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

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IRICO

彩虹集團新能源股份有限公司

IRICO GROUP NEW ENERGY COMPANY LIMITED*

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

(Stock Code: 0438)

- (1) PROPOSED ISSUE OF NEW H SHARES UNDER SPECIFIC MANDATE;
(2) CONNECTED TRANSACTION RELATING TO PROPOSED SUBSCRIPTION
OF NEW H SHARES BY A CONNECTED PERSON; AND
(3) PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION**

Financial Adviser

China Securities (International) Corporate Finance Company Limited



中信建投國際
China Securities International

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 25 of this circular. A letter from the Independent Board Committee is set out on pages 26 to 27 of this circular. A letter from Octal Capital, the independent financial adviser, containing its advice and recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 28 to 50 of this circular.

The EGM will be held at the conference room of the Company at No. 1 Caihong Road, Xianyang, Shaanxi Province, the PRC at 9:00 a.m. on Wednesday, 23 January 2019. The H Share Class Meeting will be held at the conference room of the Company at No. 1 Caihong Road, Xianyang, Shaanxi Province, the PRC at 10:00 a.m. on Wednesday, 23 January 2019 (or after the conclusion or adjournment of the EGM). Please refer to the notice of the EGM and the notice of the H Share Class Meeting dated 6 December 2018 published on the Stock Exchange's website and the Company's website.

31 December 2018

* For identification purpose only

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DEFINITIONS

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

“Articles of Association”	the articles of association of the Company
“associate”	has the meaning as defined under the Listing Rules
“Board”	the board of Directors of the Company
“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 73.15% of the issued share capital of the Company through IRICO Group and its subsidiary, Rui Bou Electronics, as at the Latest Practicable Date
“Company”	IRICO Group New Energy Company Limited* (彩虹集團新能源股份有限公司), a joint stock limited Company incorporated in the PRC, the H Shares of which are listed on the Stock Exchange
“connected person(s)”	has the meaning as defined under the Listing Rules
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會)
“Directors”	the directors of the Company
“Domestic Share(s)”	ordinary domestic share(s) of nominal value of RMB1.00 each in the share capital of the Company, which are subscribed for in RMB

DEFINITIONS

“EGM”	the extraordinary general meeting of the Company to be convened and held on Wednesday, 23 January 2019 to consider and, if appropriate, to approve (i) the grant of a specific mandate in relation to the Proposed H Share Issue; (ii) the Proposed Subscription by Zhongdian IRICO; and (iii) the proposed amendments to the Articles of Association
“H Share Class Meeting”	the class meeting of the holders of H Shares to be convened and held on Wednesday, 23 January 2019 to consider and, if appropriate, to approve (i) the grant of a specific mandate in relation to the Proposed H Share Issue; and (ii) the proposed amendments to the Articles of Association
“H Share(s)”	overseas listed foreign invested shares of nominal value of RMB1.00 each in the share capital of the Company, which are subscribed for and traded in HK\$
“Hefei Xincheng”	Hefei Xincheng State-owned Assets Management Co., Ltd.* (合肥鑫城國有資產經營有限公司), a wholly state-owned company with limited liability incorporated in the PRC and a third party independent of the Company and its connected persons as at the Latest Practicable Date
“HK\$”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“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 has been formed to advise the Independent Shareholders in respect of the Proposed Subscription by Zhongdian IRICO
“Independent Shareholders”	the Shareholders of the Company, other than CEC and its associates (including IRICO Group and its subsidiary, Rui Bou Electronics) who will abstain from voting on the resolutions with respect to (i) the Proposed H Share Issue; and (ii) the Proposed Subscription by Zhongdian IRICO

DEFINITIONS

“IRICO Group”	IRICO Group Company Limited* (彩虹集團有限公司), formerly known as IRICO Group Corporation* (彩虹集團公司), a wholly state-owned enterprise and the controlling Shareholder, directly and indirectly holding approximately 73.15% of the issued share capital of the Company as at the Latest Practicable Date
“Latest Practicable Date”	20 December 2018, 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
“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 Proposed Subscription by Zhongdian IRICO
“PRC”	the People’s Republic of China, and for the purpose of this circular, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Proposed H Share Issue”	the proposed non-public issuance and placing of not more than 2.3 billion new H Shares under a specific mandate by the Company to not more than 10 target subscribers (including Zhongdian IRICO, Zhangjiagang Investment, Yan’an Dingyuan and Hefei Xincheng), and the gross proceeds to be raised shall not exceed RMB2.3 billion
“Proposed Subscription by Hefei Xincheng”	the proposed subscription of not more than 200 million new H Shares by Hefei Xincheng at a consideration of RMB200 million as part of the Proposed H Share Issue pursuant to the Subscription Agreement with Hefei Xincheng
“Proposed Subscription by Yan’an Dingyuan”	the proposed subscription of not more than 300 million new H Shares by Yan’an Dingyuan at a consideration of RMB300 million as part of the Proposed H Share Issue pursuant to the Subscription Agreement with Yan’an Dingyuan

