
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 and the enclosed new proxy form 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*

(formerly known as 彩虹集團電子股份有限公司 (IRICO Group Electronics Company Limited))*

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

(Stock Code: 0438)

CONTINUING CONNECTED TRANSACTIONS

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

 金融有限公司
OCTAL Capital Limited

A letter from the Board is set out on pages 1 to 30 of this circular. A letter from the Independent Board Committee is set out on pages 31 to 32 of this circular. A letter from Octal Capital, the independent financial adviser, containing its advice and recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 33 to 58 of this circular.

The EGM will be held at the conference room of the Company at No. 1 Caihong Road, Xianyang, Shaanxi Province, the PRC at 9:00 a.m., on Friday, 8 April 2016. Please refer to the notice of the EGM dated 23 February 2016 and the supplemental notice of the EGM dated 24 March 2016 published on the Stock Exchange's website and the Company's website.

Whether or not you are able to attend the EGM, you are strongly urged to complete and sign the enclosed new proxy form in accordance with the instructions printed thereon. Please return it to the office of the secretary of the Board at No. 1 Caihong Road, Xianyang, Shaanxi Province, the PRC (for Shareholders of domestic shares of the Company), or to the Company's H share registrar, Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for Shareholders of H shares of the Company) as soon as possible but in any event not later than 24 hours before the time appointed for the holding of the EGM. Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjourned meeting(s) should you so wish.

* For identification purpose only

CONTENTS

	<i>Pages</i>
DEFINITIONS	ii
LETTER FROM THE BOARD	1
LETTER FROM THE INDEPENDENT BOARD COMMITTEE	31
LETTER FROM OCTAL CAPITAL	33
APPENDIX — GENERAL INFORMATION	59

DEFINITIONS

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

“associate(s)”	has the same meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“CEC”	China Electronics Corporation* (中國電子信息產業集團有限公司), a wholly state-owned company incorporated in the PRC and the ultimate controlling Shareholder holding approximately 71.74% of the issued share capital of the Company through IRICO Group 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) (formerly known as IRICO Group Electronics Company Limited* (彩虹集團電子股份有限公司)), a joint stock company incorporated in the PRC with limited liability, whose H shares are listed on the Stock Exchange
“connected person(s)”	has the same meaning ascribed thereto under the Listing Rules
“Continuing Connected Transactions Agreements”	the IRICO Group Master Purchase Agreement, the Utility Purchase Agreement, the Utility and Product Sales Agreement and the NEIC Master Purchase Agreement
“Director(s)”	the directors of the Company
“EGM”	the extraordinary general meeting of the Company to be convened on 8 April 2016 to consider and, if appropriate, to approve the Continuing Connected Transactions Agreements and the transactions contemplated thereunder (including the respective proposed annual caps)
“Independent Board Committee”	the committee of Directors consisting of Mr. Feng Bing, Mr. Wang Jialu and Mr. Wang Zhicheng, who are independent non-executive Directors, which is formed to advise the Independent Shareholders in respect of the Continuing Connected Transactions Agreements and the transactions contemplated thereunder (including the respective proposed annual caps)

DEFINITIONS

“Independent Shareholders”	the Shareholders other than IRICO Group and Mr. Si Yuncong who will abstain from voting on the resolutions with respect to the Continuing Connected Transactions Agreements and the transactions contemplated thereunder (including the respective proposed annual caps)
“IRICO Group”	IRICO Group Corporation* (彩虹集團公司), a wholly state-owned enterprise and the controlling Shareholder holding approximately 71.74% of the issued share capital of the Company as at the Latest Practicable Date
“IRICO Group Master Purchase Agreement”	the master purchase agreement dated 18 February 2016 entered into between the Company and IRICO Group in respect of the purchase of products and utilities necessary for the production of solar photovoltaic glass, energy-saving lamp phosphor, upstream materials of lithium battery and indium tin oxide (ITO) targets, including packaging materials and raw materials, water, electricity, gas and other utilities and ancillary services by the Company from IRICO Group
“Latest Practicable Date”	22 March 2016, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“NEIIC”	Nanjing Electronics Information Industrial Corporation* (南京中電熊貓信息產業集團有限公司), which is a subsidiary of CEC as at the Latest Practicable Date and a connected person of the Company
“NEIIC Master Purchase Agreement”	the master purchase agreement dated 18 February 2016 entered into between the Company and NEIIC in respect of the purchase of products (including quartz sand) necessary for the production of solar photovoltaic glass by the Company from NEIIC

DEFINITIONS

“Octal Capital”	Octal Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed for the purpose of advising the Independent Board Committee and the Independent Shareholders as to the Continuing Connected Transactions Agreements and the transactions contemplated thereunder (including the respective proposed annual caps)
“PRC”	the People’s Republic of China, and for the purpose of this circular, excluding the Hong Kong Special Administrative Region of the PRC, the Macau Special Administrative Region of the PRC and Taiwan
“Previous Comprehensive Services Agreement”	the previous comprehensive services agreement dated 14 November 2012 entered into between the Company and IRICO Group in respect of the provision of certain utilities and social and ancillary services by IRICO Group to the Company
“Previous IRICO Group Master Purchase Agreement”	the previous master purchase agreement dated 14 November 2012 entered into between the Company and IRICO Group in respect of the purchase of foam plastics, wood brackets and raw materials by the Company from IRICO Group
“Previous Xianyang Cailian Master Purchase Agreement”	the previous master purchase agreement dated 14 November 2012 entered into between the Company and Xianyang Cailian in respect of the provision of packaging materials and adhesive tapes from IRICO Group to the Company
“RMB”	Renminbi, the lawful currency of China
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholder(s)”	holder(s) of the shares of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supervisor(s)”	the supervisor(s) of the Company

DEFINITIONS

“Utility and Product Sales Agreement”	the utility and product sales agreement dated 18 February 2016 entered into between the Company and Xianyang IRICO to regulate the sales of oxygen and ITO targets by the Company to Xianyang IRICO
“Utility Purchase Agreement”	the utility purchase agreement dated 18 February 2016 entered into between the Company and Xianyang IRICO to regulate the purchase of electricity by the Company from Xianyang IRICO
“Xianyang Cailian”	Xianyang Cailian Packaging Material Company Limited* (咸陽彩聯包裝材料有限公司), which is owned as to 30% by IRICO Group as at the Latest Practicable Date and a connected person of the Company
“Xianyang IRICO”	Xianyang Zhongdian IRICO Group Holdings Ltd.* (咸陽中電彩虹集團控股有限公司), which is directly held as to 74% by CEC and 26% by IRICO Group as at the Latest Practicable Date and a connected person of the Company

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

(formerly known as 彩虹集團電子股份有限公司 (IRICO Group Electronics Company Limited))
(a joint stock company incorporated in the People's Republic of China with limited liability)*

(Stock Code: 0438)

Directors:

Executive Directors

Si Yuncong (*Chairman*)
Zou Changfu

Non-executive Directors

Huang Mingyan
Jiang Ahe

Independent non-executive Directors

Feng Bing
Wang Jialu
Wang Zhicheng

**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

Place of business in Hong Kong:

6/F, Nexxus Building
No. 41 Connaught Road, Central
Hong Kong

**Hong Kong share registrar and transfer
office:**

Computershare Hong Kong
Investor Services Limited
Rooms 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

24 March 2016

To the Shareholders,

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

I. INTRODUCTION

Reference is made to the announcement of the Company dated 18 February 2016 in relation to, among other things, the proposed continuing connected transactions under the Continuing Connected Transactions Agreements for the three years ending 31 December 2018 and the notice of the EGM dated 23 February 2016 and the supplemental notice of the EGM dated 24 March 2016.

LETTER FROM THE BOARD

The purpose of this circular is to provide the Shareholders with further information in respect of the resolutions to be proposed at the EGM for:

- (i) the terms of the IRICO Group Master Purchase Agreement and the transactions contemplated thereunder (including the proposed annual caps);
- (ii) the terms of the Utility Purchase Agreement and the transactions contemplated thereunder (including the proposed annual caps);
- (iii) the terms of the Utility and Product Sales Agreement and the transactions contemplated thereunder (including the proposed annual caps); and
- (iv) the terms of the NEIIC Master Purchase Agreement and the transactions contemplated thereunder (including the proposed annual caps).

II. RENEWAL OF THE PREVIOUS IRICO GROUP MASTER PURCHASE AGREEMENT, THE PREVIOUS XIANYANG CAILIAN MASTER PURCHASE AGREEMENT AND THE PREVIOUS COMPREHENSIVE SERVICES AGREEMENT

A. Background

On 18 February 2016, the Company entered into the IRICO Group Master Purchase Agreement with IRICO Group, which replaced the Previous IRICO Group Master Purchase Agreement, the Previous Xianyang Cailian Master Purchase Agreement and the Previous Comprehensive Services Agreement, to regulate the purchase of products and utilities necessary for the production of solar photovoltaic glass, energy-saving lamp phosphor, upstream materials of lithium battery and ITO targets, including packaging materials and raw materials, water, electricity, gas and other utilities and ancillary services by the Company from IRICO Group for the three years ending 31 December 2018. Details of the IRICO Group Master Purchase Agreement are set out below:

B. IRICO Group Master Purchase Agreement

Date: 18 February 2016

Parties: (i) The Company as the purchaser; and
(ii) IRICO Group as the supplier

LETTER FROM THE BOARD

Term: 1 January 2016 to 31 December 2018, subject to early termination by either party by giving at least three months' prior written notice to the other party.

Conditions precedent: The IRICO Group Master Purchase Agreement is conditional upon the resolution regarding the IRICO Group Master Purchase Agreement and the transactions contemplated thereunder (including the proposed annual caps) being approved by the Independent Shareholders at the EGM.

Nature of transactions: The Company shall purchase products and utilities necessary for the production of solar photovoltaic glass, energy-saving lamp phosphor, upstream materials of lithium battery and ITO targets, including packaging materials and raw materials, water, electricity, gas and other utilities and ancillary services from IRICO Group.

Pricing policy: (i) The prices for the products necessary for production, including packaging materials and raw materials, shall be determined in accordance with the Market Price (as defined below).

“Market Price” shall be determined in accordance with the following orders: (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.

LETTER FROM THE BOARD

The investment operating department of the Company is primarily responsible for the procurement and sales management of the Company, including the organization and supervision of bulk purchase by way of tender and the review of purchase and sales contracts. Upon receipt of quotations from IRICO Group, the investment operating department of the Company and its designated persons (namely, the business planning executives, who are primarily responsible for the examination and approval of the procurement plans and the execution of purchase contracts) will ascertain the prices offered or charged by independent third parties, generally by way of, obtaining quotations for a comparable volume of same or similar category of products 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 quotation of each category of products will be reviewed by the investment operating department of the Company and submitted to the head of such department for approval.

- (ii) The prices for the utilities necessary for production, including water, electricity, gas and other utilities and ancillary services, shall be determined in accordance with the following policies:
 - (a) where there is Government-prescribed Price (as defined below), in respect of the utilities necessary for production, including water, gas and other utilities and ancillary services, the prices shall be determined based on arm's length negotiations between the relevant parties with reference to the Government-prescribed Price within a range of 5%, which will be lower than the Government-prescribed Price; or

LETTER FROM THE BOARD

- (b) where there is Government-prescribed Price, in respect of electricity necessary for production, the prices shall be determined based on arm's length negotiations between the relevant parties with reference to the Government-prescribed Price for electricity within a range of 5% lower than the Government-prescribed Price plus the management fee on the electricity transformer substation in proportion to the usage of electricity by the Company payable to Xianyang Electric Power Supply Bureau by IRICO Group; or

- (c) where there is no Government-prescribed Price, the prices shall be determined based on arm's length negotiations between the relevant parties with reference to reasonable costs incurred plus reasonable profit. The reasonable costs primarily include raw materials, labor, taxation, management fee, etc., and the profit margin will generally be no more than 5%.

