL MEETING**

LETTER FROM THE BOARD

I. INTRODUCTION

References are made to (i) the Purchase Agreement Announcement of the Company dated 26 October 2021; (ii) the Purchase Agreement Circular of the Company dated 15 December 2021; (iii) the announcement of the Company dated 31 December 2021, in relation to the approval granted by the Shareholders in respect of the entering into of the Zhongdian IRICO Master Purchase Agreement and the transactions contemplated thereunder at the extraordinary general meeting of the Company held on 31 December 2021; and (iv) the announcement of the Company dated 31 August 2022 in relation to, *inter alia*, the revision of the existing annual caps under the Zhongdian IRICO Master Purchase Agreement.

The purpose of this circular is to provide Shareholders with the following information:

- (1) details of the revision of the existing annual caps to the Proposed Revised Annual Caps under the Zhongdian IRICO Master Purchase Agreement;
- (2) the opinion and recommendation of the Independent Board Committee on the Proposed Revised Annual Caps under the Zhongdian IRICO Master Purchase Agreement;
- (3) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders containing its opinion and recommendation on Proposed Revised Annual Caps under the Zhongdian IRICO Master Purchase Agreement;
- (4) other information required to be disclosed under the Listing Rules; and
- (5) a notice of the EGM at which the resolutions will be proposed to consider and, if thought fit, to approve the Proposed Revised Annual Caps under the Zhongdian IRICO Master Purchase Agreement.

II. REVISION TO THE EXISTING ANNUAL CAPS UNDER THE ZHONGDIAN IRICO MASTER PURCHASE AGREEMENT

As disclosed in the Purchase Agreement Announcement and the Purchase Agreement Circular, the purchases under the Zhongdian IRICO Master Purchase Agreement were originally and primarily for furnace and supporting production lines of photovoltaic glass bases of the Company. In particular, as disclosed in the Purchase Agreement Circular, as of the date of the Purchase Agreement Circular, due to the completion of the constructions of the IRICO Xianyang ultra-thin and high-transmissivity photoelectric glass project (the “**Xianyang Project**”) in 2023 and the IRICO Shangrao ultra-thin and high-transmissivity photovoltaic glass project (the “**Shangrao Project**”) in 2024, the Company originally expected there would be a decrease in demand for the

LETTER FROM THE BOARD

materials and services provided by Zhongdian IRICO in 2024 and therefore the existing annual cap for the year ending 31 December 2024 has been set at a correspondingly lower level as compared with the previous two years.

To accommodate the production capacity expansion and business development of the Company, the Company intended to increase the existing annual caps under the Zhongdian IRICO Master Purchase Agreement, mainly used for the daily maintenance of the furnace of the Group and the upgrading of the production lines, the construction of furnace of the Shangrao Project, the production line facilities and installation services, the kinetic operation and maintenance services and other services.

Details of potential projects of the Group are set out as below:

In April 2022, Jiangxi IRICO Photovoltaic Company Limited* (江西彩虹光伏有限公司) (“**Jiangxi Photovoltaic**”), a subsidiary of the Company, had a bidding in relation to the “Procurement and Installation of Medium and Low Voltage Distribution Facilities for Phase I Project”. Shaanxi IRICO Industrial Intelligent Technology Company Limited* (陝西彩虹工業智能科技有限公司) (“**IRICO Intelligent**”), a subsidiary of Zhongdian IRICO, won the bid with a proposed contract amount of approximately RMB130.2 million. Jiangxi Photovoltaic and IRICO Intelligent have entered into a purchase agreement with a contract sum of approximately RMB98.5 million for the procurement of the equipment and materials for the project (the “**Jiangxi Procurement Project**”). The installation service for the project amounted to approximately RMB31.7 million (the “**Jiangxi Installation Project**”).

On the other hand, IRICO (Hefei) Photovoltaic Company Limited* (彩虹(合肥)光伏有限公司) (“**Hefei Photovoltaic**”), a subsidiary of the Company, is planning to upgrade its Hefei phase I production lines in the fourth quarter of 2022, including the projects in relation to utility pipeline renovation, voltage distribution system renovation and production line equipment upgrade (the “**Hefei Project**”). The estimated total cost is approximately RMB39 million. Due to the Hefei Project, maintenance service would be required. Hefei Photovoltaic estimated that the maintenance fee of approximately RMB1.0 million would be required for each of the year ending 31 December 2022, 2023 and 2024 (the “**Hefei Maintenance Service**”).

LETTER FROM THE BOARD

In addition, Jiangxi Photovoltaic has planned (i) to commence the construction project of photovoltaic glass furnace phase II with an estimated total cost of approximately RMB68 million in the fourth quarter of 2022; (ii) to upgrade the power distribution equipment and utility system in Shangrao with an estimated total amount of approximately RMB250 million during the years 2023 and 2024; (iii) to introduce the digital and intelligent production lines with an estimated total amount of approximately RMB40 million during the years 2023 and 2024; and (iv) to upgrade the waste heat power generation equipment and waste gas treatment equipment with an estimated total amount of approximately RMB150 million in 2024 (the “**Jiangxi Potential Projects**”). Due to the Jiangxi Potential Projects, maintenance service would be required. Jiangxi Photovoltaic estimated that maintenance fee of approximately RMB30.0 million would be required for each of the year ending 31 December 2023 and 2024 (the “**Jiangxi Maintenance Service**”).

Furthermore, IRICO Photovoltaic Glass Factory* (彩虹光伏玻璃廠) (“**Photovoltaic Glass Factory**”) planned to relocate its production equipment to the new production facilities in 2022, but the construction of the new production facilities has been delay and expected to be completed in 2023. Thus, the production of Photovoltaic Glass Factory remains in the original production facilities (the “**Xianyang Production Line**”) and procurement of kinetic energy is required. The estimated procurement amount is approximately RMB10.0 million for the year ending 31 December 2022 (the “**Xianyang Kinetic Energy Procurement**”).

As the expected cost of the above projects exceed RMB500,000, according to the procurement procedure of the Group, the Hefei Project, the Hefei Maintenance Service, the Jiangxi Potential Projects and the Jiangxi Maintenance Service are required to perform an open bidding.

Zhongdian IRICO and its associates (including IRICO Intelligent), being one of the qualified suppliers of the Group, will be participated in the tender bidding of the Hefei Project, the Hefei Maintenance Service, the Jiangxi Potential Projects and the Jiangxi Maintenance Service.