DEFINITIONS

“Proposed Subscription by Zhangjiagang Investment”	the proposed subscription of not more than 500 million new H Shares by Zhangjiagang Investment at a consideration of RMB500 million as part of the Proposed H Share Issue pursuant to the Subscription Agreement with Zhangjiagang Investment
“Proposed Subscription by Zhongdian IRICO”	the proposed subscription of not more than 900 million new H Shares by Zhongdian IRICO at a consideration of RMB900 million as part of the Proposed H Share Issue pursuant to the Subscription Agreement with Zhongdian IRICO
“RMB”	Renminbi, the lawful currency of the PRC
“Rui Bou Electronics”	Rui Bou Electronics (HK) Limited (瑞博電子(香港)有限公司), a private company limited by shares incorporated in Hong Kong and a wholly-owned subsidiary of IRICO Group as at the Latest Practicable Date
“SASAC”	State-owned Assets Supervision and Administration Commission of the State Council of the PRC (中華人民共和國國務院國有資產監督管理委員會)
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholder(s)”	holder(s) of the Domestic Shares and the H Shares
“Share(s)”	share(s) of nominal value of RMB1.00 each in the share capital of the Company, including the Domestic Shares and the H Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Agreements”	the Subscription Agreement with Zhongdian IRICO, the Subscription Agreement with Zhangjiagang Investment, the Subscription Agreement with Yan’an Dingyuan and the Subscription Agreement with Hefei Xincheng

DEFINITIONS

“Subscription Agreement with Hefei Xincheng”	the conditional share subscription agreement dated 18 April 2018 entered into between the Company and Hefei Xincheng in relation to the Proposed Subscription by Hefei Xincheng
“Subscription Agreement with Yan’an Dingyuan”	the conditional share subscription agreement dated 24 July 2017 entered into between the Company and Yan’an Dingyuan in relation to the Proposed Subscription by Yan’an Dingyuan
“Subscription Agreement with Zhangjiagang Investment”	the conditional share subscription agreement dated 16 October 2017 entered into between the Company and Zhangjiagang Investment in relation to the Proposed Subscription by Zhangjiagang Investment
“Subscription Agreement with Zhongdian IRICO”	the conditional share subscription agreement dated 24 July 2017 entered into between the Company and Zhongdian IRICO in relation to the Proposed Subscription by Zhongdian IRICO
“Supervisor(s)”	the supervisor(s) of the Company
“Yan’an Dingyuan”	Yan’an Dingyuan Investment Co., Ltd.* (延安市鼎源投資有限責任公司), a state-controlled enterprise incorporated in the PRC and a third party independent of the Company and its connected persons as at the Latest Practicable Date
“Zhangjiagang Investment”	Zhangjiagang Yuefeng Jinchuang Investment Co., Ltd.* (張家港市悅豐金創投資有限公司), an investment company incorporated in the PRC with limited liability and a third party independent of the Company and its connected persons as at the Latest Practicable Date
“Zhongdian IRICO”	Xianyang Zhongdian IRICO Group Holdings Ltd.* (咸陽中電彩虹集團控股有限公司), which is directly held as to 72.08% by CEC and 27.92% 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 purpose only.*

LETTER FROM THE BOARD



IRICO

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

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

(Stock Code: 0438)

Directors:

Executive Directors

Si Yuncong (*Chairman*)

Zou Changfu

Non-executive Directors

Fan Laiying

Chen Xiaoning

Independent non-executive Directors

Feng Bing

Wang Jialu

Wang Zhicheng

Legal address and head office in the PRC:

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Xianyang, Shaanxi Province

The People's Republic of China

Postal code: 712021

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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

31 December 2018

To the Shareholders,

Dear Sir or Madam,

- (1) PROPOSED ISSUE OF NEW H SHARES UNDER SPECIFIC MANDATE;
(2) CONNECTED TRANSACTION RELATING TO PROPOSED SUBSCRIPTION
OF NEW H SHARES BY A CONNECTED PERSON; AND
(3) PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION**

LETTER FROM THE BOARD

I. INTRODUCTION

Reference is made to: (i) the announcement of the Company dated 24 July 2017 in relation to the Proposed H Share issue, the Proposed Subscription by Zhongdian IRICO and the Proposed Subscription by Yan'an Dingyuan; (ii) the announcement of the Company dated 16 October 2017 in relation to the Proposed Subscription by Zhangjiagang Investment; (iii) the announcement of the Company dated 1 February 2018 in relation to the adjustments to the Proposed H Share Issue; (iv) the announcement of the Company dated 18 April 2018 in relation to the Proposed Subscription by Hefei Xincheng; (v) the announcement of the Company dated 10 September 2018 in relation to further delay in despatch of circular; (vi) the announcement of the Company dated 10 December 2018 in relation to the receipt of approval from SASAC in respect of the Proposed H Share Issue; and (vii) the notice of the EGM and the notice of the H Share Class Meeting dated 6 December 2018 which set out the time and venue of the EGM and the H Share Class Meeting and contain the resolutions to be proposed at the EGM and the H Share Class Meeting for the consideration and approval of the Shareholders, the Independent Shareholders or the holders of H Shares (as the case may be).

The main purpose of this circular is, among other things, to provide the Shareholders with:

- (i) details of the Proposed H Shares Issue (including the Proposed Subscription by Zhongdian IRICO);
- (ii) the opinion and recommendation of the Independent Board Committee on the Proposed Subscription by Zhongdian IRICO; and
- (iii) a letter of advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders containing its opinion and recommendation on the Proposed Subscription by Zhongdian IRICO.

II. PROPOSED H SHARE ISSUE AND PROPOSED SUBSCRIPTION BY ZHONGDIAN IRICO, ZHANGJIAGANG INVESTMENT, YAN'AN DINGYUAN AND HEFEI XINCHENG

1. Background

The Board is pleased to announce that the Board approved the Proposed H Share Issue (including the Proposed Subscription by each of Zhongdian IRICO, Zhangjiagang Investment, Yan'an Dingyuan and Hefei Xincheng) under a specific mandate, pursuant to which the Company shall issue not more than 2.3 billion new H Shares to not more than 10 target subscribers (including Zhongdian IRICO, Zhangjiagang Investment, Yan'an Dingyuan and Hefei Xincheng) and therefore the aggregate nominal value of the H Shares to be issued shall not exceed RMB2.3 billion. The gross proceeds to be raised from the Proposed H Share Issue shall not exceed RMB2.3 billion.