The Directors are of the view that such pricing policies, including the negotiation range, the charging of the management fee of the electricity transformer substation by IRICO Group to the Company and the profit margin are fair and reasonable, on normal commercial terms and not prejudicial to the interest of the Company's minority Shareholders.

"Government-prescribed Price" means the guidelines for prices of utilities, which are applicable to water, electricity and natural gas under the IRICO Group Master Purchase Agreement as prescribed in the notifications published by Shaanxi Provincial Price Bureau, Shaanxi Provincial Development and Reform Commission and other relevant regulatory authorities from time to time, for instance, *the Notice on Adjustments to the Prices of Power Grid in Shaanxi Province* published by Shaanxi Provincial Price Bureau from time to time, and *the Notice on Reducing the City-gate Price for Non-residential Use of Natural Gas and Further Promotion of Price Marketization Reform* published by National Development and Reform Commission from time to time.

LETTER FROM THE BOARD

The pricing policies of cost plus reasonable profit are applicable to other utilities and ancillary services under the IRICO Group Master Purchase Agreement where there is no Government-prescribed Price, including softened water, chilled water, high pressure air, nitrogen, purified air, etc.

To ensure that prices to be charged by IRICO Group are no less favourable than those available from independent third parties, the investment operating department of the Company and its designated persons 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 utilities as prescribed in the notifications 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 the relevant parties. The quotation of each category of utilities will be reviewed by the investment operating 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 IRICO Group Master Purchase Agreement and set out in the specific purchase agreements to be entered into by the parties.

The payment terms will be on market terms which are no less favourable than those available from independent third parties.

LETTER FROM THE BOARD

Other major terms: IRICO Group agrees and undertakes that the products and utilities 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 products and utilities will be provided must be fair and reasonable. The terms and conditions of the provision of the same type of products and utilities shall be no less favourable than those offered by independent third parties to the Company.

The Company and its subsidiaries may enter into specific purchase agreements with IRICO Group and its associates in respect of the transactions contemplated under the IRICO Group Master Purchase Agreement. The specific purchase agreements shall set out the term of validity, quality requirements, standards, payment terms, liability for breach, dispute resolutions, payment terms, etc. and comply with the principles, instructions, conditions and terms of the IRICO Group 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 products and utilities contemplated under the IRICO Group Master Purchase Agreement, they do not constitute new categories of connected transactions.

LETTER FROM THE BOARD

C. Historical Figures

The historical amounts for the continuing connected transactions conducted under the Previous IRICO Group Master Purchase Agreement, the Previous Xianyang Cailian Master Purchase Agreement and the Previous Comprehensive Services Agreement as well as the respective annual caps for the three years ended 31 December 2015 are set out below:

	Historical amounts			Annual caps		
	(RMB'000)			(RMB'000)		
	2013	2014	2015	2013	2014	2015
Fees paid by the Company to IRICO Group under the Previous IRICO Group Master Purchase Agreement	8,919	1,757 ⁽¹⁾	5,419	138,701	201,098	233,660
Fees paid by the Company to Xianyang Cailian under the Previous Xianyang Cailian Master Purchase Agreement	23,363	24,641	33,134	115,800	227,710	306,503
Fees paid by the Company to IRICO Group under the Previous Comprehensive Services Agreement	<u>226,979</u>	<u>269,010</u>	<u>289,158</u>	<u>539,826</u>	<u>662,077</u>	<u>716,329</u>
Aggregated total amount	<u><u>259,261</u></u>	<u><u>295,408</u></u>	<u><u>327,711</u></u>	<u><u>794,327</u></u>	<u><u>1,090,885</u></u>	<u><u>1,265,492</u></u>

Note:

- (1) The historical amount under the Previous IRICO Group Master Purchase Agreement for the year ended 31 December 2014 decreased significantly as compared with that for the year ended 31 December 2013. Such decrease was mainly attributable to: (i) the cessation of businesses or production reduction of some subsidiaries of the Company or some subsidiaries of IRICO Group; and (ii) the disposal of some subsidiaries of the Company to IRICO Group or its associates. Accordingly, both the demand and the supply for the foam plastics, wood brackets and raw materials from IRICO Group to the Company decreased significantly.

LETTER FROM THE BOARD

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

The Directors propose to set the annual caps for the three years ending 31 December 2018 for the continuing connected transactions under the IRICO Group Master Purchase Agreement as set out in the table below.

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

- (i) the historical amounts of the Previous IRICO Group Master Purchase Agreement, the Previous Xianyang Cailian Master Purchase Agreement and the Previous Comprehensive Services Agreement for the three years ended 31 December 2015;
- (ii) the Company's estimate of its business growth for the three years ending 31 December 2018, which includes: (a) the expansion of solar photovoltaic glass business of the Company by igniting the Hefei solar photovoltaic glass projects, which operates six new production lines for the production of solar photovoltaic glass with an average total production volume of 750 tons per day; and (b) the expansion of the production of upstream materials of lithium battery by accomplishing the production expansion project of lithium battery anode materials, as a result of which the annual production volume reached 1,000 tons in the end of 2015;
- (iii) the Hefei solar photovoltaic glass projects, one of the largest whole-oxygen furnace for solar photovoltaic glass production in the PRC as at the Latest Practicable Date, were ignited smoothly in March 2015 and are currently in the stable process of trial production and expected to achieve the designed capacity with an average total production volume of 750 tons per day in April 2016, which call for stable and steady supply of products and utilities necessary for production from IRICO Group;
- (iv) the Company entered into an equity transfer agreement with Xianyang IRICO on 6 February 2015 pursuant to which IRICO Display Devices Co., Ltd.* (彩虹顯示器件股份有限公司) (the "A Share Company") ceased to be a subsidiary of the Company and such disposal was completed in May 2015. The A Share Company incurred expenses for the purchases of utilities under the Previous Comprehensive Services Agreement at a total amount of approximately RMB18 million during the five months ended 31 May 2015. As a result of the disposal of the A Share Company to Xianyang IRICO, the demand for utilities of the A Share Company was no longer counted into the Group's procurement scheme and therefore the volume of utilities to be purchased under the IRICO Group Master Purchase Agreement has been reduced as compared to that of each of the three years ended 31 December 2015 under the Previous Comprehensive Services Agreement;

LETTER FROM THE BOARD

- (v) taking into consideration of the economic benefits of purchasing utilities from local supplier with close proximity, the Company entered into the Utility Purchase Agreement to satisfy the demand on utilities of the production bases in Hefei City, Anhui Province by purchasing electricity from a subsidiary of Xianyang IRICO located in Hefei City, Anhui Province, as a result of which a portion of the utilities purchased under the Previous Comprehensive Services Agreement has been allocated to be supplied under the Utility Purchase Agreement; and
- (vi) the Company's current estimation of the stable market prices or the Government-prescribed Prices of the relevant products and utilities.

	Proposed annual caps		
	<i>(RMB'000)</i>		
	2016	2017	2018
Maximum fees payable by the Company to IRICO Group under the IRICO Group Master Purchase Agreement	329,343.05	327,296.23 ⁽¹⁾	331,682.72

Note:

- (1) The proposed annual cap for the year ending 31 December 2017 decreases slightly as compared with that for the year ending 31 December 2016. Such decrease is mainly attributable to the intention of reduction in management and operation costs by the Company and its subsidiaries, which intend to (i) introduce more independent suppliers in order to be in a better position to negotiate for a more favourable purchase price; and (ii) increase the reuse of recycled materials in 2017.

LETTER FROM THE BOARD

III. NEW CONTINUING CONNECTED TRANSACTION AGREEMENTS

1. Utility Purchase Agreement

A. *Background*

On 18 February 2016, the Company and Xianyang IRICO entered into the Utility Purchase Agreement to regulate the purchase of electricity by the Company from Xianyang IRICO for the three years ending 31 December 2018. Details of the Utility Purchase Agreement are set out below:

B. *Utility Purchase Agreement*

Date: 18 February 2016

Parties: (i) The Company as the purchaser; and
(ii) Xianyang IRICO as the supplier

Term: 1 January 2016 to 31 December 2018. The Utility Purchase Agreement can be terminated by the Company by giving at least three months' prior written notice to Xianyang IRICO. Without the written consent of the Company, Xianyang IRICO shall not unilaterally terminate the Utility Purchase Agreement.

Conditions precedent: The Utility Purchase Agreement is conditional upon the resolution regarding the Utility Purchase Agreement and the transactions contemplated thereunder (including the proposed annual caps) being approved by the Independent Shareholders at the EGM.

Nature of transactions: The Company shall purchase electricity from Xianyang IRICO.

LETTER FROM THE BOARD

Pricing policy:

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

“Government-prescribed Price” means the prices of electricity in Anhui Province as prescribed on the website of State Grid Corporation of China as updated and amended from time to time.

To ensure that prices to be charged by Xianyang IRICO are no less favourable than those available from independent third parties, the investment operating department of the Company and its designated persons (namely, the business planning executives, who are primarily responsible for the examination and approval of the procurement plans and the execution of purchase contracts) will make comparison with relevant prices charged by independent third parties in the same region. In case there is an adjustment to the prices of electricity in Anhui Province as prescribed on the website of State Grid Corporation of China, the prices will be adjusted correspondingly based on arm's length negotiations between the relevant parties. The quotation of electricity will be reviewed by the investment operating department of the Company and submitted to the head of such department for approval.

LETTER FROM THE BOARD

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

The payment terms will be on market terms which are no less favourable than those available from independent third parties.

Other major terms: In respect of the specific transactions contemplated under the Utility Purchase Agreement, specific purchase agreements may be entered into between the Company and Xianyang IRICO from time to time and as necessary, provided that the principles of the Utility Purchase Agreement and relevant laws and regulations of the jurisdiction where the Company's shares are listed are complied with.

Each specific purchase agreement shall set out the specific services, quantity, price, duration, payment terms and other relevant terms, which reflect the requirements of the Company and its subsidiaries and the market conditions at the relevant time.

The terms of the specific purchase agreements shall be in strict compliance with the relevant principles, instructions and conditions stipulated under the Utility Purchase Agreement.

As the specific purchase agreements are simply further elaborations on the purchase of utilities contemplated under the Utility Purchase Agreement, they do not constitute new categories of connected transactions.

LETTER FROM THE BOARD

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

The Directors propose to set the annual caps for the three years ending 31 December 2018 for the continuing connected transactions under the Utility Purchase Agreement as set out in the table below.

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

- (i) the Company's estimate of its business growth for the three years ending 31 December 2018, in particular the expansion of solar photovoltaic glass business of the Company by igniting the Hefei solar photovoltaic glass projects, which operates six new production lines for the production of solar photovoltaic glass with an average total production volume of 750 tons per day;
- (ii) the Hefei solar photovoltaic glass projects, one of the largest whole-oxygen furnace for solar photovoltaic glass production in the PRC as at the Latest Practicable Date, were ignited smoothly in March 2015 and are currently in the stable process of trial production and expected to achieve the designed capacity with an average total production volume of 750 tons per day in April 2016, which call for stable and steady supply of utilities (including electricity) from Xianyang IRICO; and

LETTER FROM THE BOARD

- (iii) the Company's current estimation of the stable Government-prescribed Prices of electricity.