LETTER FROM THE BOARD

The Company proposed the revision of the existing annual caps for the transactions under the Zhongdian IRICO Master Purchase Agreement for the three years ending 31 December 2022, 2023 and 2024 as follows:

| | Actual amount for the six months ended 30 June (RMB'000) | For the year ended/ending 31 December | | | | | |
|--|--|---------------------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| | | Proposed | | Proposed | | Proposed | |
| | | Existing | Revised | Existing | Revised | Existing | Revised |
| | | Annual Caps for 2022 | Annual Caps for 2022 | Annual Caps for 2023 | Annual Caps for 2023 | Annual Caps for 2024 | Annual Caps for 2024 |

Maximum fees payable by the Group
to Zhongdian IRICO and its
associates under the Zhongdian
IRICO Master Purchase

| | | | | | | | |
|--|--------|---------|---------|---------|---------|---------|---------|
| Agreement | 19,929 | 184,902 | 334,902 | 246,156 | 467,156 | 234,103 | 515,103 |
| - purchase of raw materials | 12,024 | 54,602 | 54,602 | 109,196 | 109,196 | 132,673 | 132,673 |
| • coating solution | 9,018 | 46,575 | 46,575 | 79,805 | 79,805 | 93,305 | 93,305 |
| • ink | 2,973 | 7,784 | 7,784 | 28,840 | 28,840 | 38,752 | 38,752 |
| • thinner | 33 | 243 | 243 | 551 | 551 | 616 | 616 |
| - purchase of production line facilities and installation services | 3,590 | 118,930 | 257,930 | 90,000 | 280,000 | 26,000 | 276,000 |
| - purchase of kinetic operation and maintenance services | 4,315 | 11,020 | 22,020 | 46,510 | 77,510 | 74,980 | 105,980 |
| • electricity | 3,843 | 7,020 | 17,020 | 42,510 | 42,510 | 70,980 | 70,980 |
| • maintenance services | 472 | 4,000 | 5,000 | 4,000 | 35,000 | 4,000 | 35,000 |
| - purchase of medical examination services and others | 0 | 350 | 350 | 450 | 450 | 450 | 450 |

The utilisation rates of the existing annual cap was approximately 10.8% for the six months ended 30 June 2022. The low utilisation rate was mainly due to (i) the Jiangxi Procurement Project has not yet completed and therefore the fee has not yet been settled. The Jiangxi Procurement Project is expected to be completed by the end of 2022; (ii) Jiangxi Photovoltaic has not commenced the tender bidding for the project in relation to utilities procurement for production bases located in Shangrao and the estimated contract amount of the project is approximately RMB7.0 million; and (iii) Zhongdian IRICO and its associates has not participated in the construction project of 35KV substation in Xianyang with an estimated construction cost of approximately RMB6.0 million, thus, the annual cap has not utilised.

LETTER FROM THE BOARD

The Board is of the view that by taking into account the Jiangxi Procurement Project and Jiangxi Photovoltaic utilities procurement project will be completed and settled by the end of 2022, the remaining existing annual caps for the year ending 31 December 2022 is not enough for the Company's potential projects, it is necessary for the Company to revise the existing annual caps.

Terms of the Zhongdian IRICO Master Purchase Agreement

The terms for the purchase of raw materials for solar photovoltaic business, production line facilities and installation services, kinetic operation and maintenance services, medical examination services and others under the Zhongdian IRICO Master Purchase Agreement have not been varied or revised in any way and the principal terms thereof (including the pricing policy) are set out in the paragraph headed "LETTER FROM THE BOARD – II. THE CONTINUING CONNECTED TRANSACTION AGREEMENTS – 2. ZHONGDIAN IRICO MASTER PURCHASE AGREEMENT – B. Major Terms of Zhongdian IRICO Master Purchase Agreement" in the Purchase Agreement Circular and are as below:

| | |
|-----------------------|---|
| 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. |
| Conditions 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 existing annual caps) being approved by the Independent Shareholders at the general meeting, which has been approved at the extraordinary general meeting by the Independent Shareholders on 31 December 2021; and While the Proposed Revised Annual Caps are conditional upon the resolution regarding the Proposed Revised Annual Caps being approved by the Independent Shareholders at EGM. |

LETTER FROM THE BOARD

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.

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.

(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:

LETTER FROM THE BOARD

- (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.

“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.

LETTER FROM THE BOARD

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.

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.

LETTER FROM THE BOARD

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.

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.

Save for the revision of the proposed annual caps, all other terms of the Zhongdian IRICO Master Purchase Agreement as disclosed in the Purchase Agreement Announcement and the Purchase Agreement Circular remain unchanged.

Historical transaction amount

Based on the latest unaudited management accounts and operating information of the Group, the historical amount of the transactions under the Zhongdian IRICO Master Purchase Agreement for the six months ended 30 June 2022 was approximately RMB19,929,000 (unaudited) and did not exceed the existing annual cap for the year ending 31 December 2022 (i.e. approximately RMB184,902,000).

Basis of determinations of the Proposed Revised Annual Caps

The major factors for determining the Proposed Revised Annual Caps are with reference to the estimated project sum of the Jiangxi Installation Project, the Hefei Project, the Hefei Maintenance Service, the Jiangxi Potential Projects, the Jiangxi Maintenance Service, the Xianyang Kinetic Energy Procurement and their expected time schedule of execution. Details of which are set out as below:

LETTER FROM THE BOARD

For the year ending 31 December 2022:

- (i) the Jiangxi Installation Project in relation to the installation service for the medium and low voltage distribution facilities in Shangrao amounted to approximately RMB32.0 million;
- (ii) the Hefei Project in relation to the repairment of Hefei phase I furnace and the improvement and upgrade of the production line facilities in Hefei amounted to approximately RMB39.0 million;
- (iii) the Hefei Maintenance Service in relation to the maintenance service for Hefei production lines amounted to approximately RMB1.0 million;
- (iv) the Jiangxi Potential Projects in relation to the construction project of photovoltaic glass furnace phase II amounted to approximately RMB68.0 million; and
- (v) the Xianyang Kinetic Energy Procurement in relation to the procurement of kinetic energy for Xianyang Production Line amounted to approximately RMB10.0 million.

For the year ending 31 December 2023:

- (i) the Hefei Maintenance Service in relation to the maintenance service for Hefei production lines amounted to approximately RMB1.0 million;
- (ii) the Jiangxi Potential Projects in relation to the upgrade of the power distribution equipment and utility system and the introduction of digital and intelligent production lines in Shangrao production lines with an aggregate amount of approximately RMB190.0 million; and
- (iii) the Jiangxi Maintenance Service in relation to the maintenance service for Shangrao production lines amounted to approximately RMB30.0 million.