LETTER FROM THE BOARD

As part of the Proposed H Share Issue, the Company entered into the Subscription Agreements with each of Zhongdian IRICO and Yan'an Dingyuan on 24 July 2017, with Zhangjiagang Investment on 16 October 2017 and with Hefei Xincheng on 18 April 2018. Pursuant to these Subscription Agreements, each of Zhongdian IRICO, Zhangjiagang Investment, Yan'an Dingyuan and Hefei Xincheng has conditionally agreed to subscribe in cash for, and the Company has conditionally agreed to allot and issue, not more than 900 million, 500 million, 300 million and 200 million new H Shares at a consideration of RMB900 million, RMB500 million, RMB300 million and RMB200 million, respectively. Each of these Subscription Agreements is not inter-conditional with each other, and each of Zhongdian IRICO, Zhangjiagang Investment, Yan'an Dingyuan and Hefei Xincheng will subscribe for the new H Shares proposed to be issued in its own name or in other manners in compliance with laws and regulations.

As at the Latest Practicable Date, apart from the aforesaid Subscription Agreements, the Company has not entered into any placing agreement, share subscription agreement or fixed any terms with any parties in connection with the Proposed H Share Issue. Further announcement(s) in relation to the Proposed H Share Issue will be made by the Company as and when appropriate.

The major terms of the Proposed H Share Issue (including the Proposed Subscription by Zhongdian IRICO) and the Subscription Agreements are set out as follows.

2. Proposed H Share Issue

(i) Class and nominal value of Shares to be issued

The Shares to be issued under the Proposed H Share Issue are H Shares with a nominal value of RMB1.00 per H Share.

Except as otherwise required by the applicable laws and regulations of the PRC and the Articles of Association, the new H Shares to be issued shall rank pari passu with all the issued Domestic Shares and H Shares.

(ii) Method and time of issue

All new H Shares under the Proposed H Share Issue will be offered to target subscribers by way of non-public issuance.

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The Company shall implement the Proposed H Share Issue at an appropriate time within the validity period as approved at the EGM and the H Share Class Meeting. The Proposed H Share Issue is subject to, among other things, the approval by the CSRC and the granting of the listing approval by the Stock Exchange. The specific time of issue shall be determined by the Board as authorized by the EGM and the H Share Class Meeting, taking into account the overseas capital market conditions and the approval progress of both domestic and overseas authorities and regulatory departments.

(iii) Size of issue

Upon grant of the specific mandate, the Company will issue not more than 2.3 billion new H Shares.

As at the Latest Practicable Date, the existing total issued share capital of the Company is 2,232,349,400 Shares, of which 630,881,400 H Shares and 1,601,468,000 Domestic Shares are issued.

Assuming that the number of new H Shares issuable under the Proposed H Share Issue (i.e., 2.3 billion new H Shares) are fully issued and subscribed, the number of new H Shares to be issued will represent: (i) approximately 364.57% of the existing issued H Shares and approximately 103.03% of the existing total issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 78.47% of the enlarged issued H Shares and approximately 50.75% of the enlarged total issued share capital of the Company immediately upon completion of the Proposed H Share Issue.

Pursuant to the Subscription Agreements, each of Zhongdian IRICO, Zhangjiagang Investment, Yan'an Dingyuan and Hefei Xincheng has conditionally agreed to subscribe in cash for, and the Company has conditionally agreed to allot and issue, not more than 900 million, 500 million, 300 million and 200 million new H Shares at a consideration of RMB900 million, RMB500 million, RMB300 million and RMB200 million, respectively.

(iv) Target subscribers

Upon grant of the specific mandate, the Company will proceed to place the new H Shares to not more than 10 specific investors (including Zhongdian IRICO, Zhangjiagang Investment, Yan'an Dingyuan and Hefei Xincheng).

LETTER FROM THE BOARD

Save for Zhongdian IRICO, Zhangjiagang Investment, Yan'an Dingyuan and Hefei Xincheng, the other investors will be qualified institutional investors, enterprise investors and professional investors. It is intended that the target subscribers (other than Zhongdian IRICO) and their respective ultimate beneficial owners will be third parties independent of the Company and connected persons of the Company. If any of the target subscribers is or will become a connected person of the Company, the Company will take all reasonable steps to comply with the relevant requirements under Chapter 14A of the Listing Rules.

(v) ***Subscription price and pricing principle***

The subscription price shall be determined with reference to the market price of H Shares, the capital market conditions at the time of issue and the valuation of comparable companies, taking into account the interest of Shareholders, appetite of investors and risks of issue, and in accordance with international practices and regulatory requirements.

The subscription price shall not be lower than 90% of the average closing price of H Shares as quoted on the Stock Exchange for the five consecutive trading days immediately preceding the price determination date (i.e., the date of signing of the relevant placing agreement). In any event, the issue price shall not be less than the latest audited net asset value per Share before the Proposed H Share Issue and the nominal value of RMB1.00 per H Share. The audited net asset value per Share as at 31 December 2017 is RMB0.12 per Share. For illustrative purposes only, the minimum issue price of new H Shares (i.e., RMB1.00 per H Share) represents a premium of approximately 96% to the closing price of H Shares as quoted on the Stock Exchange on the Latest Practicable Date (i.e., HK\$0.58, equivalent to approximately RMB0.51). The exchange rate adopted for the above figures is HK\$1.00 = RMB0.88. No representation is made that any amount in HK\$ or RMB is or could have been or could be converted at such rate or at any other rate or at all.