	Proposed annual caps		
	<i>(RMB'000)</i>		
	2016	2017	2018
Maximum fees payable by the Company to Xianyang IRICO under the Utility Purchase Agreement ⁽¹⁾	74,424.00	79,856.95	83,863.74

Note:

- (1) The Company will select between IRICO Group and Xianyang IRICO in respect of the supply of electricity under the relevant agreements solely on basis of the geographical proximity. Under the IRICO Group Master Purchase Agreement, the Company will purchase utilities (including electricity) from certain subsidiaries of IRICO Group, all of which are located in Xianyang City, Shaanxi Province with close proximity to the production base of the Company in Xianyang City, Shaanxi Province. Under the Utility Purchase Agreement, however, the Company will procure electricity from a subsidiary of Xianyang IRICO located in Hefei City, Anhui Province in order to meet the needs of the production base of the Group located in Hefei City, Anhui Province. The allocation of the annual caps for the purchase of utilities between the IRICO Group Master Purchase Agreement and the Utility Purchase Agreement is determined with reference to the production scheme formulated by the related production bases of the Company.

2. Utility and Product Sales Agreement

A. Background

On 18 February 2016, the Company and Xianyang IRICO entered into the Utility and Product Sales Agreement to regulate the provision of oxygen and indium tin oxide

LETTER FROM THE BOARD

(ITO) targets by the Company to Xianyang IRICO for the three years ending 31 December 2018. Details of the Utility and Product Sales Agreement are set out below:

B. Utility and Product Sales Agreement

- Date: 18 February 2016
- Parties: (i) The Company as the supplier; and
(ii) Xianyang IRICO as the purchaser
- Term: 1 January 2016 to 31 December 2018, subject to early termination by either party by giving at least three months' prior written notice to the other party.
- Conditions precedent: The Utility and Product Sales Agreement is conditional upon the resolution regarding the Utility and Product Sales Agreement and the transactions contemplated thereunder (including the proposed annual caps) being approved by the Independent Shareholders at the EGM.
- Nature of transactions: The Company shall provide oxygen and ITO targets to Xianyang IRICO.
- Pricing policy: (i) The price for the oxygen shall be determined based on arm's length negotiations between the relevant parties with reference to the actual costs, which primarily include the actual average cost per cubic metre the Company pays for the procurement of oxygen from the independent supplier and a monthly fixed fee charged by such independent supplier. After taking into account of the reasons set out in the following paragraphs, the Company will not charge a mark-up rate for the sales of oxygen to Xianyang IRICO. The Directors are of the view that such actual costs basis of pricing policies are fair and reasonable, on normal commercial terms and not prejudicial to the interest of the Company's minority Shareholders.

LETTER FROM THE BOARD

The oxygen to be sold under the Utility and Product Sales Agreement will be procured from an independent supplier by the Company with a minimum volume for the operation of the furnace for Hefei solar photovoltaic glass projects (“**Hefei Factory**”) and there will be excess volume of oxygen according to the Company’s consumption level of oxygen at such furnace. The Directors are of the view that the sale of the oxygen to Xianyang IRICO is economically beneficial to the Company because (i) this can avoid any wastage of the procured oxygen and (ii) the factory of Xianyang IRICO is located nearby the Hefei Factory in the same industrial area in Hefei City, Anhui Province. In addition, the independent supplier is required to install certain equipment, operating system and pipelines at the Hefei Factory in order to supply the oxygen to the Hefei Factory in the form of a continuous flow. Therefore, any excess oxygen supplied can only be transmitted to nearby factory to the Hefei Factory. Further, as the Hefei Factory is located in a new industrial area in Hefei City, Anhui Province, factories run by independent third parties are limited and it is not practicable for the Company to build up pipelines to factories at long distance. Therefore, it is a more viable solution for the Company to sell the excess oxygen to Xianyang IRICO which is located nearby the Hefei Factory and pipelines can be built without substantial costs between the two factories in order to avoid any wastage of the oxygen.

Therefore, although the unit price of oxygen is set at the purchase costs without any mark-up, it is more economically beneficial to the Company as it can recover the procurement costs of oxygen by selling it to Xianyang IRICO which is located nearby and it does not need to incur any substantial costs of locating other suitable buyers in the new industrial area and building pipelines to reach their factories.

LETTER FROM THE BOARD

The selling prices of oxygen to be provided by the Company will be reviewed by the investment operating department of the Company and submitted to the head of such department for approval.

- (ii) The prices for the ITO targets shall be determined in accordance with the Market Price.

“Market Price” 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 ITO targets 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 ITO targets in the PRC.

Upon receipt of orders from Xianyang IRICO, the investment operating department of the Company and its designated persons (namely, the business planning executives, who are primarily responsible for the examination and approval of the sales plans and the execution of sales contracts) will ascertain the prices offered or charged by independent third parties, generally by way of, obtaining quotations for a comparable volume of ITO targets 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 prices of ITO targets to be provided by the Company will be reviewed by the investment operating department of the Company and submitted to the head of such department for approval.

LETTER FROM THE BOARD

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

The payment terms will be on market terms which are no less favourable than those available to independent third parties.

Other major terms: The parties may, from time to time and as necessary, enter into specific agreements for each specific transaction contemplated under the Utility and Product Sales Agreement.

Each specific agreement shall set out the specific services, quantity, price, duration, payment terms and other relevant terms. The terms of the specific agreements shall strictly follow the principles as set out in the Utility and Product Sales Agreement.

As the specific agreements are simply further elaborations on the provision of utilities and products contemplated under the Utility and Product Sales Agreement, they do not constitute new categories of connected transactions.

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

The Directors propose to set the annual caps for the three years ending 31 December 2018 for the continuing connected transactions under the Utility and Product Sales Agreement as set out in the table below.

LETTER FROM THE BOARD

The proposed annual caps for the continuing connected transactions contemplated under the Utility and Product Sales Agreement have been determined primarily based on the following factors:

- (i) the oxygen to be procured by Xianyang IRICO will be utilized for the operation of the furnace for the production of liquid crystal glass in its ordinary course of business. As the key utility for the operation of such furnace, oxygen is essential and indispensable. Therefore, the demand of oxygen from Xianyang IRICO for the three years ending 31 December 2018 is expected to remain stable;
- (ii) since the required usage of oxygen by the Hefei solar photovoltaic glass projects for operating the furnace at its full capacity is relatively stable for the three years ending 31 December 2018, the volume of oxygen to be sold for the purpose of economically utilizing the excess oxygen under the Utility and Products Sales Agreement for the three years ending 31 December 2018 is expected to remain stable, which represents the excess volume of oxygen out of the minimum purchase volume by the Company from the independent supplier;
- (iii) the Company's current estimation of the stable prices of the oxygen for the three years ending 31 December 2018 given that the price of the oxygen has remained stable in the recent years; and
- (iv) the proposed annual cap for the year ending 31 December 2018 increases significantly as compared with that for each of the two years ending 31 December 2017. Such increase is mainly attributable to the estimated demand from Xianyang IRICO to purchase a large amount of products (including ITO targets) from the Company in 2018. A major project of Xianyang IRICO, namely the CEC Xianyang 8.6 Version TFT-LCD (thin film transistor liquid crystal display) Production Line, was launched in December 2015, and such project is estimated to commence production in the year of 2018, which call for a large amount of ITO targets and other relevant products to be purchased from the Company.

	Proposed annual caps		
	<i>(RMB'000)</i>		
	2016	2017	2018
Maximum fees payable to the Company by Xianyang IRICO under the Utility and Product Sales Agreement	14,016	14,016	154,016

LETTER FROM THE BOARD

3. NEIIC Master Purchase Agreement

A. *Background*

On 18 February 2016, the Company and NEIIC entered into the NEIIC Master Purchase Agreement to regulate the purchase of products (including quartz sand) necessary for the production of solar photovoltaic glass by the Company from NEIIC for the three years ending 31 December 2018. Details of the NEIIC Master Purchase Agreement are set out below:

B. *NEIIC Master Purchase Agreement*

Date:	18 February 2016
Parties:	(i) The Company as the purchaser; and (ii) NEIIC as the supplier
Term:	1 January 2016 to 31 December 2018, subject to early termination by either party by giving at least three months' prior written notice to the other party.
Conditions precedent:	The NEIIC Master Purchase Agreement is conditional upon the resolution regarding the NEIIC Master Purchase Agreement and the transactions contemplated thereunder (including the proposed annual caps) being approved by the Independent Shareholders at the EGM.
Nature of transactions:	The Company shall purchase products (including quartz sand) necessary for the production of solar photovoltaic glass from NEIIC.
Pricing policy:	The prices for the products necessary for production shall be determined in accordance with the Market Price (as defined below).

LETTER FROM THE BOARD

“Market Price” 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.

Upon receipt of quotations from NEIIC, the investment operating department of the Company and its designated persons (namely, the business planning executives, who are primarily responsible for the examination and approval of the procurement plans and the execution of purchase contracts) will ascertain the prices offered or charged by independent third parties, generally by way of, obtaining quotations for a comparable volume of same or similar category of products 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 purchase price of each category of products will be reviewed by the investment operating 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 NEIIC Master Purchase Agreement and set out in the specific purchase agreements to be entered into by the parties.

The payment terms will be on market terms which are no less favourable than those available from independent third parties.

LETTER FROM THE BOARD

Other major terms: NEIIC agrees and undertakes that the products to be provided to the Company shall satisfy the quality standards as required by the Company from time to time. The price at which such products will be provided must be fair and reasonable. The terms and conditions of the provision of the same products shall be no less favourable than those offered by independent third parties to the Company.

The Company and its subsidiaries may enter into specific purchase agreements with NEIIC and its associates in respect of the transactions contemplated under the NEIIC Master Purchase Agreement. The specific purchase agreements shall set out the term of validity, quality requirements, standards, payment terms, liability for breach and dispute resolutions, and comply with the principles, instructions, conditions and terms of the NEIIC 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 products contemplated under the NEIIC Master Purchase Agreement, they do not constitute new categories of connected transactions.

LETTER FROM THE BOARD

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

The Directors propose to set the annual caps for the three years ending 31 December 2018 for the continuing connected transactions under the NEIC Master Purchase Agreement as set out in the table below.

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

- (i) the estimated stable and steady increase in demand for products necessary for the production of solar photovoltaic glass from the Company for the three years ending 31 December 2018 as a result of the prospective increase in the production volume of solar photovoltaic glass of the Company; furthermore, due to the quality of quartz sand supplied by NEIC and the economic benefit that could be enjoyed by the Company from bulk purchase from NEIC, the Company expects to increase the volume to be procured from NEIC progressively for the three years ending 31 December 2018; and
- (ii) the Company's current estimation of the stable market prices of the relevant products after taking into consideration of the nature of the products to be purchased by the Company under the NEIC Master Purchase Agreement, which are mainly low value-added raw materials with limited technical contents such as quartz sand, and the market equilibrium of supply and demand of such products during recent years.

Item	Proposed annual caps (RMB'000)		
	2016	2017	2018
Maximum fees payable by the Company to NEIC under the NEIC Master Purchase Agreement	26,400.00	30,254.40	33,290.40

LETTER FROM THE BOARD

IV. REASONS FOR AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS

The Board is of the view that the entering into of the aforesaid continuing connected transaction agreements are essential to the normal operations of, and beneficial to, the Company. In forming such view, the Board has taken into account the following factors:

- (i) The Company and IRICO Group or Xianyang IRICO have established a long-term relationship, and understand their respective planning of business operations, quality control as well as certain specific requirements of both parties.
- (ii) The purchase and sales of products between the Company and IRICO Group or Xianyang IRICO (as the case may be) will assist in minimizing the management and operational costs of the Company due to the close proximity between these companies. The bulk purchase and sales of products is also economically beneficial to both the Company and IRICO Group or Xianyang IRICO (as the case may be).
- (iii) Regarding the purchase and sales of utilities, the Company and IRICO Group or Xianyang IRICO (as the case may be) is capable of providing steady and stable supply of quality utilities at reasonable prices as compared to other local suppliers due to the close proximity between these companies.
- (iv) Both the Company and NEIIC are subsidiaries of CEC and the Company expects to establish a long-term relationship with NEIIC. In addition, the prices and terms for purchase of products by the Company from NEIIC would be no less favorable to the Company than those available from independent third parties.