LETTER FROM THE BOARD

For the year ending 31 December 2024:

- (i) the Hefei Maintenance Service in relation to the maintenance service for Hefei production lines amounted to approximately RMB1.0 million;
- (ii) the Jiangxi Potential Projects in relation to the upgrade of the power distribution equipment and utility system, the introduction of digital and intelligent production lines and upgrade the waste heat power generation equipment and waste gas treatment equipment in Shangrao with an aggregate amount of approximately RMB250.0 million; and
- (iii) the Jiangxi Maintenance Service in relation to the maintenance service for Shangrao production lines amounted to approximately RMB30.0 million.

III. REASONS FOR AND BENEFITS OF REVISION OF THE EXISTING ANNUAL CAPS

As disclosed in the Purchase Agreement Announcement and the Purchase Agreement Circular, the Company and Zhongdian IRICO have established a long-term relationship, and understand the planning of business operations, quality control as well as certain specific requirements of each other. In addition, the purchase of products by the Company from Zhongdian IRICO will help to reduce the management and operational costs of the Company due to the close proximity between them. The bulk purchase and sales of products/services are also economically beneficial to both the Company and Zhongdian IRICO. Meanwhile, Zhongdian IRICO possesses a number of national patents and has a professional team for the complete supply chain of electronic glass and smart manufacturing in the PRC and has the capacity to undertake large-scale construction projects such as the overall design and construction of electronic glass production lines and the integration of automated equipment systems for photovoltaic production lines, and can provide services to the Company for a series of construction projects proposed to be launched by the Company.

Having considered the above reasons and the needs of the Company for its production capacity expansion and business development, the Directors (including the independent non-executive Directors, who expressed their opinions on the Proposed Revised Annual Caps under the Zhongdian IRICO Master Purchase Agreement after obtaining and considering the advice and recommendation from the Independent Financial Adviser) consider that the Proposed Revised Annual Caps under the Zhongdian IRICO Master Purchase Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

IV. INTERNAL CONTROL MEASURES ON THE 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.
- (2) The Company will regularly review the transactions entered into with 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. 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 the Zhongdian IRICO Master Purchase Agreement and the above 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.

LETTER FROM THE BOARD

V. INFORMATION ON THE PARTIES

The Company

The Company is principally engaged in the research and development, production and sales of solar photovoltaic glass.

Zhongdian IRICO

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

VI. LISTING RULES IMPLICATION

As at the Latest Practicable Date, CEC and IRICO Group are controlling Shareholders of the Company, holding approximately 74.91% of the issued share capital of the Company, and are connected persons of the Company. Zhongdian IRICO is held as to 72.08% and 27.92% by CEC and IRICO Group respectively, is an associate of CEC and IRICO Group and thus a connected person of the Company under the Listing Rules. Accordingly, the transactions contemplated under the Zhongdian IRICO Master Purchase Agreement entered into between the Company and Zhongdian IRICO constitute continuing connected transactions of the Company.

Pursuant to Rule 14A.54(1) of the Listing Rules, the Company has to re-comply with the announcement and Independent Shareholders' approval requirements (where applicable) before the existing annual caps under the Zhongdian IRICO Master Purchase Agreement is exceeded. Since one or more of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) of the Proposed Revised Annual Caps under the Zhongdian IRICO Master Purchase Agreement is/ are more than 5%, the Proposed Revised Annual Caps under the Zhongdian IRICO Master Purchase Agreement are subject to the reporting, announcement, annual review, circular and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

VII. EGM

The EGM to be convened for the purpose of considering and, if thought fit, approving the Proposed Revised Annual Caps under the Zhongdian IRICO Master Purchase Agreement 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 Wednesday, 19 October 2022. The notice of the EGM is set out on pages EGM-1 to EGM-2 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 26 September 2022. The aforesaid documents are also published on the Stock Exchange's website (www.hkexnews.hk) and the Company's website (www.irico.com.cn).

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 Friday, 14 October 2022 to Wednesday, 19 October 2022, 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 Friday, 14 October 2022 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 Rooms 1712–1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Thursday, 13 October 2022.

The appointment of the proxy by completing the enclosed "Form of Proxy for the EGM to be held on 19 October 2022" (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 Form of Proxy must be delivered to the Company's H Share registrar, Computershare Hong Kong Investor Services Limited at 17/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 Tuesday, 18 October 2022).

LETTER FROM THE BOARD

Voting at the EGM

In compliance with the Listing Rules, the relevant resolution will be voted on by way of poll at the EGM.

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 80,073,400 Domestic Shares and 52,000,800 H Shares, representing 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 resolution approving Proposed Revised Annual Caps under the Zhongdian IRICO Master Purchase Agreement 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 the Zhongdian IRICO Master Purchase Agreement and therefore will be required to abstain from voting to approve the relevant resolution at the EGM.

VIII. RECOMMENDATION OF THE BOARD

Mr. Jiang Lei, an executive Director of the Company, by virtue of his senior position in IRICO Group, may be deemed to have material interests in the transactions contemplated under the Zhongdian IRICO Master Purchase Agreement and has therefore abstained from voting on the Board resolution approving the Proposed Revised Annual Caps under the Zhongdian IRICO Master Purchase Agreement. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, save as disclosed above, no other Directors have material interests in the transactions contemplated under the Zhongdian IRICO Master Purchase Agreement and therefore, no other Directors have abstained from voting on the approval of the relevant resolution in respect of the Proposed Revised Annual Caps under the Zhongdian IRICO Master Purchase Agreement.

Having considered the above reasons and the needs of the Company for its production capacity expansion and business development, the Directors (including the independent non-executive Directors, who have expressed their opinions on the Proposed Revised Annual Caps under the Zhongdian IRICO Master Purchase Agreement after obtaining and considering the advice and recommendation from the Independent Financial Adviser) consider that the Proposed Revised Annual Caps under the Zhongdian IRICO Master Purchase Agreement are fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

Accordingly, the Directors (including the independent non-executive Directors) recommend the Independent Shareholders to vote for the resolution to approve the Proposed Revised Annual Caps under the Zhongdian IRICO Master Purchase Agreement at the EGM.

LETTER FROM THE BOARD

You are advised to read the letter from the Independent Board Committee and the letter from the Independent Financial Adviser before deciding how to vote on the resolution(s) relating to the Relevant Transactions to be proposed at the EGM.

IX. ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendix to this circular and the notice convening the EGM.

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)

26 September 2022

To the Independent Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS
REVISION OF THE EXISTING ANNUAL CAPS UNDER THE
ZHONGDIAN IRICO MASTER PURCHASE AGREEMENT**

We have been appointed to form an independent board committee to consider and advise you in connection with the revision of the existing annual caps to the Proposed Revised Annual Caps under the Zhongdian IRICO Master Purchase Agreement, details of which are set out in the letter from the Board contained in the circular to the Shareholders dated 26 September 2022 (the “**Circular**”), of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein, unless the context otherwise requires.