The net price to the Company of each new H Share to be issued under the Proposed H Share Issue will be determined and disclosed upon completion of the Proposed H Share Issue and the determination of the relevant expenses incurred or to be incurred in relation to the Proposed H Share Issue in accordance with the requirements of the Listing Rules.

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(vi) Method of subscription

The new H Shares shall be subscribed by investors in cash. The subscribers (including Zhongdian IRICO, Zhangjiagang Investment, Yan'an Dingyuan and Hefei Xincheng) shall pay the subscription price to the Company in accordance with the terms and conditions of the placing agreement to be entered into between the Company and the placing agent(s).

(vii) Arrangement relating to the accumulated undistributed profits prior to the Proposed H Share Issue

Upon completion of the Proposed H Share Issue, holders of the new H Shares, together with all existing Shareholders will be entitled to all undistributed profits of the Company prior to the completion of the Proposed H Share Issue.

(viii) Validity period of the resolution

The resolution in relation to the Proposed H Share Issue will be valid for 12 months from the date of passing of the resolution at the EGM and the H Share Class Meeting, unless being revoked or varied by special resolution(s) of the Shareholders in general and class meeting.

In the event that the Board has decided to implement the Proposed H Share Issue during the validity period of the resolution, and that the Company has obtained the permission(s) and approval(s) for the issue and completed the filing or registration procedures (if applicable) with the regulatory departments during the validity period of the resolution, the Company may complete the Proposed H Share Issue during the validity period as confirmed in such permission(s), approval(s), filing(s) or registration(s).

(ix) Authorization of amendments to the Articles of Association

It will be proposed at the EGM and the H Share Class Meeting that the Board shall, in accordance with the framework and principles of the Proposed H Share Issue, and taking into account the final terms of the Proposed H Share Issue, amend the Articles of Association during the validity period of the resolution, and deal with the industry and commerce registration procedures in relation to the relevant changes and other matters in relation to the implementation of resolutions of the EGM and the H Share Class Meeting and the Board.

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(x) *Other authorizations in relation to the Proposed H Share Issue*

It will be proposed at the EGM and the H Share Class Meeting that the Board shall, in accordance with the framework and principles of the Proposed H Share Issue, deal with matters pertaining to the Proposed H Share Issue at their sole discretion during the validity period of the resolution, including but not limited to:

- (a) signing and submitting applications, reports and other documents relating to the Proposed H Share Issue to the domestic and overseas regulatory departments or authorities, and dealing with the examination, registration, filing, checking and approval formalities;
- (b) determining the specific plan for the Proposed H Share Issue, including the size of issue, issue price (including price range and final price), time of issue, method of issue and target subscribers of issue; signing, executing, amending or terminating any agreements, contracts or other documents relating to the Proposed H Share Issue; making adjustments to the use of proceeds and other related matters;
- (c) negotiating and signing the share subscription agreements with the subscribers, or negotiating and signing the placing agreement with the placing agent(s), and approving any amendment made to the share subscription agreements or placing agreement;
- (d) dealing with the matters relating to the approvals of the Proposed H Share Issue from the CSRC, the Stock Exchange and/or other domestic and overseas authorities and regulatory departments;
- (e) recruiting and engaging the placing agent(s), domestic and overseas legal advisers and other related intermediaries for the Proposed H Share Issue, and signing the recruitment or engagement agreements or other related legal documents;
- (f) making appropriate amendments to the terms of the Proposed H Share Issue plan according to the actual situations of the Proposed H Share Issue and the approval documents of regulatory departments;
- (g) signing, executing, amending, completing all documents relating to the Proposed H Share Issue, and conducting all acts and matters as appropriate or advisable relating to the Proposed H Share Issue;

LETTER FROM THE BOARD

- (h) approving the publication of announcements, circulars and notices relating to the Proposed H Share Issue on the websites of the Stock Exchange and the Company, and submitting the relevant forms, documents or other information to the Stock Exchange;
- (i) obtaining the approval from the Stock Exchange for the listing of, and permission to deal in, the new H Shares on the Main Board of the Stock Exchange; and
- (j) amending Article 22 of the Articles of Association in accordance with the actual results of the Proposed H Share Issue, which relates to the total number of registered capital, the total share capital and the number of classes of shares of the Company.

(xi) Use of proceeds

The amount of gross proceeds to be raised from the Proposed H Share Issue is expected to be not more than RMB2.3 billion. Assuming that the Company raises RMB2.3 billion in full, it intends to apply the gross proceeds for the following purposes:

- (i) approximately RMB500 million, representing approximately 21.7% of the gross proceeds, will be used in Yan'an Photovoltaic Glass Project. The Company proposes to invest in construction of a furnace and ancillary production lines for solar photovoltaic glass with a daily melting capacity of 800–850t/d in Baota District, Yan'an City. The annual production capacity of photovoltaic glass is expected to be 26 million square meters and the total investment amount of this project is approximately RMB750 million;
- (ii) approximately RMB500 million, representing approximately 21.7% of the gross proceeds, will be used in Hefei Photovoltaic Glass Project (Phase II). IRICO (Hefei) Photovoltaic Co., Ltd.* (彩虹(合肥)光伏有限公司), a subsidiary of the Company, proposes to invest in construction of an oxygen-fuel combustion glass furnace with a daily melting capacity of 800–850t/d in Xinzhan District, Hefei City. The annual production capacity of tempered and coated photovoltaic glass is expected to be 24.84 million square meters and the total investment amount of this project is approximately RMB750 million;