The Board (including the independent non-executive Directors, whose opinion is formed after taking into account the advice provided by Octal Capital) considers that the transactions under the Continuing Connected Transactions Agreements are conducted on normal commercial terms or on terms no less favourable to the Company than those available to or from independent third parties, and are entered into in the ordinary and usual course of business of the Company, and are fair and reasonable and in the interests of the Company and Shareholders as a whole.

V. IMPLICATIONS UNDER THE LISTING RULES

IRICO Group is a substantial Shareholder and thus is a connected person of the Company under the Listing Rules. Therefore, the transactions contemplated under the IRICO Group Master Purchase Agreement between the Company and IRICO Group constitute continuing connected transactions of the Company.

LETTER FROM THE BOARD

Xianyang IRICO, which is directly held as to 74% by CEC and 26% by IRICO Group as at the Latest Practicable Date, is an associate of CEC and IRICO Group and thus a connected person of the Company. Therefore, the transactions contemplated under the Utility Purchase Agreement and the Utility and Product Sales Agreement constitute continuing connected transactions of the Company.

NEIIC, which is a subsidiary of CEC, is an associate of CEC and thus a connected person of the Company. Therefore, the transactions contemplated under the NEIIC Master Purchase Agreement between the Company and NEIIC constitute continuing connected transactions of the Company.

Since the applicable percentage ratios (other than the profits ratio) for the highest proposed annual cap for each of the three years ending 31 December 2018 for the continuing connected transactions under (i) the IRICO Group Master Purchase Agreement; (ii) the Utility Purchase Agreement; and (iii) the Utility and Product Sales Agreement exceed 5%, the continuing connected transactions under these agreements are subject to the disclosure, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.81 of the Listing Rules, the transactions contemplated under the NEIIC Master Purchase Agreement will be aggregated with the transactions under the IRICO Group Master Purchase Agreement. As such, the applicable percentage ratios (other than the profits ratio) for the highest proposed annual cap for each of the three years ending 31 December 2018 for the continuing connected transactions under the NEIIC Master Purchase Agreement (after aggregation with the transactions under the IRICO Group Master Purchase Agreement) exceed 5%, the continuing connected transactions under the NEIIC Master Purchase Agreement are also subject to the disclosure, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

VI. GENERAL INFORMATION

The Company is principally engaged in the construction and operation of solar power plants; the research, development, production and sales of solar photovoltaic glass, solar cell modules and relevant products, upstream materials of lithium battery and materials relevant to flat panel display; and the processing of quartz sand, a upstream material for photovoltaic glass.

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

LETTER FROM THE BOARD

Xianyang 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.

NEIIC is principally engaged in the research and development, services and transfer of electronic information technologies; research and development, manufacturing, sales and relevant services of electronic products; design, construction and relevant services of electronic engineering; investment in real estate; property management; industrial investment and assets operation and management services.

VII. EGM

An EGM will be convened for the Independent Shareholders to consider and, if appropriate, to approve the Continuing Connected Transactions Agreements and the transactions contemplated thereunder (including the respective proposed annual caps).

The Independent Board Committee has been formed to consider the continuing connected transactions and the proposed annual caps under each of the Continuing Connected Transactions Agreements. Octal Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the same.

Certain Directors, namely, Mr. Si Yuncong, Mr. Huang Mingyan and Mr. Jiang Ahe, by virtue of their respective existing or former senior positions in IRICO Group or NEIIC, may be considered as having a material interest in the transactions under the Continuing Connected Transactions Agreements. As such, they have abstained from voting on the Board resolutions approving the relevant agreements and the transactions contemplated thereunder (including the respective proposed annual caps). Save as mentioned above, none of the other Directors has a material interest in the transactions contemplated under the Continuing Connected Transactions Agreements.

IRICO Group, holding approximately 71.74% of the issued share capital of the Company as at the Latest Practicable Date, will be required to abstain from voting on the resolutions approving the Continuing Connected Transactions Agreements and the transactions contemplated thereunder (including the respective proposed annual caps) at the EGM. Mr. Si Yuncong, the chairman of the Company, holding approximately 0.03% of the issued share capital of the Company as at the Latest Practicable Date, will also be required to abstain from voting on the aforesaid resolutions at the EGM due to his senior positions in IRICO Group and NEIIC. Save as mentioned above, to the best of the Directors' knowledge, information and belief, no other Shareholder has any material interest in the transactions under each of the Continuing Connected Transactions Agreements and therefore will be required to abstain from voting to approve the relevant resolutions at the EGM.

LETTER FROM THE BOARD

The proposed resolutions will be passed by way of ordinary resolutions and voting will be conducted by way of poll in accordance with the requirements of the Listing Rules.

VIII. NEW PROXY FORM

Since the proxy form for the EGM which was despatched on 23 February 2016 (the “**Old Proxy Form**”) does not contain the newly-added resolution No. 4 in relation to the NEIC Master Purchase Agreement and the transactions contemplated thereunder (including the proposed annual caps) to be approved at the EGM as set out in the supplemental notice of EGM dated 24 March 2016, a new proxy form for the EGM (the “**New Proxy Form**”) has been prepared and is enclosed with this circular.

Whether or not you are able to attend the EGM, you are reminded to complete the New Proxy Form in accordance with the instructions printed thereon and send the proxy form to the office of the secretary of the Board at No. 1 Caihong Road, Xianyang, Shaanxi Province, the PRC (for shareholders of domestic shares of the Company), or to the Company’s H share registrar, Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong (for shareholders of H shares of the Company) as soon as possible but in any event not later than 24 hours before the time appointed for the holding of the EGM.

A Shareholder who has not yet lodged the Old Proxy Form with the Company or the Company’s H share registrar is requested to lodge the New Proxy Form if he or she wishes to appoint proxies to attend the EGM on his or her behalf. In this case, the Old Proxy Form should not be lodged with the Company or the Company’s H share registrar.

A Shareholder who has already lodged the Old Proxy Form with the Company or the Company’s H share registrar should note that:

- (i) **If no New Proxy Form is lodged with the Company or the Company’s H share registrar, the Old Proxy Form will be treated as a valid proxy form lodged by him or her if correctly completed.** The proxy so appointed by the Shareholder will be entitled to vote at his or her discretion or to abstain on any resolution properly put to the EGM other than those referred to in the notice of EGM of the Company dated 23 February 2016 and the Old Proxy Form, including the additional proposed resolution as set out in the supplemental notice of EGM of the Company dated 24 March 2016.

LETTER FROM THE BOARD

- (ii) **If the New Proxy Form is lodged with the Company or the Company's H share registrar before 9:00 a.m. on 7 April 2016, the New Proxy Form will revoke and supersede the Old Proxy Form previously lodged by him or her. The New Proxy Form will be treated as a valid proxy form lodged by the Shareholder if correctly completed.**

- (iii) **If the New Proxy Form is lodged with the Company or the Company's H share registrar after 9:00 a.m. on 7 April 2016, the New Proxy Form will be invalid.** It will not revoke the Old Proxy Form previously lodged by the Shareholder. The Old Proxy Form will be treated as a valid proxy form lodged by him or her if correctly completed. The proxy so appointed by the Shareholder will be entitled to vote at his or her discretion or to abstain on any resolution properly put to the EGM other than those referred to in the notice of EGM of the Company dated 23 February 2016 and the Old Proxy Form, including the additional proposed resolution as set out in the supplemental notice of EGM of the Company dated 24 March 2016.

Shareholders are reminded that completion and delivery of the Old Proxy Form and/or the New Proxy Form will not preclude Shareholders from attending and voting in person at the EGM or at any adjourned meeting(s) should they so wish.

IX. RECOMMENDATIONS

Your attention is drawn to the letter from the Independent Board Committee set out on pages 31 to 32 of this circular and the letter from Octal Capital set out on pages 33 to 58 of this circular. The Independent Shareholders are advised to read the aforesaid letters before deciding as to how to vote on the resolutions regarding the Continuing Connected Transactions Agreements and the continuing connected transactions contemplated thereunder (including the respective proposed annual caps).

The Directors are of the view that the terms of continuing connected transactions contemplated under the Continuing Connected Transactions Agreements are fair and reasonable, the relevant continuing connected transactions (including the respective proposed annual caps) are on normal commercial terms and 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.

The Directors recommend the Independent Shareholders to vote in favour of the relevant resolutions regarding the Continuing Connected Transactions Agreements and the transactions contemplated thereunder (including the respective proposed annual caps) to be proposed at the EGM.

LETTER FROM THE BOARD

X. ADDITIONAL INFORMATION

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

By order of the Board
IRICO Group New Energy Company Limited*
Si Yuncong
Chairman

* *For identification purpose only*

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



IRICO

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

(formerly known as 彩虹集團電子股份有限公司 (IRICO Group Electronics Company Limited))
(a joint stock company incorporated in the People's Republic of China with limited liability)*

(Stock Code: 0438)

Legal address and the head office in the PRC:

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

Place of Business in Hong Kong:

6/F, Nexxus Building
No. 41 Connaught Road, Central
Hong Kong

Hong Kong share registrar and transfer office:

Computershare Hong Kong Investor Services Limited
Rooms 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

24 March 2016

CONTINUING CONNECTED TRANSACTIONS

To the Independent Shareholders,

Dear Sir or Madam,

We refer to the circular of the Company dated 24 March 2016 (the “**Circular**”), of which this letter forms a part. Terms defined therein shall have the same meanings when used in this letter unless the context otherwise requires.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

We have been appointed by the Board as the Independent Board Committee to advise you as to whether in our opinion, the terms of continuing connected transactions contemplated under the Continuing Connected Transactions Agreements are fair and reasonable so far as the Independent Shareholders are concerned, the relevant continuing connected transactions (including the respective proposed annual caps) are on normal commercial terms and 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.

Octal Capital has been appointed by the Company as the independent financial adviser to advise the Independent Board Committee on the fairness and reasonableness of the terms of the continuing connected transactions contemplated under the Continuing Connected Transactions Agreements (including the respective proposed annual caps). Details of the advice from Octal Capital, together with the principal factors taken into consideration in arriving at such advice, are set out in its letter on pages 33 to 58 of the Circular.

We wish to draw your attention to the letter from the Board set out on pages 1 to 30 of the Circular. Having considered the information contained in the letter from the Board, the interests of the Independent Shareholders and the advice and recommendations given by Octal Capital, we consider that the terms of continuing connected transactions contemplated under the Continuing Connected Transactions Agreements are fair and reasonable, the relevant continuing connected transactions (including the respective proposed annual caps) are on normal commercial terms and 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.

Accordingly, we recommend that the Independent Shareholders vote in favour of the resolutions regarding the Continuing Connected Transactions Agreements and the transactions contemplated thereunder (including the respective proposed annual caps) to be proposed at the EGM.

Yours faithfully,

IRICO Group New Energy Company Limited*

Feng Bing,

Wang Jialu,

Wang Zhicheng

Independent Board Committee

* *For identification purpose only*

LETTER FROM OCTAL CAPITAL

The following is the full text of the letter of advice to the Independent Board Committee and the Independent Shareholders from Octal Capital prepared for the purpose of incorporation in this circular.