We wish to draw your attention to the letter from the Board and the letter of advice from the Independent Financial Adviser respectively set out on pages 1 to 17 and pages 20 to 38 of the Circular, and the additional information set out in the appendix to the Circular.

Having taken into account the background of and reasons for the Proposed Revised Annual Caps under the Zhongdian IRICO Master Purchase Agreement and having taken into consideration of the advice of the Independent Financial Adviser in relation thereto as set out on pages 20 to 38 of the Circular, we concur with the view of the Independent Financial Adviser and consider that the Proposed Revised Annual Caps under the Zhongdian IRICO Master Purchase Agreement are fair and reasonable so far as the Independent Shareholders are concerned, on normal commercial terms or better and are conducted in the ordinary and usual course of business of the Company, and are in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Proposed Revised Annual Caps under the Zhongdian IRICO Master Purchase Agreement.

Yours faithfully,

For and on behalf of the Independent Board Committee

Mr. Su Kun

Independent Non-executive

Director

Mr. Li Yong

Independent Non-executive

Director

Ms. Hao Meiping

Independent Non-executive

Director

* *For identification purpose only*

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER



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

26 September 2022

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

CONTINUING CONNECTED TRANSACTION IN RESPECT OF REVISION TO THE EXISTING ANNUAL CAPS UNDER THE ZHONGDIAN IRICO MASTER PURCHASE AGREEMENT

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the revision of Existing Annual Caps to the Proposed Revised Annual Caps under the Zhongdian IRICO Master Purchase Agreement for the three years ending 31 December 2024, particulars of which are set out in the letter from the Board (the “**Letter from the Board**”) of the circular to the Shareholders dated 26 September 2022 (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.

With reference to the Purchase Agreement Announcement, on 26 October 2021, the Company and Zhongdian IRICO entered into the Zhongdian IRICO Master Purchase Agreement 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 for the three years ending 31 December 2024. The aforesaid transactions were approved by the then independent Shareholders on 31 December 2021. The Existing Annual Caps are RMB184,902,000, RMB246,156,000 and RMB234,103,000 respectively for each of the three years ending 31 December 2024.

With reference to the Letter from the Board, to accommodate the production capacity expansion and business development of the Company, the Company intended to increase the existing annual caps under the Zhongdian IRICO Master Purchase Agreement (the “**Existing Annual Caps**”), mainly used for the daily maintenance of the furnace of the Group and the upgrading of the production lines, the construction of furnace of the IRICO Shangrao ultra-thin and high-transmissivity photovoltaic glass project (the “**Shangrao Project**”), the production line facilities and installation services, the kinetic operation and maintenance services and other services.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As at the Latest Practicable Date, CEC and IRICO Group are controlling Shareholders of the Company, holding approximately 74.91% of the issued share capital of the Company, and are connected persons of the Company. Zhongdian IRICO is held as to 72.08% and 27.92% by CEC and IRICO Group respectively, is an associate of CEC and the IRICO Group and thus a connected person of the Company under the Listing Rules. Accordingly, the transactions contemplated under the Zhongdian IRICO Master Purchase Agreement entered into between the Company and Zhongdian IRICO constitute continuing connected transactions of the Company.

Pursuant to Rule 14A.54(1) of the Listing Rules, the Company has to re-comply with the announcement and Independent Shareholders' approval requirements (where applicable) before the existing annual caps under the Zhongdian IRICO Master Purchase Agreement is exceeded. Since one or more of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) of the proposed revised annual caps under the Zhongdian IRICO Master Purchase Agreement is/are more than 5%, the revision of proposed annual caps under the Zhongdian IRICO Master Purchase Agreement are subject to the reporting, announcement, annual review, circular and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

An Independent Board Committee comprising all of the independent non-executive Directors namely Mr. Su Kun, Mr. Li Yong, and Ms. Hao Meiping, has been formed to advise the Independent Shareholders in respect of the Proposed Revised Annual Caps under the Zhongdian IRICO Master Purchase Agreement.

We, Octal Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect. We are not connected with the directors, chief executive and substantial shareholders of the Group, Zhongdian IRICO 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.

During the last two years, we were engaged as an independent financial adviser to the Company (the "**Previous Engagements**") in respect of (i) the disposal of the equity interests in three subsidiaries to IRICO Group and an associate company to Zhongdian IRICO and the purchase of the system equipment and related services by IRICO (Hefei) Photovoltaic Co., Ltd. from IRICO Group, details of which were stated in the circular of the Company dated 8 December 2020; and (ii) the renewal of the continuing connected transactions with IRICO Group and Zhongdian IRICO respectively, details of which were stated in the circular of the Company dated 15 December 2021. 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 any of their respective subsidiaries or associates.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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 Zhongdian IRICO Master Purchase Agreement; (ii) the Purchase Agreement Announcement and the Purchase Agreement Circular; (iii) the development plan of the Group for the three years ending 31 December 2024; (iv) list of potential projects; (v) samples of reference document referred by the Company in determining the Proposed Revised Annual Caps; (vi) the annual report of the Company for the year ended 31 December 2021; (vii) internal control policies governing the connected transactions of the Company; and (viii) other information as set out in the Circular. 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 and their respective controlling shareholder(s) and associates nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion regarding the Proposed Revised Annual Caps for the three years ending 31 December 2024 (the “**Review Period**”), we have considered the following principal factors and reasons:

A. Background information on the parties

The Company and the Group

The Company is principally engaged in the research and development, production and sale of solar photovoltaic glass.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The table below summarizes the major items of the audited financial information of the Group for the two years ended 31 December 2020 and 2021 (“FY2020” and “FY2021”, respectively) as extracted from the annual report of the Company for FY2021 (the “2021 Annual Report”).

| | FY2020 | FY2021 |
|--------------------------------------|---------------------------|------------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| | (audited and restated) | (audited) |
| Revenue | | |
| – sale of photovoltaic glass | 1,610,211 | 2,048,481 |
| – sale of new materials | 697,895 | – |
| – sale of solar cells and components | 153,680 | – |
| – revenue from other business | 56,723 | 18,582 |
| | <u>2,518,509</u> | <u>2,067,063</u> |
| Total revenue | <u>2,518,509</u> | <u>2,067,063</u> |
| | | |
| Total profit | 171,325 | 185,557 |

Source: 2021 Annual Report

The revenue of the Group decreased from approximately RMB2,518.5 million for FY2020 to approximately RMB2,067.1 million for FY2021, representing a decrease of approximately RMB451.4 million or approximately 17.9%. The decrease in revenue was mainly due to no revenue from sale of new materials and solar cells and components after the Company disposed the equity interest in Shaanxi IRICO New Material Co., Ltd and Jiangsu IRICO Yongneng New Energy Company Limited on 30 October 2020. The revenue from sale of photovoltaic glass increased from approximately RMB1,610.2 million for FY2020 to approximately RMB2,048.5 million for FY2021, representing an increase of approximately RMB438.3 million or approximately 27.2%.