LETTER FROM THE BOARD

- (iii) approximately RMB500 million, representing approximately 21.7% of the gross proceeds, will be used in Xianyang Photovoltaic Glass Relocation and Technical Innovation Project. The small-scaled 250 tons furnaces of Xiangyang Photovoltaic are energy intensive and costly in labour cost, and three furnaces have successively come to the end of their designed life. In order to fully utilize the existing stock assets and the cost advantage of local quartz sand supply, the Company plans to relocate and newly build a photovoltaic glass furnace in Xianyang with a production volume of 800–850t/d, and equip with five photovoltaic glass sheet production lines and tempering and coating production lines of appropriate scales; after being put into production, the annual production capacity of the finished photovoltaic glass is expected to annually produce 25 million square meters and the total investment amount of this project is approximately RMB830 million;
- (iv) approximately RMB500 million, representing approximately 21.7% of the gross proceeds, will be used in IRICO Yongneng 2GW Photovoltaic Modules Project. Jiangsu IRICO Yongneng New Energy Company Limited* (江蘇彩虹永能新能源有限公司), a subsidiary of the Company, proposes to invest in the construction of the project in Zhangjiagang Economic Development Zone, purchase 200 sets of full-automatic production equipment and photovoltaic modules instruments and equip with the relevant power auxiliary facilities. Upon completion of this project, the annual production capacity of photovoltaic module products is expected to be 2GW and the total investment amount of this project is approximately RMB1.75 billion; and
- (v) approximately RMB300 million, representing approximately 13.0% of the gross proceeds, after deducting the issuance expenses, will be used to supplement the working capital of the Company.

If the actual amount of the proceeds raised from the Proposed H Share Issue (after deducting the issuance expenses) is insufficient to satisfy the proposed utilization to the projects as set out above, the shortfall shall be made up by bank loans, internal funds or other methods by the Company. Under the circumstance that the availability of proceeds from the Proposed H Share Issue is inconsistent with implementation schedule of the projects, the Company may first fund the projects by other capital according to actual situations, which shall be exchanged with the proceeds when they become available in compliance with requirements and procedures as prescribed by relevant laws and regulations.

LETTER FROM THE BOARD

(xii) Conditions of the Proposed H Share Issue

The Proposed H Share Issue is subject to satisfaction of the following conditions, including but not limited to:

- (a) the proposed issue of new H Shares under a specific mandate having been approved at the EGM and the H Share Class Meeting, and the authorizations having been granted to the Board;
- (b) the competent authorities and regulatory departments, such as the CSRC and SASAC, having approved the Proposed H Share Issue pursuant to the specific mandate;
- (c) the share subscription agreements (including the Subscription Agreements with each of Zhongdian IRICO, Zhangjiagang Investment, Yan'an Dingyuan and Hefei Xincheng) having been entered into between the Company and the investors or the placing agreement having been entered into between the Company and the placing agent(s), all conditions precedent under such share subscription agreements or placing agreement having been satisfied, and such share subscription agreements or placing agreement not having been terminated according to their terms; and
- (d) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, all of the new H Shares to be issued and placed pursuant to the Proposed H Share Issue.

Neither the Company nor the subscribers (including Zhongdian IRICO, Zhangjiagang Investment, Yan'an Dingyuan and Hefei Xincheng) have the right to waive any of the conditions set out in sub-paragraphs (a) to (d) above. As at the Latest Practicable Date, the conditions set out in sub-paragraphs (b) and (c) have been partially fulfilled (i.e., the SASAC has approved the Proposed H Share Issue pursuant to the specific mandate; and the Subscription Agreements have already been entered into between the Company and Zhongdian IRICO, Zhangjiagang Investment, Yan'an Dingyuan and Hefei Xincheng, respectively), while the conditions set out in sub-paragraphs (a) and (d) above and the remaining conditions set out in sub-paragraphs (b) and (c) above have not been satisfied.

LETTER FROM THE BOARD

(xiii) Specific mandate to issue new H Shares

The Company will convene the EGM and the H Share Class Meeting to consider and, if appropriate, to approve, among others, the Proposed H Share Issue (including the Proposed Subscription by Zhongdian IRICO) under a specific mandate.

As at the date of the Board meeting, certain Directors, namely, Mr. Si Yuncong and Mr. Huang Mingyan, by virtue of their respective existing senior positions in IRICO Group or Zhongdian IRICO, may be considered as having a material interest in the Proposed H Share Issue. As such, they have abstained from voting on the Board resolution in respect of the Proposed H Share Issue. Save as stated above, none of the other Directors have a material interest in the Proposed H Share Issue and hence no other Director has abstained from voting on such resolution.

The Directors (including the independent non-executive Directors) are of the view that the terms of the Proposed H Share Issue (including the subscription price) are on normal commercial terms and are fair and reasonable taking into consideration the prevailing market conditions and are in the interests of the Company and its Shareholders as a whole.

3. Proposed Subscription by Zhongdian IRICO

(i) New H Shares to be subscribed by Zhongdian IRICO

As part of the Proposed H Share Issue, the Company entered into the Subscription Agreement with Zhongdian IRICO in relation to the Proposed Subscription by Zhongdian IRICO on 24 July 2017. Pursuant to such agreement, Zhongdian IRICO has conditionally agreed to subscribe in cash for and the Company has conditionally agreed to allot and issue not more than 900 million new H Shares at a consideration of RMB900 million.

Immediately upon completion of the Proposed Subscription by Zhongdian IRICO, assuming that the number of new H Shares issuable under the Proposed H Share Issue is 2.3 billion H Shares and the number of new H Shares subscribed by Zhongdian IRICO is 900 million H Shares, CEC will hold in aggregate 2,533,014,000 Shares consisting of 1,601,468,000 Domestic Shares through IRICO Group, 31,546,000 H Shares through Rui Bou Electronics and 900 million new H Shares through Zhongdian IRICO, representing approximately 55.89% of the enlarged total issued share capital of the Company.