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

24 March 2016

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our engagement to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the IRICO Group Master Purchase Agreement, the Utility Purchase Agreement, the Utility and Product Sales Agreement, the NEIC Master Purchase Agreement and the proposed annual caps related thereto, particulars of which are set out in the letter from the Board (the “**Letter from the Board**”) of the circular to the Shareholders dated 24 March 2016 (the “**Circular**”) and in which this letter is reproduced. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as given to them under the definitions section of the Circular.

As set out in the Letter from the Board, the Company announced on 18 February 2016 that:

- (i) the Company entered into the IRICO Group Master Purchase Agreement with IRICO Group, which replaced the Previous IRICO Group Master Purchase Agreement, the Previous Xianyang Cailian Master Purchase Agreement and the Previous Comprehensive Services Agreement to regulate the purchase of products and utilities necessary for production of solar photovoltaic glass, energy-saving lamp phosphor, upstream materials of lithium battery and indium tin oxide (ITO) targets, including packaging materials and raw materials, water, electricity and gas and other utilities and ancillary services by the Company from IRICO Group (the “**Existing Continuing Connected Transactions**”);
- (ii) the Company and Xianyang IRICO entered into the Utility Purchase Agreement to regulate the purchase of electricity by the Company from Xianyang IRICO;

LETTER FROM OCTAL CAPITAL

- (iii) the Company and Xianyang IRICO entered into the Utility and Product Sales Agreement to regulate the provision of oxygen and indium tin oxide (ITO) targets by the Company to Xianyang IRICO; and
- (iv) the Company and NEIIC entered into the NEIIC Master Purchase Agreement to regulate the purchase of products (including quartz sand) necessary for the production of solar photovoltaic glass by the Company from NEIIC (the transactions contemplated under paragraphs (ii), (iii) and (iv) above, altogether, the “**New Continuing Connected Transactions**”).

As set out in the Letter from the Board, IRICO Group, Xianyang IRICO and NEIIC are connected persons of the Company. In addition, the applicable percentage ratios (other than the profits ratio) for the highest proposed annual cap for each of the three years ending 31 December 2018 for the continuing connected transactions under: (i) the IRICO Group Master Purchase Agreement; (ii) the Utility Purchase Agreement; and (iii) the Utility and Product Sales Agreement exceed 5%, the continuing connected transactions under these agreements are subject to the disclosure, annual review and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.81 of the Listing Rules, the transactions contemplated under the NEIIC Master Purchase Agreement will be aggregated with the transactions under the IRICO Group Master Purchase Agreement. As such, the applicable percentage ratios (other than the profits ratio) for the highest proposed annual cap for each of the three years ending 31 December 2018 for the continuing connected transactions under the NEIIC Master Purchase Agreement (after aggregation with the transactions under the IRICO Group Master Purchase Agreement) exceed 5%, the continuing connected transactions under the NEIIC Master Purchase Agreement are also subject to the disclosure, annual review and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

An Independent Board Committee comprising all of the independent non-executive Directors namely Mr. Feng Bing, Mr. Wang Jialu and Mr. Wang Zhicheng, has been formed to advise the Independent Shareholders in relation to the terms of the Continuing Connected Transactions (including the respective proposed annual caps). We, Octal Capital Limited (“**Octal Capital**”), has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard.

LETTER FROM OCTAL CAPITAL

We are not connected with the Directors, chief executive and substantial shareholders of the Company, Xianyang IRICO, IRICO Group, NEIIC and CEC or any of their respective subsidiaries or associates and are therefore 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 connected and very substantial disposals; and (ii) the connected and major disposal (for details please refer to the circulars of the Company dated 29 June 2014 and 20 April 2015 respectively). Under the Previous Engagements, we were required to express our opinion on and give recommendation to the Independent Board Committee and 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 Company or the purchasers or any of their respective subsidiaries or associates.

In formulating our opinion, we have relied on the accuracy of the information and representations contained in the Circular and have assumed that all information and representations made or referred to in the Circular were true at the time they were made and continue to be true as at the Latest Practicable Date. We have also relied on our discussion with the Directors and 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. 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, the Xianyang IRICO, IRICO Group and their respective subsidiaries or associates nor have we carried out any independent verification of the information supplied.

THE CONTINUING CONNECTED TRANSACTIONS

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion regarding the terms of the Continuing Connected Transactions (including the respective proposed annual caps) for the three years ending 31 December 2018 (the “**Review Period**”), we have considered the following principal factors and reasons:

A. Background of and reasons for the terms of the Continuing Connected Transactions and the relevant proposed annual caps

As set out in the Letter from the Board, the Company is principally engaged in the construction and operation of solar power plants; the research, development, production and sale of solar photovoltaic glass, solar cell modules and relevant products, upstream materials of lithium battery and materials relevant to flat panel display; and the processing of quartz sand, an upstream material for photovoltaic glass. The audited revenue and loss after tax of the Group for the year ended 31 December 2014 were approximately RMB2,218 million and RMB1,691 million respectively.

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

Xianyang 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.

NEIIC is principally engaged in the research and development, services and transfer of electronic information technologies; research and development, manufacturing, sales and relevant services of electronic products; design, construction and relevant services of electronic engineering; investment in real estate; property management; industrial investment and assets operation and management services.

LETTER FROM OCTAL CAPITAL

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

The Agreements	Description of transactions
The IRICO Group Master Purchase Agreement	purchase of products and utilities necessary for production of solar photovoltaic glass, energy-saving lamp phosphor, upstream materials of lithium battery and indium tin oxide (ITO) targets, including packaging materials raw materials, water, electricity, gas, softened water, chilled water, high pressure air, nitrogen, purified air and other utilities and ancillary services by the Company from IRICO Group
The Utility Purchase Agreement	purchase of electricity by the Company from Xianyang IRICO
The Utility and Product Sales Agreement	provision of oxygen and ITO targets by the Company to Xianyang IRICO
NEIC Master Purchase Agreement	purchase of products (including quartz sand) necessary for production of solar photovoltaic glass by the Company from NEIC

The Existing Continuing Connected Transactions have been engaged by the Group in its ordinary and usual course of business for over twelve years. The Company proposed to enter into the IRICO Group Master Purchase Agreement so as to renew the relevant Existing Continuing Connected Transactions which expired on 31 December 2015.

The packaging materials and raw materials to be procured under the IRICO Group Master Purchase Agreement are mainly used in the packaging of the solar photovoltaic glass produced by the Company. The factory of the Company producing the solar photovoltaic glass and the factory of IRICO Group supplying the packaging materials and raw materials are located in the same industrial area in Xianyang City. The purchase of the packaging materials and raw materials from IRICO Group will assist in minimizing the management and operational costs of the Company due to the close proximity between the factories. The bulk purchase of the packaging materials and the raw materials by IRICO Group and the sale of such products by IRICO Group based on the prevailing market price are also economically beneficial to both the Company and IRICO Group.

LETTER FROM OCTAL CAPITAL

The utilities products including water, electricity, gas, softened water, chilled water, high pressure air, nitrogen, purified air and other utilities and ancillary services to procure under the IRICO Group Master Purchase Agreement are used in the operation of the furnace for the solar photovoltaic glass production. The arrangement for the procurement of water, electricity and gas from IRICO Group has been long established and the Company has operated as an integrated organization since the listing of the Company on the Stock Exchange in December 2004. This can also secure a stable supply of electricity, water and gas to the Company.

On the other hand, the other utilities products including softened water, chilled water, high pressure air, nitrogen, purified air (the “**Processed Utilities**”) are processed and supplied by IRICO Group to the Company under the IRICO Group Master Purchase Agreement. These Processed Utilities are normally processed at the in-house facility of a production plant. However, since the factories of the Company and IRICO Group are both located in the same industrial area in Xianyang City, it is more economically beneficial for the Company to procure the Processed Utilities from IRICO Group without building the same facilities and the Processed Utilities will be transferred via pipeline due to the close proximity between the factories of the Company and IRICO Group.

The New Continuing Connected Transactions represent (i) procurement of electricity by the Company from Xianyang IRICO and (ii) procurement of quartz sand by the Company from NEIC; and (iii) provision of oxygen and ITO targets by the Company to Xianyang IRICO.

As set out in the annual report of the Group for the year ended 31 December 2012, at the end of 2012, as approved by the State-owned Assets Supervision and Administration Commission (the “**SASAC**”), IRICO Group, the controlling shareholder of the Company, was consolidated into China Electronic Corporation (中國電子信息產業集團有限公司 “**CEC**”) by allocation at nil consideration, which was a significant decision made by the SASAC for boosting the reform and reorganisation of central enterprises and also an important measure to accelerate the comprehensive industrial transformation of IRICO Group. Since then, we noted that the Group had been actively looking for opportunities to off-load the non-core businesses and loss-making companies of the Group to focus on the development of the solar photovoltaic business and the new materials business.

The development of solar industry in China was highlighted in various national development schemes in recent years. With reference to “the Strategic Action Plan for Energy Development (2014-2020)” released by the General Office of the State Council of the PRC, a list of targets were published to promote more efficient, self-sufficient, green and innovative energy production. In addition, according to “the Notice on the 13th Five-Year Work Plan of the PRC on Enhancing the Solar Energy Development by the Comprehensive Department of the National Energy Administration” issued by the National Energy Administration of the PRC on 24 December 2014, solar industry was again illustrated as an important industry development focus during the period of the 13th Five-Year Work Plan of the PRC. With the clear industry guidance set out by the PRC government, it is expected that solar industry in the PRC would gain more recognition and drive the local demand of solar photovoltaic glass which in turn would be beneficial to the Group and thereby increasing the revenue of the Group.

LETTER FROM OCTAL CAPITAL

As set out in the interim report of the Company for the six months ended 30 June 2015, the solar photovoltaic glass business of the Group achieved stable development with decent growth in sales volume as compared with the corresponding period in 2014. The revenue from the solar photovoltaic glass production and sales segment of the Group for the year ended 31 December 2014 was approximately RMB425 million as compared with approximately RMB389 million in the year ended 31 December 2013, and it continued a stable growth in revenue in 2015 with revenue of RMB219 million for the six months ended 30 June 2015, as compared with revenue of RMB211 million for the six months ended 30 June 2014.

On one hand, the Group has been constantly improving the technique and equipment, adjusting product structure, reducing cost and enhancing efficiency of Xianyang solar photovoltaic glass. On the other hand, the Hefei photovoltaic glass project (the “**Hefei Factory**”) was ignited smoothly in March 2015 and is currently in the stable process of trial production and is expected to achieve the designed capacity with an average total production volume of 750 tons per day in April 2016, which calls for stable and steady supply of products and utilities necessary for production from IRICO Group. Therefore, in view of the future development of the solar industry, the Company anticipated that the outlook of the solar industry will be optimistic and the demand for the solar photovoltaic glass and its raw materials will increase accordingly.

Further, as informed by the management of the Company, Xianyang IRICO owns an electricity transformer substation in Hefei, the PRC which could supply constant and reliable electricity for the operation of the Hefei Factory. As a result, the Company and Xianyang IRICO entered into the Utility Purchase Agreement in order to secure a stable supply of electricity by Xianyang IRICO to the Hefei Factory.

Moreover, the Company purchases quartz sand as one of the raw materials for the production of its solar photovoltaic glass and the Company procures the quartz sand from a variety of suppliers to ensure the quality and a stable supply of quartz sand for the Company. Having considered the quality of quartz sand supplied by NEIIC and the economic benefit that could be enjoyed by the Company from bulk purchase from NEIIC, the Company entered into the NEIIC Master Purchase Agreement with NEIIC to further broaden its supplier base of quartz sand.