The total profit of the Company increased from approximately RMB171.3 million for FY2020 to approximately RMB185.6 million for FY2021, representing an increase of approximately RMB14.3 million or approximately 8.3%. The increase in total profit was mainly due to the quality improvement and efficiency enhancement of the Company and significant results in cost and fee reduction control by the Company.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Prospects and industry overview of the Group

According to the 2021 Annual Report, China's overall goal of achieving carbon peak by 2030 and carbon neutrality by 2060 is to build a clean, low-carbon, safe and efficient energy system, which brings unprecedented development opportunities for the development of the Group's photovoltaic glass industry. Under the guidance of the dual-carbon strategy, the photovoltaic industry has entered into a high-speed growth track. As many countries around the world put forward the climate targets of "zero carbon" or "carbon neutrality", the development process of global carbon neutrality has been accelerated. In 2021, the global newly installed PV capacity continued to grow, achieved an increase of approximately 170GW, representing a year-on-year increase of 26%. The domestic PV installed capacity continued to grow due to the adverse factors of the imbalance between supply and demand in the PV industry chain and the continuous increase in the price of upstream products. The total installed capacity of domestic PV capacity was 54.88GW in 2021, representing a year-on-year increase of 13.9%, of which the installed capacity of distributed PV was 29.28GW, accounting for approximately 53.4% of the total installed capacity of PV power generations in 2021. Looking forward, with the advancement of global carbon neutrality and the improvement of the imbalance between supply and demand in the upstream and downstream of the photovoltaic industry chain, the terminal demand will be more robust. According to the forecast of China Photovoltaic Industry Association, the domestic installed capacity is expected to increase to more than 75GW in 2022 driven by the reserve of large-scale photovoltaic power generation projects while the global PV installed capacity will increase to over 195GW.

In the future, the Group will focus on the development of its principal business of solar photovoltaic glass and expand its production capacity of photovoltaic glass, and will strengthen quality and efficiency enhancement, strengthen cost control and optimize product structure.

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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

B. Background and principal terms of the Zhongdian IRICO Master Agreement

Reference is made to the Purchase Agreement Circular, among other things, the Zhongdian IRICO Master Agreement entered into between the Company and Zhongdian IRICO, pursuant to which 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, for a term commenced on 1 January 2022 to 31 December 2024. The transactions contemplated under the Zhongdian IRICO Master Agreement, among others, were approved by the then independent shareholders of the Company on 31 December 2021.

Under the Zhongdian IRICO Master Agreement, the prices of materials of solar photovoltaic business shall be determined in accordance with the following order: (i) 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 (ii) 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 (the “**Market Price**”). 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 INDEPENDENT FINANCIAL ADVISER

The prices for production line facilities and installation services, kinetic operation and maintenance services and medical examination services shall be determined in accordance with (i) where there is 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 (the “**Government-prescribed Price**”), 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 (ii) 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. 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.

Please refer to the Purchase Agreement Circular for details of the terms of the Zhongdian IRICO Master Agreement.

Save for the revision of the Existing Annual Caps to the Proposed Revised Annual Caps, all other terms of the Zhongdian IRICO Master Purchase Agreement as disclosed in the Purchase Agreement Circular will remain unchanged.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

C. Reason for and benefits of the revision of the Existing Annual Caps

Business

As disclosed in the Letter from the Board, the purchases under the Zhongdian IRICO Master Purchase Agreement were originally and primarily for furnace and supporting production lines of photovoltaic glass bases of the Company. In particular, as disclosed in the Purchase Agreement Circular, as of the date of the Purchase Agreement Circular, due to the completion of the constructions of the IRICO Xianyang ultrathin and high-transmissivity photoelectric glass project in 2023 and the Shangrao Project in 2024, the Company originally expected there would be a decrease in demand for the materials and services provided by Zhongdian IRICO in 2024 and therefore the Existing Annual Caps for the year ending 31 December 2024 has been set at a correspondingly lower level as compared with the previous two years.

To accommodate the production capacity expansion and business development of the Company, the Company intended to increase the Existing Annual Caps, mainly used for the daily maintenance of the furnace of the Group and the upgrading of the production lines, the construction of furnace of the Shangrao Project, the production line facilities and installation services, the kinetic operation and maintenance services and other services.

The expected excess of Existing Annual Caps for the three years ending 31 December 2022, 2023 and 2024 under the Zhongdian IRICO Master Purchase Agreement is mainly due to the Group commenced a series of construction projects in 2022 for its production capacity expansion and business development of the Group, Zhongdian IRICO and its associates are qualified and may participate in a number of open tender projects from the Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Potential projects of the Company

With reference to the Purchase Agreement Circular, apart from the production of existing production line, the Company expected (i) the first production line in Xianyang will reach its full production capacity in 2022; (ii) the second and third production line in Xianyang will reach its full production capacity in 2023; (iii) the fourth and fifth production line in Xianyang will reach its full production capacity in 2024; (iv) the first furnace in Shangrao will reach its full production capacity in the first quarter of 2023; and (v) the second furnace in Shangrao will reach its full production capacity in the third quarter of 2023. It is further expected by 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 (the “**2021 Development Plan**”).

In April 2022, Jiangxi IRICO Photovoltaic Company Limited* (江西彩虹光伏有限公司) (“**Jiangxi Photovoltaic**”), a subsidiary of the Company, had a bidding in relation to the “Procurement and Installation of Medium and Low Voltage Distribution Facilities for Phase I Project”. There were four companies participated in the tender bidding and Shaanxi IRICO Industrial Intelligent Technology Company Limited* (陝西彩虹工業智能科技有限公司) (“**IRICO Intelligent**”), a subsidiary of Zhongdian IRICO, won the bid with a proposed contract amount of approximately RMB130.2 million. Jiangxi Photovoltaic and IRICO Intelligent have entered into a purchase agreement with a contract sum of approximately RMB98.5 million for the procurement of the equipment and materials for the project (the “**Jiangxi Procurement Project**”). The installation service for the project amounted to approximately RMB31.7 million (the “**Jiangxi Installation Project**”). As the Existing Annual Caps is not enough, Jiangxi Photovoltaic and IRICO Intelligent will enter into the installation service agreement when the Proposed Revised Annual Caps has been approved in the EGM.