LETTER FROM THE BOARD

The actual number of new H Shares to be allotted and issued by the Company to Zhongdian IRICO pursuant to the Subscription Agreement with Zhongdian IRICO shall be equivalent to the consideration to be paid by Zhongdian IRICO (i.e., RMB900 million) divided by the subscription price (round up to the nearest integral number of new H Shares). Even if the Company reduces the size of issue as a result of under-subscription by other investors (other than Zhongdian IRICO), Zhongdian IRICO will still subscribe for the new H Shares to be allotted by the Company at a consideration of RMB900 million, provided that the Company complies with the public float requirements under Rule 8.08 of the Listing Rules. The Proposed Subscription by Zhongdian IRICO is not conditional on subscription by other investors.

(ii) Subscription price and pricing principle

The subscription price of the new H Shares to be issued to Zhongdian IRICO under the Subscription Agreement with Zhongdian IRICO shall be the same as that of the new H Shares to be issued to the other target subscribers, subject to the same pricing principle as set out under the paragraph headed “(v) Subscription price and pricing principle” under the section headed “Proposed H Share Issue” in this circular.

(iii) Conditions precedent

The Proposed Subscription by Zhongdian IRICO is subject to satisfaction of the following conditions, including but not limited to:

- (a) the proposed issue of new H Shares under a specific mandate having been approved at the EGM and the H Share Class Meeting, and the authorizations having been granted to the Board;
- (b) the Proposed Subscription by Zhongdian IRICO having been approved at the EGM by the Independent Shareholders (including but not limited to the consideration and approval of the Subscription Agreement with Zhongdian IRICO and all connected transactions contemplated thereunder), and the authorizations having been granted to the Board;
- (c) the competent authorities and regulatory departments, such as the CSRC and SASAC, having approved the Proposed H Share Issue pursuant to the specific mandate; and
- (d) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, all of the new H Shares to be issued and placed pursuant to the Proposed H Share Issue.

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Neither the Company nor Zhongdian IRICO has the right to waive any of the conditions set out in sub-paragraphs (a) to (d) above. As at the Latest Practicable Date, the condition set out in sub-paragraph (c) has been partially fulfilled (i.e., the SASAC has approved the Proposed H Share Issue pursuant to the specific mandate), while the conditions set out in sub-paragraphs (a), (b) and (d) above and the remaining conditions set out in sub-paragraph (c) above have not been satisfied.

(iv) Implications under the Listing Rules

As at the Latest Practicable Date, Zhongdian IRICO, which is directly held as to 72.08% by CEC (the ultimate controlling Shareholder), is an associate of CEC and thus a connected person of the Company. Therefore, the Proposed Subscription by Zhongdian IRICO constitutes a connected transaction of the Company and is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As at the date of the Board meeting, certain Directors, namely, Mr. Si Yuncong and Mr. Huang Mingyan, by virtue of their respective existing senior positions in IRICO Group or Zhongdian IRICO, may be considered as having a material interest in the Proposed Subscription by Zhongdian IRICO. As such, they have abstained from voting on the Board resolution in respect of the Proposed Subscription by Zhongdian IRICO. Save as stated above, none of the other Directors has a material interest in the Proposed Subscription by Zhongdian IRICO and hence no other Director has abstained from voting on such resolution.

The terms of the Proposed Subscription by Zhongdian IRICO were determined after arm's length negotiations between the Company and Zhongdian IRICO. The Directors (including the independent non-executive Directors, whose opinion has been formed after taking into account the advice provided by the independent financial adviser) are of the view that the terms of the Proposed Subscription by Zhongdian IRICO (including the subscription price) are on normal commercial terms, are fair and reasonable taking into consideration the prevailing market conditions and are in the interests of the Company and its Shareholders as a whole, but it is not conducted in the ordinary or usual course of business of the Company due to the nature of such transaction.

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4. Proposed Subscription by Zhangjiagang Investment

(i) New H Shares to be subscribed by Zhangjiagang Investment

As part of the Proposed H Share Issue, the Company entered into the Subscription Agreement with Zhangjiagang Investment in relation to the Proposed Subscription by Zhangjiagang Investment on 16 October 2017. Pursuant to such agreement, Zhangjiagang Investment has conditionally agreed to subscribe in cash for and the Company has conditionally agreed to allot and issue not more than 500 million new H Shares at a consideration of RMB500 million.

The actual number of new H Shares to be allotted and issued by the Company to Zhangjiagang Investment pursuant to the Subscription Agreement with Zhangjiagang Investment shall be equivalent to the consideration to be paid by Zhangjiagang Investment (i.e., RMB500 million) divided by the subscription price (round up to the nearest integral number of new H Shares). Even if the Company reduces the size of issue as a result of under-subscription by other investors (other than Zhangjiagang Investment), Zhangjiagang Investment will still subscribe for the new H Shares to be allotted by the Company at a consideration of RMB500 million, provided that the Company complies with the public float requirements under Rule 8.08 of the Listing Rules. The Proposed Subscription by Zhangjiagang Investment is not conditional on subscription by other investors.

(ii) Subscription price and pricing principle

The subscription price of the new H Shares to be issued to Zhangjiagang Investment under the Subscription Agreement with Zhangjiagang Investment shall be the same as that of the new H Shares to be issued to the other target subscribers, subject to the same pricing principle as set out under the paragraph headed “(v) Subscription price and pricing principle” under the section headed “Proposed H Share Issue” in this circular.