As for the provision of oxygen and ITO targets by the Company to Xianyang IRICO, due to the long-term established relationship between the two companies and the close proximity between their factories, the Company is of the view that bulk purchase and sale of products are more economically beneficial to both the Company and Xianyang IRICO.

LETTER FROM OCTAL CAPITAL

The oxygen to be sold under the Utility and Product Sales Agreement will be procured from an independent supplier by the Company in bulk purchase used for the operation of the furnace for the Hefei Factory and a minimum purchase volume was required by the independent supplier. However, since the minimum purchase volume of the oxygen exceeds the required usage of oxygen by the Hefei Factory, to economically utilize the excess oxygen and realise better economic benefits, the excess volume of oxygen will be sold to a factory owned by Xianyang IRICO which is located at the same industrial area as the Hefei Factory and will be transferred via pipelines due to the close proximity of the two factories.

In addition, as the new production line of CEC, namely CEC Xianyang 8.6 Version TFT-LCD (thin film transistor liquid crystal display) Production Line is expected to commence production in the year of 2018, the Company and Xianyang IRICO entered into the Utility and Product Sales Agreement for the provision of a reliable source of ITO targets, which are the raw materials for the TFT-LCD display, to Xianyang IRICO.

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

- (1) The Company and IRICO Group or Xianyang IRICO have established a long-term relationship, and understand their respective planning of business operations, quality control as well as certain specific requirements of both parties;
- (2) The purchase and sales of products between the Company and IRICO Group or Xianyang IRICO (as the case may be) will assist in minimizing the management and operational costs of the Company due to the close proximity between these companies. The bulk purchase and sales of products is also economically beneficial to both the Company and IRICO Group or Xianyang IRICO (as the case may be);
- (3) Regarding the purchase and sales of utilities, the Company and IRICO Group or Xianyang IRICO (as the case may be) is capable of providing steady and stable supply of quality utilities at reasonable prices as compared to other local suppliers due to the close proximity between these companies; and
- (4) Both the Company and NEIIC are subsidiaries of CEC and the Company expects to establish a long-term relationship with NEIIC. In addition, the prices and terms for purchase of products by the Company from NEIIC would be no less favorable to the Company than those available from independent third parties.

LETTER FROM OCTAL CAPITAL

Based on the forgoing and having regard to (i) the Existing Continuing Connected Transactions between the Group and relevant connected parties have been in existence for years; (ii) the economic benefits enjoyed by both the Company and the relevant connected parties; (iii) the stable and high quality supply/provision of utilities and products between the Company and the relevant connected parties; and (iv) the prices and terms under the Existing Continuing Connected Transactions and the New Continuing Connected Transactions 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, we consider that the transactions contemplated under the Continuing Connected Transactions Agreements are carried out in the ordinary and normal course of business for the Group to enter into with the relevant connected parties.

B. The Proposed Annual Caps

I. Proposed annual caps of the Existing Continuing Connected Transactions

Pursuant to the Letter from the Board, we summarise in the following table the relevant historical amounts and the aggregated total amounts for the continuing connected transactions conducted under the Previous IRICO Group Master Purchase Agreement, the Previous Xianyang Cailian Master Purchase Agreement and the Previous Comprehensive Services Agreement:

	For the financial years ended 31 December					
	2013 Historical figures (RMB'000)	2014 Historical figures (RMB'000)	2015 Historical figures (RMB'000)	2013 Annual Cap (RMB'000)	2014 Annual Cap (RMB'000)	2015 Annual Cap (RMB'000)
Continuing Connected Transactions						
Fee paid by the Company to IRICO Group under the Previous IRICO Group Master Purchase Agreement	8,919	1,757	5,419	138,701	201,098	233,660
Fee paid by the Company to Xianyang Cailian under the Previous Xianyang Cailian Master Purchase Agreement	23,363	24,641	33,134	115,800	227,710	306,503
Fee paid by the Company to IRICO Group under the Previous Comprehensive Services Agreement	226,979	269,010	289,158	539,826	662,077	716,329
Aggregated total amount	<u>259,261</u>	<u>295,408</u>	<u>327,711</u>	<u>794,327</u>	<u>1,090,885</u>	<u>1,256,492</u>

LETTER FROM OCTAL CAPITAL

Set out below are the proposed annual caps for the Review Period for the Existing Continuing Connected Transactions under the IRICO Group Master Purchase Agreement.

	For the financial year ended 31 December 2015 Historical figures (RMB'000)	For the financial years ending 31 December		
	2016 Proposed Annual Cap (RMB'000)	2017 Proposed Annual Cap (RMB'000)	2018 Proposed Annual Cap (RMB'000)	
Maximum fees payable by the Company to IRICO Group under the IRICO Group Master Purchase Agreement	327,711	329,343	327,296	331,683

(i) *Pricing basis of the IRICO Group Master Purchase Agreement*

According to the IRICO Group Master Purchase Agreement, the prices for the purchase of products and utilities are determined in the following basis:

1. In respect of products necessary for production including packaging materials and raw materials under such agreement, the prices shall be determined in accordance with the relevant market price.
2. In respect of the utilities necessary for production, including water, gas and other utilities and ancillary services, shall be determined based on arm's length negotiations between the relevant parties with reference to the Government-prescribed Price within a range of 5% lower than the Government-prescribed Price.
3. In respect of the electricity necessary for production, it shall be determined based on arm's length negotiations between the relevant parties with reference to the Government-prescribed Price within a range of 5% lower than the Government-prescribed Price plus the management fee on the electricity transformer substation in proportion to the usage of electricity by the Company payable to the Xianyang Electric Power Supply Bureau by the IRICO Group.
4. In respect of the other utilities including softened water, chilled water, high pressure air, nitrogen, purified air, etc. and ancillary services which do not have Government-prescribed Price, the prices shall be determined based on arm's length negotiations between the relevant parties with reference to reasonable costs incurred plus reasonable profit; the profit margin will generally be not more than 5%.

LETTER FROM OCTAL CAPITAL

As set out in the IRICO Group Master Purchase Agreement, IRICO Group undertakes that the prices at which such products and utilities will be provided by IRICO Group to the Company must be fair and reasonable. The terms and conditions of the provision of the same type of products and utilities shall be no less favourable than those offered by independent third parties to the Company.

(ii) *Basis of determining the proposed annual caps under the IRICO Group Master Purchase Agreement*

Based on the detailed schedule of the proposed annual caps of RMB329,343,050, RMB327,296,230 and RMB331,682,720 for the three years ending 31 December 2018 provided by management of the Company, the proposed annual caps comprise two categories, namely (i) the products necessary for production which mainly includes packaging materials for the solar photovoltaic glass; and (ii) the utilities necessary for production including water, electricity, gas and other utilities and ancillary services, as illustrated below:

	For the financial year ended	For the financial years ending 31 December		
	31 December 2015 Historical figures (RMB'000)	2016 Proposed Annual Cap (RMB'000)	2017 Proposed Annual Cap (RMB'000)	2018 Proposed Annual Cap (RMB'000)
Packaging materials and raw materials	38,553	61,597	59,653	63,145
Utilities	289,158	267,747	267,643	268,538
Maximum fees payable by the Company to IRICO Group Agreement under the IRICO Group Master Purchase	<u>327,711</u>	<u>329,344</u>	<u>327,296</u>	<u>331,683</u>

We noted that the proposed annual caps for each of the three years of the Review Period are generally determined with reference to the aggregated actual transaction amount of RMB327,711,000 for the subject transactions contemplated under the Previous IRICO Group Master Purchase Agreement, the Previous Xianyang Cailian Master Purchase Agreement and the Previous Comprehensive Services Agreement for the year ended 31 December 2015.

LETTER FROM OCTAL CAPITAL

We noted that the amount of the component of packaging materials and raw materials under the proposed annual caps is higher than the corresponding aggregated historical amount in 2015 of approximately RMB38,533,000 under the Previous IRICO Group Master Purchase Agreement and the Previous Xianyang Cailian Master Purchase Agreement mainly because of the additional demand for packaging materials from a new operation of the Hefei Factory which ignited smoothly in 2015, a wholly-owned subsidiary of the Group in relation to production of photovoltaic glass.

In respect of the packaging materials and raw materials, we have obtained and reviewed the list of products to be procured from IRICO Group which mainly includes packaging materials used for packaging of the solar photovoltaic glass produced by the Hefei Factory. We have discussed with the management of the Company and we noted that the Company selected the supplier for the supply of the packaging materials and raw materials by way of open tender. When the investment operating department of the Company initiates a procurement request, invitation for the tender would be made to at least three bidders. Upon receipt of all bidding proposals from the bidders by the end of the tender period, the investment operating department of the Company would review and assess the bidding proposals based on a grading mechanism with regards to the criteria such as price, qualification and reputation of the bidders. After reviewing the relevant documents throughout the bidding process, we consider that the selection process of the supplier is fairly structured and free from discretion on the bidders.

Upon comparison, we noted that the unit price of the packaging materials and raw materials used in the proposed annual caps is comparable to unit price provided by the other bidders, who are independent third parties to the Company. The unit price for each type of the packaging materials and raw materials in each of the three years during the Review Period is assumed to be the same throughout the period. On the other hand, the volume of usage of the packaging materials is expected to increase for the year ending 31 December 2016 as compared with the year ended 31 December 2015 and such increase is mainly attributable to the expected growth in the production volume of the Hefei Factory and it is expected to increase gradually for each of the years ending 31 December 2017 and 2018.

We noted that there is a decrease in the proposed annual cap in respect of packaging materials and raw materials for the year ending 31 December 2017 as compared to that of the year ending 31 December 2016. Such decrease is mainly attributable to the intention of reduction in management and operation costs by the Company and its subsidiaries, which intend to: (i) introduce more independent suppliers of packaging materials in order to be in a better position to negotiate for a more favourable purchase price; and (ii) increase the use of recycled materials in 2017. The expected increase in volume of usage of the type of packaging materials and raw materials to be procured

LETTER FROM OCTAL CAPITAL

from IRICO Group will more than offset the type of packaging materials and raw materials to be procured from independent third parties resulting in the proposed annual cap for the year ending 31 December 2018 in respect of the packaging materials and raw materials to be RMB63,144,000.

In respect of the utilities for production, we have obtained and reviewed the list of utilities provided by management which mainly includes water, electricity, gas, softened water, chilled water, high pressure air, nitrogen, purified air and other utilities and ancillary services that are used in the operation of the furnace for the solar photovoltaic glass production. As regards water and gas, we noted from the list that their unit prices are determined with reference to the Government-prescribed Price in Xianyang City, Shaanxi Province as prescribed on the website of the Bureau of Water Resources of Xianyang and the Bureau of Commodity Price of Xianyang respectively within a range of 5% lower than the Government-prescribed Price. We have compared the unit prices of water and gas to the relevant Government-prescribed Price of Xianyang City, Shaanxi Province and noted that both prices are similar. We also noted that the price level of water and gas remained stable in the past year. We were advised by the management of the Company that since IRICO Group purchases water and gas on bulk purchase, IRICO Group could enjoy a discount on the unit price of water and gas and thus we consider that the unit prices of water and gas supplied by IRICO Group to the Company being within a range of 5% lower than the Government-prescribed Price are fair and reasonable. As regards electricity, we noted from the list that its price is determined with reference to the Government-prescribed Price in Xianyang City, Shaanxi Province within a range of 5% lower than the Government-prescribed Price plus the management fee on the electricity transformer substation in proportion to the usage of electricity by the Company payable to the Xianyang Electric Power Supply Bureau by the IRICO Group. We have compared the unit price of electricity to the relevant Government-prescribed Price of Xianyang City, Shaanxi Province and noted that both prices are similar. We also noted that the price level of electricity remained stable in the past year. Since the Company does not own an electricity transformer substation to obtain electricity from the State Grid and we noted that the management fee charged by IRICO Group is in accordance with a fee schedule provided by Xianyang Electric Power Supply Bureau, we consider that (i) the charging of the management fee of the electricity transformer substation by IRICO Group to the Company which represents its costs and (ii) the overall unit price of electricity after including such management fee which is lower than the unit price of electricity that the Company could otherwise obtain from the State Grid of Xianyang is fair and reasonable.