On the other hand, IRICO (Hefei) Photovoltaic Company Limited* (彩虹(合肥)光伏有限公司) (“**Hefei Photovoltaic**”), a subsidiary of the Company, is planning to upgrade Hefei phase I production lines in the fourth quarter of 2022, including the projects in relation to utility pipeline renovation, voltage distribution system renovation and production line equipment upgrade (the “**Hefei Project**”). The estimated total cost is approximately RMB39 million. Due to the Hefei Project, maintenance service would be required. Hefei Photovoltaic estimated that the maintenance fee of approximately RMB1.0 million would be required for each of the year ending 31 December 2022, 2023 and 2024 (the “**Hefei Maintenance Service**”).

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In addition, Jiangxi Photovoltaic has planned (i) to commence the construction project of photovoltaic glass furnace phase II with an estimated total cost of approximately RMB68 million in the fourth quarter of 2022; (ii) to upgrade the power distribution equipment and utility system in Shangrao with an estimated total amount of approximately RMB250 million during the year 2023 and 2024; (iii) to introduce the digital and intelligent production lines with an estimated total amount of approximately RMB40 million during the year 2023 and 2024; and (iv) to upgrade the waste heat power generation equipment and waste gas treatment equipment with an estimated total amount of approximately RMB150 million in 2024 (the “**Jiangxi Potential Projects**”). Due to the Jiangxi Potential Projects, maintenance service would be required. Jiangxi Photovoltaic estimated that maintenance fee of approximately RMB30.0 million would be required for each of the year ending 31 December 2023 and 2024 (the “**Jiangxi Maintenance Service**”).

Furthermore, IRICO Photovoltaic Glass Factory* (彩虹光伏玻璃廠) (“**Photovoltaic Glass Factory**”) planned to relocate its production equipment to the new production facilities in 2022, but the construction of the new production facilities has been delayed and expected to be completed in 2023. Thus, the production of Photovoltaic Glass Factory remains in the original production facilities (the “**Xianyang Production Line**”) and procurement of kinetic energy is required. The estimated procurement amount is approximately RMB10.0 million for the year ending 31 December 2022 (the “**Xianyang Kinetic Energy Procurement**”).

As the expected cost of the above projects exceed RMB500,000, according to the procurement procedure of the Group, the Hefei Project, the Hefei Maintenance Service, the Jiangxi Potential Projects and the Jiangxi Maintenance Service are required to perform an open bidding.

Zhongdian IRICO and its associates (including IRICO Intelligent), being one of the qualified suppliers of the Group, will be participated in the tender bidding of the Hefei Project, the Hefei Maintenance Service, the Jiangxi Potential Projects and the Jiangxi Maintenance Service.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

D. Annual Caps and the Proposed Revised Annual Caps

| | Actual amount for the six months ended 30 June (RMB'000) | For the year ended/ending 31 December | | | | | |
|---|--|---------------------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| | | Proposed | | Proposed | | Proposed | |
| | | Existing | Revised | Existing | Revised | Existing | Revised |
| | | Annual Caps for 2022 | Annual Caps for 2022 | Annual Caps for 2023 | Annual Caps for 2023 | Annual Caps for 2024 | Annual Caps for 2024 |
| Maximum fees payable by the Group to Zhongdian IRICO and its associates under the Zhongdian IRICO Master Purchase Agreement | 19,929 | 184,902 | 334,902 | 246,156 | 467,156 | 234,103 | 515,103 |
| – purchase of raw materials | 12,024 | 54,602 | 54,602 | 109,196 | 109,196 | 132,673 | 132,673 |
| • coating solution | 9,018 | 46,575 | 46,575 | 79,805 | 79,805 | 93,305 | 93,305 |
| • ink | 2,973 | 7,784 | 7,784 | 28,840 | 28,840 | 38,752 | 38,752 |
| • thinner | 33 | 243 | 243 | 551 | 551 | 616 | 616 |
| – purchase of production line facilities and installation services | 3,590 | 118,930 | 257,930 | 90,000 | 280,000 | 26,000 | 276,000 |
| – purchase of kinetic operation and maintenance services | 4,315 | 11,020 | 22,020 | 46,510 | 77,510 | 74,980 | 105,980 |
| • electricity | 3,843 | 7,020 | 17,020 | 42,510 | 42,510 | 70,980 | 70,980 |
| • maintenance services | 472 | 4,000 | 5,000 | 4,000 | 35,000 | 4,000 | 35,000 |
| – purchase of medical examination services and others | 0 | 350 | 350 | 450 | 450 | 450 | 450 |

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Utilisation of the Existing Annual Caps

With reference to the basis of determination of Existing Annual Caps as set out in the Purchase Agreement Circular and the breakdown of the purchase of the raw materials under the Zhongdian IRICO Master Purchase Agreement provided by the management of the Company, we noted that Existing Annual Caps were 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, and Yan’an, Hefei 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 existing production lines and the production facilities in the 2021 Development Plan 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 in the 2021 Development Plan 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 advised by the Company, save for the events to be mentioned below, the Existing Annual Caps has taking into account the above factors and the 2021 Development Plan. The Company considered that there is no material change in circumstance which will leading to change in 2021 Development Plan and the Existing Annual Caps.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Based on the above table, the utilisation rates of the Existing Annual Caps was approximately 10.8% for the six months ended 30 June 2022. As advised by the Company the shortfall was mainly due to (i) the Jiangxi Procurement Project has not yet completed and the fee has not yet been settled. The Jiangxi Procurement Project is expected to complete by the end of 2022; (ii) Jiangxi Photovoltaic has not commenced the tender bidding for the project in relation to utilities procurement for production lines in Shangrao and the estimated contract amount of the project is approximately RMB7.0 million; and (iii) Zhongdian IRICO and its associates has not participated in the construction project of 35KV substation in Xianyang with an estimated construction cost of approximately RMB6.0 million, thus, the annual cap has not utilised.

Taking into account the Jiangxi Procurement Project and Jiangxi Photovoltaic's utilities procurement project will be completed and settled by the end of 2022, the remaining Existing Annual Caps for the year ending 31 December 2022 is not enough for the Company's potential projects as discussed above, it is necessary for the Company to revise the Existing Annual Caps.

Basis of determination of the Proposed Revised Annual Caps

The Company proposed to increase approximately RMB150 million, RMB221 million and RMB281 million to the Existing Annual Caps for each of the year ending 31 December 2022, 2023 and 2024 respectively (the "**Additional Annual Caps**"). We discussed with the Company and understand that the Additional Annual Caps are determined based on the potential projects of the Company for the expansion of production capacity and business development.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In assessing the fairness and reasonableness of the Additional Annual Caps, we have discussed with the management of the Company the bases and assumptions underlying the projections of the Additional Annual Caps. We have obtained the detailed breakdown of the Additional Annual Caps and noted that the Additional Annual Caps is determined with reference to the estimated project sum of the Jiangxi Installation Project, the Hefei Project, the Hefei Maintenance Service, the Jiangxi Potential Projects, the Jiangxi Maintenance Service, the Xianyang Kinetic Energy Procurement and their expected time schedule of execution.