(iii) Conditions precedent

The Proposed Subscription by Zhangjiagang Investment is subject to satisfaction of the following conditions, including but not limited to:

- (a) the proposed issue of new H Shares under a specific mandate having been approved at the EGM and the H Share Class Meeting, and the authorizations having been granted to the Board;

LETTER FROM THE BOARD

- (b) the competent authorities and regulatory departments, such as the CSRC and SASAC, having approved the Proposed H Share Issue pursuant to the specific mandate; and
- (c) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, all of the new H Shares to be issued and placed pursuant to the Proposed H Share Issue.

Neither the Company nor Zhangjiagang Investment has the right to waive any of the conditions set out in sub-paragraphs (a) to (c) above. As at the Latest Practicable Date, the condition set out in sub-paragraph (b) has been partially fulfilled (i.e., the SASAC has approved the Proposed H Share Issue pursuant to the specific mandate), while the conditions set out in sub-paragraphs (a) and (c) above and the remaining conditions set out in sub-paragraph (b) above have not been satisfied.

5. Proposed Subscription by Yan'an Dingyuan

(i) New H Shares to be subscribed by Yan'an Dingyuan

As part of the Proposed H Share Issue, the Company entered into the Subscription Agreement with Yan'an Dingyuan in relation to the Proposed Subscription by Yan'an Dingyuan on 24 July 2017. Pursuant to such agreement, Yan'an Dingyuan has conditionally agreed to subscribe in cash for and the Company has conditionally agreed to allot and issue not more than 300 million new H Shares at a consideration of RMB300 million.

The actual number of new H Shares to be allotted and issued by the Company to Yan'an Dingyuan pursuant to the Subscription Agreement with Yan'an Dingyuan shall be equivalent to the consideration to be paid by Yan'an Dingyuan (i.e., RMB300 million) divided by the subscription price (round up to the nearest integral number of new H Shares). Even if the Company reduces the size of issue as a result of under-subscription by other investors (other than Yan'an Dingyuan), Yan'an Dingyuan will still subscribe for the new H Shares to be allotted by the Company at a consideration of RMB300 million. The Proposed Subscription by Yan'an Dingyuan is not conditional on subscription by other investors.

LETTER FROM THE BOARD

(ii) Subscription price and pricing principle

The subscription price of the new H Shares to be issued to Yan'an Dingyuan under the Subscription Agreement with Yan'an Dingyuan shall be the same as that of the new H Shares to be issued to the other target subscribers, subject to the same pricing principle as set out under the paragraph headed "(v) Subscription price and pricing principle" under the section headed "Proposed H Share Issue" in this circular.

(iii) Conditions precedent

The Proposed Subscription by Yan'an Dingyuan is subject to satisfaction of the following conditions, including but not limited to:

- (a) the proposed issue of new H Shares under a specific mandate having been approved at the EGM and the H Share Class Meeting, and the authorizations having been granted to the Board;
- (b) the competent authorities and regulatory departments, such as the CSRC and SASAC, having approved the Proposed H Share Issue pursuant to the specific mandate; and
- (c) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, all of the new H Shares to be issued and placed pursuant to the Proposed H Share Issue.

Neither the Company nor Yan'an Dingyuan has the right to waive any of the conditions set out in sub-paragraphs (a) to (c) above. As at the Latest Practicable Date, the condition set out in sub-paragraph (b) has been partially fulfilled (i.e., the SASAC has approved the Proposed H Share Issue pursuant to the specific mandate), while the conditions set out in sub-paragraphs (a) and (c) above and the remaining conditions set out in sub-paragraph (b) above have not been satisfied.

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6. Proposed Subscription by Hefei Xincheng

(i) New H Shares to be subscribed by Hefei Xincheng

As part of the Proposed H Share Issue, the Company entered into the Subscription Agreement with Hefei Xincheng in relation to the Proposed Subscription by Hefei Xincheng on 18 April 2018. Pursuant to such agreement, Hefei Xincheng has conditionally agreed to subscribe in cash for and the Company has conditionally agreed to allot and issue not more than 200 million new H Shares at a consideration of RMB200 million.

The actual number of new H Shares to be allotted and issued by the Company to Hefei Xincheng pursuant to the Subscription Agreement with Hefei Xincheng shall be equivalent to the consideration to be paid by Hefei Xincheng (i.e., RMB200 million) divided by the subscription price (round up to the nearest integral number of new H Shares). Even if the Company reduces the size of issue as a result of under-subscription by other investors (other than Hefei Xincheng), Hefei Xincheng will still subscribe for the new H Shares to be allotted by the Company at a consideration of RMB200 million. The Proposed Subscription by Hefei Xincheng is not conditional on subscription by other investors.

(ii) Subscription price and pricing principle

The subscription price of the new H Shares to be issued to Hefei Xincheng under the Subscription Agreement with Hefei Xincheng shall be the same as that of the new H Shares to be issued to the other target subscribers, subject to the same pricing principle as set out under the paragraph headed “(v) Subscription price and pricing principle” under the section headed “Proposed H Share Issue” in this circular.

(iii) Conditions precedent

The Proposed Subscription by Hefei Xincheng is subject to satisfaction of the following conditions, including but not limited to:

- (a) the proposed issue of new H Shares under a specific mandate having been approved at the EGM and the H Share Class Meeting, and the authorizations having been granted to the Board;
- (b) the competent authorities and regulatory departments, such as the CSRC and SASAC, having approved the Proposed H Share Issue pursuant to the specific mandate; and

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- (c) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, all of the new H Shares to be issued and placed pursuant to the Proposed H Share Issue.

Neither the Company nor Hefei Xincheng has the right to waive any of the conditions (a) to (c) above. As at the Latest Practicable Date, the condition set out in sub-paragraph (b) has been partially fulfilled (i.e., the SASAC has approved the Proposed H Share Issue pursuant to the specific mandate), while the conditions set out in sub-paragraphs (a) and (c) above and the remaining conditions set out in sub-paragraph (b) above have not been satisfied.