LETTER FROM OCTAL CAPITAL

On the other hand, as advised by the management of the Group, the unit prices of the Processed Utilities which are processed and supplied by IRICO Group are determined on a costs plus basis. The cost plus basis will be determined based on the cost of processing the Processed Utilities incurred by IRICO Group plus a margin of not more than 5% as agreed between the Company and IRICO Group and the cost will be estimated with reference to the costs of raw materials, labor, taxation, management fee, etc. incurred by IRICO Group. We were advised by the Company that such Processed Utilities are normally processed at in-house facilities of production plants. However, we were advised by the management of the Company that the costs of establishing such in-house facilities would be substantial as compared to directly purchasing such Processed Utilities from IRICO Group which could be delivered through the pipelines built between the two factories as the factories of the Company and the IRICO Group are both located nearby in the same industrial area. We were also advised by the management of the Company that as such Processed Utilities would need to be delivered to the factory once processed and could not be stored up and sold to factories in long distance, we concurred with the view of the Company that it is not practicable for the Company to locate independent suppliers which are situated nearby the Company's factory for the supply of the Processed Utilities. As advised by the Company, IRICO Group will provide a unit price quotation on the Processed Utilities to all group companies of IRICO Group within the same industrial area. The investment operating department of the Company will review the unit prices of the Processed Utilities to check for any material fluctuations as compared with the past transactions. The quotation of each category of the Processed Utilities will then be submitted to the head of such department for approval.

Upon review of the comparable past transactions of the Company with IRICO Group on a sampling basis, we noted that the unit prices for the past transactions were comparable to the unit price quotation of the Processed Utilities in the Review Period. On the other hand, we were advised by the management of the Company that the unit prices of the Processed Utilities are expected to remain relatively stable based on the actual level recorded in the year ended 31 December 2015.

Furthermore, we noted that the expected volume of usage for each type of utilities for the Review Period remains stable and is determined with reference to the volume of usage for the year ended 31 December 2015.

LETTER FROM OCTAL CAPITAL

Having regard to (i) prices of relevant products will be fairly and reasonably determined; (ii) the terms and conditions should be no less favorable than those offered by/to independent third parties to/by the Group; (iii) the steady and stable supply of quality utilities from the IRICO Group; and (iv) the relevant proposed annual caps for the Review Period are generally determined with the estimated historical amount of the subject transactions in the year ended 31 December 2015 after consideration of the effect from the operation of Hefei Factory, we concur with the Directors that the relevant proposed annual caps are fair and reasonable

2. *Proposed annual caps of the New Continuing Connected Transactions*

(a) *Proposed annual caps under the Utility Purchase Agreement*

Set out below are the proposed annual caps for the sum to be paid by the Company to Xianyang IRICO under the Utility Purchase Agreement for each of the three financial years ending 31 December 2018.

	For the financial years ending 31 December		
	2016	2017	2018
	Proposed	Proposed	Proposed
	Annual Cap	Annual Cap	Annual Cap
	(RMB'000)	(RMB'000)	(RMB'000)
Maximum fees payable by the Company to Xianyang IRICO under the Utility Purchase Agreement	74,424	79,857	83,864

(i) Pricing basis of the Utility Purchase Agreement

According to the Utility Purchase Agreement, the prices for the purchase of electricity shall be determined based on arm's length negotiations between the relevant parties with reference to (i) the Government-prescribed Price and (ii) reduction from the government incentives offered by Anhui Provincial government to Xianyang IRICO. After taking into account of the incentive offered by Anhui Provincial government to Xianyang IRICO for the building and operation of the electricity transformer substation for the development of the new industrial area in Hefei, the overall unit price of electricity supplied by Xianyang IRICO to the Company is lower than the Government-prescribed Price. The Government-prescribed Price means the prices of electricity in Anhui Province as prescribed on the website of State Grid Corporation of China as updated and amended from time to time.

LETTER FROM OCTAL CAPITAL

- (ii) Basis of determining the proposed annual caps under the Utility Purchase Agreement

We have obtained and reviewed the details of the component of the proposed annual caps under the Utility Purchase Agreement and noted that the Company shall procure electricity from Xianyang IRICO for the operation of the furnace used in the solar photovoltaic glass production in the Hefei Factory. As set out in the Letter from the Board, the proposed annual caps for the sum to be paid under the Utility Purchase Agreement have been determined primarily based on the following factors: (i) the Company's estimate of its business growth in respect of the Hefei Factory for the Review Period, in particular the expansion of solar photovoltaic glass business of the Company of the Company by igniting the Hefei Factory, which operates six new production lines for the production of solar photovoltaic glass with an average total production volume of 750 tons per day; (ii) the Hefei Factory, one of the largest whole-oxygen furnace for solar photovoltaic glass production in the PRC as at the Latest Practicable Date, were ignited smoothly in March 2015 and are currently in the stable process of trial production and expected to achieve the designed capacity with an average total production volume of 750 tons per day in April 2016, which calls for a stable and steady demand for utilities (including electricity) from Xianyang IRICO; and (iii) the Company's current estimation of the stable government-prescribed prices of electricity.

In assessing the fairness and reasonableness of the proposed annual caps for the sum to be paid under the Utility Purchase Agreement, we have discussed with the management of the Group the bases and assumptions underlying the projections of such proposed annual caps. In respect of the proposed annual caps of RMB74,424,000, RMB79,856,950 and RMB83,863,740 to be sought for the purchase of utilities (for instance, electricity) by the Company from Xianyang IRICO for each of the three financial years during the Review Period, we have obtained from the Company a production plan of the Hefei Factory which laid out the expected production amount in the Review Period. As discussed with the management of the Group, we understand that Xianyang IRICO is the only supplier of electricity to Hefei Factory due to the close proximity between the Hefei Factory and the electricity transformer substation of Xianyang IRICO in Hefei. We also understand from the Company that the level of the proposed annual caps for the Review Period were determined after taking into consideration the expected demand of the utilities with reference to production plan and the electricity usage of the furnace in the Company's production plant in Xianyang. We have compared the proposed usage of electricity with the electricity requirement of production plant of the Company in Xianyang with

LETTER FROM OCTAL CAPITAL

furnace of similar scale and noted that they are comparable. We also noted that the proposed price of electricity used in the proposed annual caps is determined based on the Government-prescribed Price in Anhui Province while the price of electricity is assumed to be stable for the Review Period. We have reviewed the electricity price issued by the Anhui Provincial Government as prescribed on the website of State Grid Corporation of China and noted that the proposed price for the Review Period is close to the recent government prescribed price in Anhui Province and such price had remained stable over the past year. In addition, as advised by the Company, since Xianyang IRICO receives incentive from the Anhui Provincial government for the building and operation of the electricity transformer substation for the development of the new industrial area in Hefei, the unit cost of electricity supplied by Xianyang IRICO to the Company is lower than the Government-prescribed Price in order to attract manufacturers to set up factories in such new industrial area. Therefore, we are of the view that the unit price of electricity, which is determined with reference to the Government-prescribed Price and (ii) reduction from the government incentives, is fair and reasonable.

Further, we were advised by the Company that the Company will review its procurement volume on a regular basis and it may modify the procurement volume according to the production conditions during the Review Period.

Having regard to (i) prices of relevant products will be fairly and reasonably determined; (ii) the terms and conditions should be no less favorable than those offered by/to independent third parties to/by the Group; and (iii) the bases and assumptions on which the proposed annual caps for the transactions under the Utility Purchase Agreement were determined as described above after consideration of the effect from the operation of Hefei Factory, we consider that the Utility Purchase Agreement is beneficial to the Company and the entering into of the Utility Purchase Agreement and its terms are in the interest of the Company and its shareholders as a whole and the proposed annual caps for the transactions under the Utility Purchase Agreement are fair and reasonable.

LETTER FROM OCTAL CAPITAL

(b) *Proposed annual caps under the Utility and Product Sales Agreement*

Set out below are the proposed annual caps for the sum to be paid by the Company to Xianyang IRICO Group under the Utility and Product Sales Agreement for each of the three financial years ending 31 December 2018:

	For the financial years ended 31 December		
	2016	2017	2018
	Proposed	Proposed	Proposed
	Annual Cap	Annual Cap	Annual Cap
	(RMB'000)	(RMB'000)	(RMB'000)
Maximum fees payable to the Company by Xianyang IRICO under the Utility and Product Sales Agreement	14,016	14,016	154,016

(i) *Pricing basis of the Utility and Product Sales Agreement*

According to the Utility and Product Sales Agreement, the price for the sale of oxygen shall be determined based on arm's length negotiations between the relevant parties with reference to the actual costs, which primarily include the actual average cost per cubic metre the Company pays for the procurement of oxygen from the independent supplier and a monthly fixed fee charged by such independent supplier, while the price for the sale of ITO targets shall be determined in accordance with the prevailing market price.

LETTER FROM OCTAL CAPITAL

- (ii) Basis of determining the proposed annual cap under the Utility and Product Sales Agreement

We have obtained and reviewed the details of the proposed annual cap under the Utility and Product Sales Agreement and noted that the Company agreed to sell (i) oxygen and (ii) ITO targets to Xianyang IRICO for the Review Period as illustrated below.

	For the financial years ending 31 December		
	2016	2017	2018
	Proposed	Proposed	Proposed
	Annual Cap	Annual Cap	Annual Cap
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Oxygen	14,016	14,016	14,016
ITO targets	-	-	140,000
Maximum fees receivable by the Company from Xianyang IRICO under the Utility and Product Purchase Agreement	<u>14,016</u>	<u>14,016</u>	<u>154,016</u>

As set out in the Letter from the Board, the proposed annual caps for the sum to be paid under the Utility and Product Sales Agreement have been determined primarily based on the following factors: (i) the estimated stable demand of utilities from Xianyang IRICO for the Review Period; (ii) the Company's current estimation of the stable prices of oxygen for the Review Period given that the price of oxygen has remained stable in recent years and the price of oxygen is determined based on the contract with the independent supplier; (iii) the volume of oxygen to be sold is expected to remain stable, which represents the excess volume of oxygen out of the minimum purchase volume by the Company from the independent supplier; and (iv) the estimated demand from Xianyang IRICO to purchase large amount of ITO targets from the Company upon commencement of mass production of a major project of Xianyang IRICO, namely the CEC Xianyang 8.6 Version TFT-LCD (thin film transistor liquid crystal display) Production Line for the year ending 31 December 2018.

In assessing the fairness and reasonableness of the proposed annual caps for the sum to be paid under the Utility and Product Sales Agreement, we have discussed with the management of the Group the bases and assumptions underlying the projections of such proposed annual caps.