According to the detail breakdown of the Additional Annual Caps, the Additional Annual Caps for the year ending 31 December 2022 amounted to approximately RMB150 million which comprise of (i) the Jiangxi Installation Project in relation to the installation service for the medium and low voltage distribution facilities in Shangrao amounted to approximately RMB32.0 million; (ii) the Hefei Project in relation to the repairment of Hefei phase I furnace and the improvement and upgrade of the production line facilities in Hefei amounted to approximately RMB39.0 million; (iii) the Hefei Maintenance Service in relation to the maintenance service for Hefei production lines amounted to approximately RMB1.0 million; (iv) the Jiangxi Potential Projects in relation to the construction project of photovoltaic glass furnace phase II amounted to approximately RMB68.0 million; and (v) the Xianyang Kinetic Energy Procurement in relation to the procurement of kinetic energy for Xianyang Production Line amounted to approximately RMB10.0 million. For the year ending 31 December 2023, the Additional Annual Caps amounted to approximately RMB221 million which comprise of (i) the Hefei Maintenance Service in relation to the maintenance service for Hefei production lines amounted to approximately RMB1.0 million; (ii) the Jiangxi Potential Projects in relation to the upgrade of the power distribution equipment and utility system and the introduction of digital and intelligent production lines in Shangrao production lines with an aggregate amount of approximately RMB190.0 million; and (iii) the Jiangxi Maintenance Service in relation to the maintenance service for Shangrao production lines amounted to approximately RMB30.0 million. For the year ending 31 December 2024, the Additional Annual Caps amounted to approximately RMB281 million which comprise of (i) the Hefei Maintenance Service in relation to the maintenance service for Hefei production lines amounted to approximately RMB1.0 million; (ii) the Jiangxi Potential Projects in relation to the upgrade of the power distribution equipment and utility system, the introduction of digital and intelligent production lines and upgrade the waste heat power generation equipment and waste gas treatment equipment in Shangrao with an aggregate amount of approximately RMB250.0 million; and (iii) the Jiangxi Maintenance Service in relation to the maintenance service for Shangrao production lines amounted to approximately RMB30.0 million.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In respect of the Jiangxi Installation Project, it is the installation project of medium and low voltage distribution facilities in Shangrao. The tender bidding of the Jiangxi Installation Project which includes the procurement of equipment and materials and installation services required has been completed and IRICO Intelligent has won the bid with a proposed project sum of approximately RMB130.2 million in which approximately RMB31.7 million is for the installation services. For our due diligence purpose, we have obtained and reviewed the tender document and noted that there were four companies including IRICO Intelligent participated in the tender bidding. Among all of the participants, IRICO Intelligent ranked the first after the company taking into account the bidding price, technical support and business reputation. Besides, we noted that the bidding price of IRICO Intelligent was the lowest among all of the participants. As advised by the Company, installation project of medium and low voltage distribution facilities will normally take three to four months upon entering into the agreement to complete and the fee will be fully settled upon completion.

We noted that the Hefei Project and the Jiangxi Potential Projects included five projects in total. The Hefei Project is an upgrade and improvement project in relation to Hefei phase I production lines while the Jiangxi Potential Projects include the construction project of photovoltaic glass furnace phase II, the upgrade project of the power distribution equipment and utility system in Shangrao, the introduction project of digital and intelligent production lines in Shangrao and the upgrade project of the waste heat power generation equipment and waste gas treatment equipment in Shangrao. We have obtained and reviewed the detail lists of projects for the Hefei Project and the Jiangxi Potential Projects with the estimated project sum which mainly include procurement of the equipment and materials and the installation service required for the projects. As discussed with the management of the Company, we further understood that the Hefei Project and the Jiangxi Potential Projects will be assigned through tender bidding and the Proposed Revised 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. The Company further advised that the tender bidding for the Hefei Project and the Jiangxi Potential Projects has not yet commenced and the estimated project sum for the Hefei Project and the Jiangxi Potential Projects were estimated with reference to (i) the preliminary quotations obtained from the independent third party suppliers; (ii) the cost estimation reports provided by an independent cost consultant engaged by the Company which contained the details breakdown of the estimated quantity and price of the services and materials required for the project; and (iii) the contracts or tender document of the Company's previous projects which were similar to the Hefei Project and the Jiangxi Potential Projects (all of the above referred to as "**Reference Document**"). We have obtained and reviewed at least one set of Reference Document for each project in the Hefei Project and Jiangxi Potential Projects. For the project sum which made reference to the quotations obtained from the independent third party suppliers, we noted that the Company has obtained at least one quotation for each item in the projects and the estimated price is normally lower than that of the quotations by approximately 5% to 40%. As discussed with the Company, the Company adopted a lower price than that of the quotations from third party suppliers in estimating the project sum due to (i) Zhongdian IRICO was able to offer a lower price than other third party suppliers as