LETTER FROM OCTAL CAPITAL

In respect of the proposed annual caps of RMB14,016,000, RMB14,016,000 and RMB154,016,000 to be sought for the sale of oxygen and ITO targets by the Company to Xianyang IRICO for each of the three financial years during the Review Period, we have obtained from the Company a production schedule from Xianyang IRICO in respect of its demand for the oxygen and ITO targets. In respect of the sale of oxygen, we understand from the Company that the oxygen is procured by Xianyang IRICO for the operation of the furnace for the glass production. The oxygen was procured from independent supplier by the Company in bulk purchase used for the operation of the furnace for glass production in the Hefei Factory and a minimum purchase volume was required by the independent supplier. However, since the minimum purchase volume of the oxygen exceeds the required usage of oxygen by the Hefei Factory, the excess volume of oxygen is sold to Xianyang IRICO due to the close proximity of the factories. Since the required usage of oxygen by the Hefei Factory for operating the furnace at its full capacity is relatively stable for the Review Period, the volume of oxygen to be sold under the proposed annual caps for the Review Period is expected to be remained stable, which represents the excess volume of oxygen out of the minimum purchase volume by the Company from the independent supplier. Upon reviewing the documents regarding the volume of oxygen procured by the Company from the independent supplier and compared it the actual usage of oxygen by the Hefei Factory, we considered that it is reasonable for the Company to assume that the volume of oxygen to be supplied to Xianyang IRICO to remain stable for the Review Period.

In respect of the sale of ITO targets of which the Company will commence production in year 2018, the amount of the proposed annual cap for the Review Period was determined after taking into consideration the expected volume of usage of ITO targets and the scale of operation of the 8.6 Version TFT-LCD Production Line of Xianyang IRICO upon commencement of its operation for the year ending 31 December 2018.

On the other hand, according to the detailed schedule of the proposed annual caps, we noted that the unit price of oxygen is determined based on the purchase costs from the independent supplier without any mark-up which comprises a monthly fixed fee according to the contract with the independent supplier and the usage fee according to the volume of usage on top of the monthly fixed fee. We have reviewed the contract from the independent supplier and calculated the unit price according to the minimum purchase volume of oxygen to Xianyang IRICO for the Review Period and it agreed with the expected unit price in the proposed annual caps.

LETTER FROM OCTAL CAPITAL

As advised by the management of the Company, since the Company is required to procure the oxygen from the independent supplier with a minimum volume and there will be excess volume of oxygen according to the Company's consumption level of oxygen at the Company's furnace, we concur with view of the Company that the sale of the oxygen to Xianyang IRICO is economically beneficial because (i) this can avoid any wastage of the procured oxygen and (ii) the factory of Xianyang IRICO is located nearby the Hefei Factory in the same industrial area in Hefei. In addition, the independent supplier is required to install certain equipment, operating system and pipelines at the Hefei Factory in order to supply the oxygen to the Hefei Factory in the form of a continuous flow. Therefore, any excess oxygen supplied can only be transmitted to nearby factory to the Hefei Factory. Further, as the Hefei Factory is located in a new industrial area in Hefei, factories run by independent third party are limited and it is not practicable for the Company to build up pipelines to factories at long distance. Therefore, it is a more viable solution for the Company to sell the excess oxygen to Xianyang IRICO which is located nearby the Hefei Factory and pipelines can be built without substantial costs between the two factories in order to avoid any wastage of the oxygen.

Therefore, although the unit price of oxygen is set at the purchase costs without any mark-up, it is more economically beneficial to the Company as it can recover the procurement costs of oxygen by selling it to Xianyang IRICO which is located nearby and it does not need to incur any substantial costs of locating other suitable buyers in the new industrial area and building pipelines to reach their factories, we are of the view that the unit price is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

The unit price of ITO targets is determined based on the prevailing market price in the PRC. We have performed a research on the recent market price of ITO target and upon comparison, we noted that the market price of the ITO targets is comparable to the proposed unit price applied in the proposed annual caps.

LETTER FROM OCTAL CAPITAL

Having regard to (i) prices of relevant products will be fairly and reasonably determined; (ii) the terms and conditions should be no less favorable than those offered by/to independent third parties to/by the Group; and (iii) the bases and assumptions on which the proposed annual caps for the transactions under the Utility and Product Sales Agreement were determined as described above after consideration of the effect from the commencement of the CEC Xianyang 8.6 Version TFT-LCD (thin film transistor liquid crystal display) Production Line in the year ending 31 December 2018, we consider that the Utility and Product Sales Agreement is beneficial to the Company and the entering into of the Utility and Product Sales Agreement and its terms are in the interest of the Company and its shareholders as a whole and the proposed annual caps for the transactions under the Utility and Product Sales Agreement are fair and reasonable.

(c) *Proposed annual caps under the NEIIC Master Purchase Agreement*

Set out below are the proposed annual caps for the sum to be paid by the Company to NEIIC under the NEIIC Master Purchase Agreement for each of the three financial years ending 31 December 2018.

	For the financial years ending 31 December		
	2016	2017	2018
	Proposed	Proposed	Proposed
	Annual Cap	Annual Cap	Annual Cap
	(RMB'000)	(RMB'000)	(RMB'000)
Maximum fees payable by the Company to NEIIC under the NEIIC Master Purchase Agreement	26,400	30,254	33,290

(i) *Pricing basis of the NEIIC Master Purchase Agreement*

According to the NEIIC Master Purchase Agreement, the prices for the purchase of products (including quartz sand) necessary for the production of solar photovoltaic glass by the Company shall be determined in accordance with the relevant market price.

LETTER FROM OCTAL CAPITAL

- (ii) Basis of determining the proposed annual caps under the NEIIC Master Purchase Agreement

We have obtained and reviewed the details of the component of the proposed annual caps under the NEIIC Master Purchase Agreement and noted that the Company shall procure quartz sand from NEIIC for the production of solar photovoltaic glass in the Hefei Factory. As set out in the Letter from the Board, the proposed annual caps for the sum to be paid under the NEIIC Master Purchase Agreement have been determined primarily based on the following factors: (i) the estimated stable and steady increase in demand for products necessary for the production of solar photovoltaic glass, namely the quartz sand, from the Company during the Review Period; and (ii) the Company's current estimation of the stable market prices of the relevant products during the Review Period after taking into consideration of the nature of the products to be purchased by the Company under the NEIIC Master Purchase Agreement, which are mainly low value-added raw materials with limited technical contents such as quartz sand, and the market equilibrium of supply and demand of such products during recent years.

In assessing the fairness and reasonableness of the proposed annual caps for the sum to be paid under the NEIIC Master Purchase Agreement, we have discussed with the management of the Company the bases and assumptions underlying the projections of such proposed annual caps. In respect of the proposed annual caps of RMB26,400,000, RMB30,254,400 and RMB33,290,400 to be sought for the purchase of quartz sand by the Company from NEIIC for each of the three financial years during the Review Period, we have obtained from the Company a procurement plan of quartz sand for the Review Period. We understand from the management of the Company that since the Hefei Factory is only expected to commence operation in 2016, the determination of the procurement volume of quartz sand for the Hefei Factory is made with reference to the actual volume of usage of quartz sand of the Company's solar photovoltaic factory in Xianyang with similar scale. We have reviewed the actual procurement volume of quartz sand of the Company's factory in Xianyang and compared it against the procurement plan for the Hefei Factory and we concur with the Company on the assumption and computation for the procurement volume of quartz sand. Since the Hefei Factory will only commence operation in 2016, we understand that management has been conservative in estimating the procurement volume for the first year of operation and the Company expected that the procurement volume will increase gradually in the following two years ending 31 December 2018 when the operation of the Hefei Factory becomes more mature. Based on the procurement plan provided by the Company, we also noted that the

LETTER FROM OCTAL CAPITAL

Company plans to procure in the range of 40% to 60% of the quartz sand required under the procurement plan from NEIIC for the Review Period. As advised by the Company, due to the quality of the quartz sand supplied by NEIIC, the Company expected to increase the volume to be procured from NEIIC progressively for the years ending 31 December 2016 to 31 December 2018.

The price of the quartz sand is determined with reference to an auction price provided by an independent bidder in 2015. As mentioned earlier in our analysis of the proposed annual caps for the IRICO Master Purchase Agreement, we noted that the Company selected the supplier for the procurement of raw materials by way of open tender. When the investment operating department of the Company initiates a procurement request on the quartz sand, invitation for the tender would be made to at least three bidders. Upon receipt of all bidding proposals from the bidders by the end of the tender period, the investment operating department of the Company would review and assess the bidding proposals based on a grading mechanism with regards to the criteria such as price, qualification and reputation of the bidders. After reviewing the relevant documents throughout the bidding process, we consider that the selection process of the supplier is fairly structured and free from discretion on the bidders. We have compared the unit price of the quartz sand used in the proposed annual caps and noted that the unit price of quartz sand is comparable to unit price provided by the other bidders, who are independent third parties to the Company.

Having regard to (i) prices of relevant products will be fairly and reasonably determined; (ii) the terms and conditions should be no less favorable than those offered by/to independent third parties to/by the Group; and (iii) the bases and assumptions on which the proposed annual caps for the transactions under the NEIIC Master Purchase Agreement were determined as described above after consideration of the procurement plan of quartz sand of the Company, we consider that the NEIIC Master Purchase Agreement is beneficial to the Company and the entering into of the NEIIC Master Purchase Agreement and its terms are in the interest of the Company and its shareholders as a whole and the proposed annual caps for the transactions under the NEIIC Master Purchase Agreement are fair and reasonable.

LETTER FROM OCTAL CAPITAL

3. *The conditions*

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

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

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

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

LETTER FROM OCTAL CAPITAL

RECOMMENDATION

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

Yours faithfully,

For and on behalf of

Octal Capital Limited

Alan Fung

Louis Chan

Managing Director

Director

Note: Mr. Alan Fung has been a responsible officer of Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities since 2003. Mr. Fung has more than 22 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions in respect of connected transactions 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 15 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions in respect of connected transactions of listed companies in Hong Kong.

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS

(a) Interests and Short Positions of Directors, Supervisors, Chief Executive and Senior Management

As at the Latest Practicable Date, the interests and short positions of the Directors, Supervisors and chief executive of the Company and their respective associates in the shares, underlying shares and debentures (as the case may be) of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were: (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; and (c) 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 were as follows:

Name of Directors	Class of shares	Number of shares held	Capacity	Approximate	Approximate
				percentage of H shares	percentage of total share capital
Si Yuncong	H shares	672,000 (L)	Beneficial owner	0.11% (L)	0.03% (L)
Zou Changfu	H shares	674,000 (L)	Beneficial owner	0.11% (L)	0.03% (L)

Save as disclosed above, 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.

Mr. Si Yuncong and Mr. Huang Mingyan act as the Directors of the Company. Mr. Si Yuncong concurrently acts as the general manager of IRICO Group and Mr. Huang Mingyan concurrently acts as the deputy general manager of IRICO Group. Mr. Zhu Yiming acts as the Supervisor and the chairman of the supervisory committee of the Company, and he concurrently acts as the director, the executive deputy general manager and the chief accountant 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 INTERESTS

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

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

As at the Latest Practicable Date, none of the Directors or Supervisors had any interest in any assets which have been, since 31 December 2014 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

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

5. CONSENT AND QUALIFICATION OF EXPERT

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

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

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

6. SERVICE CONTRACTS

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

7. MATERIAL ADVERSE CHANGE

As disclosed in the interim report of the Company dated 22 September 2015, the Group recorded a loss for the six months ended 30 June 2015.

Saved as disclosed above, as the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2014, the date to which the latest published audited consolidated financial statements of the Group were made up.

8. DOCUMENTS FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the Company's principal place of business in Hong Kong at 6/F, Nexxus Building, No. 41 Connaught Road, Central, Hong Kong for a period of 14 days (excluding Saturdays and public holidays) from the date of this circular:

- (a) the IRICO Group Master Purchase Agreement;
- (b) the Utility Purchase Agreement;
- (c) the Utility and Product Sales Agreement; and
- (d) the NEIIC Master Purchase Agreement.