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

the Company and Zhongdian IRICO are in close proximity; and (ii) the price in the preliminary quotations obtained from independent third parties will normally higher than the actual bidding price. We have further obtained three set of tender documents with the preliminary quotations and noted that the price in preliminary quotations were higher than the actual bidding price by approximately 30% to 55%. For the project sum which made reference to the cost estimation reports provided by an independent cost consultant, we noted that cost estimation reports were prepared by the independent cost consultant based on the construction plan and their study in relation to the projects. The cost consultant is a company established in the PRC in 1997 and principally engaged in provision of tender bidding agency services, industry consulting services, supply chain consulting services and engineering management services. The cost consultant has established a professional engineering service team with more than 80 people with extensive experience in waste incineration, sewage treatment, highway and other infrastructure projects. We noted from the cost estimation reports that the estimated quantity and price of the services and materials required for the projects are prepared by the cost consultant with reference to the guideline issued by the government of the PRC. The Company advised that the cost estimation reports will also be used in the tender bidding as a reference price of the projects and the independent cost consultant will also assist in review the tender document to be submitted by the participants. For the project sum which made reference to the Company's previous projects, we noted that the Company has mainly referred to the construction project of photovoltaic glass furnace phase I. As advised by the Company, the construction project of photovoltaic glass furnace phase I in 2021 was the only project of the Group which is similar to that of the Jiangxi Potential Projects during the past three years. We noted that the Company has adopted a 5%–15% buffer on top of the relevant project sum of photovoltaic glass furnace phase I project in estimating the relevant project sum of the Jiangxi Potential Projects. As discussed with the Company, the buffer has taken into account the difference in construction site area between the photovoltaic glass furnace phase I and phase II and the scale of the construction. As advised by the Company, the planned construction site area of photovoltaic glass furnace phase II is approximately 15.4% larger than the construction site area of photovoltaic glass furnace phase I. We have also obtained the consumer price index which is used as a measure of inflation in National Bureau of Statistics and noted that the consumer price index increased by 2.7% in July 2022 as compared to July 2021 and represent the PRC are in inflation, thus we concur with the Company's view that the cost of construction is in increasing trend.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In respect of the Hefei Maintenance Service and Jiangxi Maintenance Service, we noted that the estimated project sum was mainly comprise of staff cost and procurement of chemicals cost. As advised by the Company, the staff cost was estimated with reference to the staff cost charged by IRICO Intelligent from the Group for the provision of similar maintenance service to the Group. We have obtained the detail breakdown of the staff cost which included the number of staff require for the service and the salary and allowance for each maintenance staff allocated by IRICO Intelligent to the Group. We noted that the Company has adopted a similar remuneration package for the maintenance staff provided by IRICO Intelligent in the estimation. For our due diligence purpose, we have checked the rate of staff cost for the similar position on the recruitment platform in the PRC and noted that the rate of staff cost adopted by the Company is within the range as quoted on the recruitment platform. Furthermore, the Company estimate the number of staff required to provide the maintenance service based on assumption that the facilities operate in full capacity. For the procurement of chemicals cost, the Company advised that they have made reference to the usage of chemicals in the Group's similar projects. We have obtained a list of consumption amount and the unit price of the chemicals of the Group's similar projects. We noted that the major chemicals are ammonia and calcium hydroxide and the usage was based on the output of the waste heat power generator. We have also checked the unit price of ammonia and calcium hydroxide and the noted that price ammonia and calcium hydroxide adopted in the estimation are within the price range as quoted on the raw material suppliers' platform in the PRC.

In respect of the Xianyang Kinetic Energy Procurement, the Company advised that Photovoltaic Glass Factory has procured electricity from IRICO Intelligent during the six months ended 30 June 2022 with a total transaction amount of approximately RMB4.0 million in which approximately RMB3.8 million has been settled. We have obtained and reviewed the list of electricity transaction between Photovoltaic Glass Factory and IRICO Intelligent which are used in the operation of the Xianyang Production Line for the six months ended 30 June 2022. We have also obtained a notice issued by IRICO Intelligent in relation to the unit price of electricity for the year 2022 and noted that the unit price of electricity used in the estimation of procurement amount from IRICO Intelligent is same as the notice. The Company advised that IRICO Intelligent charge all of its customer for the procurement of electricity according to the notice. For our due diligence purpose, we have compared the unit price of electricity charge by IRICO Intelligent with the Government-prescribed Price and noted that the unit price charge by IRICO Intelligent is higher than the Government-prescribed Price. As advised by the Company, the procurement of electricity directly from the state grid of the local government does not feasible to Photovoltaic Glass Factory as Photovoltaic Glass Factory does not have its own power substation. As advised by the Company, the production equipment in Xianyang Production Line will relocate to the new production facilities in Xianyang and the construction of the new production facilities is expected to be completed in 2023. The electricity required for the operation of new production facilities in Xianyang will be procured directly from the state grid of the local government once the construction completed. In addition, as discussed with the Company, the volume of electricity is estimated based on the assumption that Photovoltaic Glass Factory will be operated in full capacity which would provide flexibility to the Company to increase in production when opportunities arise and given that Photovoltaic Glass Factory has reached its 70%–80% of its total capacity during the two years ended 31 December 2021.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Given the above, we are of the view that the Additional Annual Caps are fair and reasonable and the corresponding project sum is reasonable estimated.

E. Pricing policy and internal control measures within the Group

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, 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.

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.

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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

After reviewing the relevant documents throughout the price determination process, we consider that the prices 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.

RECOMMENDATION

In view of the above principal factors and reasons, we are of the view that the Proposed Revised Annual Caps is fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. We, therefore, recommend the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favor of the ordinary resolution to be put forward at the EGM in relation to the Proposed Revised 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 INTEREST**(A) Directors' and chief executives' interests and short positions in shares, underlying shares and debentures of the Company or its associated corporations**

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 a member of the Communist Party Committee of IRICO Group.

Save as disclosed 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 INTEREST

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. DIRECTORS' 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)).

5. DIRECTORS' INTEREST IN ASSETS AND/OR CONTRACTS AND/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 2021 (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.

6. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading positions of the Group since 31 December 2021, being the date to which the latest published audited financial statements of the Company have been made up.

7. 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.

8. EXPERT AND CONSENT

The qualifications of the expert who has given an opinion or advice in this circular are as follows:

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

As of the Latest Practicable Date, the expert mentioned above:

- (i) has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter, report or opinion and the references to its names included herein in the form and context in which it is respectively included;
- (ii) has no direct or indirect shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for shares in any member of the Group; and
- (iii) has no direct or indirect interests in any assets which have been, since 31 December 2021 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group.

9. 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) for a period of 14 days from the date of this circular:

- (i) the Zhongdian IRICO Master Purchase Agreement;
- (ii) the letter from the Board dated 26 September 2022, the text of which is set out on pages 1 to 17 of this circular;
- (iii) the letter from the Independent Board Committee dated 26 September 2022, the text of which is set out on pages 18 to 19 of this circular;
- (iv) the letter from the Independent Financial Adviser dated 26 September 2022, the text of which is set out on pages 20 to 38 of this circular;
- (v) the written consent of Octal Capital Limited dated 26 September 2022 which was referred to in the paragraph headed “Expert and Consent” in this appendix; and
- (vi) this circular.

NOTICE OF EGM



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)

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 Wednesday, 19 October 2022 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 resolution. Unless otherwise indicated, capitalised terms used in this notice and the following resolution shall have the same meanings as those defined in the circular of the Company dated 26 September 2022 (the “**Circular**”):

ORDINARY RESOLUTION

“**THAT:**

- (a) the revision of the existing annual caps to the Proposed Revised Annual Caps under the Zhongdian IRICO Master Purchase Agreement, details of which are described in the Circular, be and is 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 revision of the existing annual caps to the Proposed Revised Annual Caps 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

26 September 2022

NOTICE OF EGM

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 Friday, 14 October 2022 to Wednesday, 19 October 2022, 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 Rooms 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Thursday, 13 October 2022.
2. Holders of H Shares whose names appear on the Company's register of the members of H Shares on Friday, 14 October 2022 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.
3. The appointment of the proxy by completing the enclosed "Form of Proxy for the EGM to be held on 19 October 2022" (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 17/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 Tuesday, 18 October 2022).
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 the resolution.

* *For identification purpose only*