7. Possible Changes in Share Capital and Shareholding Structure

For reference and illustrative purposes only, assuming that: (i) the specific mandate is granted by the Shareholders at the forthcoming EGM and the H Share Class Meeting; (ii) the Board exercises in full the specific mandate to issue new H Shares; (iii) all conditions for the issue and placing of new H Shares have been satisfied; (iv) each of Zhongdian IRICO, Zhangjiagang Investment, Yan'an Dingyuan and Hefei Xincheng subscribes for 900 million, 500 million, 300 million and 200 million new H Shares; and (v) other investors subscribe for 400 million new H Shares, respectively, the possible changes in the share capital and shareholding structure of the Company will be as follows:

	As at the Latest Practicable Date		Immediately after the full exercise of the specific mandate	
	Number of Shares	Percentage of total issued share capital	Number of Shares	Percentage of total issued share capital
Domestic Shares				
IRICO Group	1,601,468,000	71.74%	1,601,468,000	35.33%
H Shares				
H Shares in issue	630,881,400	28.26%	630,881,400	13.92%
– Rui Bou Electronics ⁽¹⁾	31,546,000	1.41%	31,546,000	0.70%
– Existing public Shareholders	599,335,400	26.85%	599,335,400	13.22%

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	As at the Latest Practicable Date		Immediately after the full exercise of the specific mandate	
	Number of Shares	Percentage of total issued share capital	Number of Shares	Percentage of total issued share capital
New H Shares to be issued	–	–	2,300,000,000	50.75%
– Zhongdian IRICO ⁽²⁾	–	–	900,000,000	19.86%
– Zhangjiagang Investment ⁽³⁾	–	–	500,000,000	11.03%
– Yan’an Dingyuan ⁽⁴⁾	–	–	300,000,000	6.62%
– Hefei Xincheng ⁽⁵⁾	–	–	200,000,000	4.41%
– Other investors under the Proposed H Share Issue ⁽⁶⁾	–	–	400,000,000	8.83%
Total	2,232,349,400	100%	4,532,349,400	100%

Notes:

- (1) Rui Bou Electronics is a wholly-owned subsidiary of IRICO Group as at the Latest Practicable Date, and thus the shares held by it are not regarded as being in public hands;
- (2) Zhongdian IRICO is directly held as to 72.08% by CEC and 27.92% by IRICO Group as at the Latest Practicable Date, and thus the shares held by it will not be regarded as being in public hands;
- (3) Zhangjiagang Investment will be regarded as a core connected person of the Company directly holding approximately 11.03% of the enlarged total issued share capital of the Company immediately after the full exercise of the specific mandate, and thus the shares held by it will not be regarded as being in public hands;
- (4) Yan’an Dingyuan and its ultimate beneficial owners are and will be third parties independent of the Company and its connected persons as at the Latest Practicable Date and immediately after the full exercise of the specific mandate, and thus the shares held by it will be regarded as being in public hands;
- (5) Hefei Xincheng and its ultimate beneficial owners are and will be third parties independent of the Company and its connected persons as at the Latest Practicable Date and immediately after the full exercise of the specific mandate, and thus the shares held by it will be regarded as being in public hands;
- (6) it is intended that any of the other target subscribers and their respective ultimate beneficial owners are and will be third parties independent of the Company and its connected persons, and thus the shares held by them will be regarded as being in public hands; and
- (7) any discrepancies in this table between totals and sums of amounts listed herein are due to rounding.

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Under the circumstance of under-subscription for the new H Shares proposed to be issued by Yan'an Dingyuan, Hefei Xincheng or other investors, where may lead to the situation that the percentage of H Shares in public hands becomes less than the required minimum, each of the Company, Zhongdian IRICO and Zhangjiagang Investment provides that the number of new H Shares to be allotted and issued to Zhongdian IRICO or Zhangjiagang Investment (as the case may require) will be reduced through arm's length negotiation in order to maintain the public float as required under Rule 8.08 of the Listing Rules (i.e., at least 25% of the Company's total number of issued shares must at all times be held by the public).

Upon completion of the Proposed H Share Issue, CEC and IRICO Group will remain as the controlling Shareholder of the Company, and the Proposed H Share Issue will not result in a change in control of the Company.

8. Possible Application for Listing

Should the Board, upon obtaining the specific mandate, proceed to exercise the specific mandate to issue new H Shares, the Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, all of the new H Shares to be issued and placed pursuant to the Proposed H Share Issue.

9. 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, an upstream material for photovoltaic glass.

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

Zhangjiagang Investment is principally engaged in equity investment, investment management and investment consultation. The ultimate beneficial owners of Zhangjiagang Investment are Collective Assets Management Commission of Yangshe Town, Zhangjiagang City* (張家港市楊舍鎮集體資產管理委員會) and Administration Commission of Zhangjiagang Economic and Technological Development Zone* (張家港經濟技術開發區管理委員會), who hold 75% and 25% equity interest in Zhangjiagang Investment, respectively.

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Yan'an Dingyuan is principally engaged in financing services and loans in uniform arrangement for small and medium enterprises; external investment; investment management and consultation; and finance consultation. The ultimate beneficial owners of Yan'an Dingyuan are State-Owned Assets Supervision and Administration Commission of the People's Government of Yan'an City* (延安市人民政府國有資產監督管理委員會) and CDB Development Fund Co., Ltd.* (國開發基金有限公司), who hold 80.22% and 19.78% equity interest in Yan'an Dingyuan, respectively.

Hefei Xincheng is a wholly state-owned company with limited liability incorporated in the PRC and is principally engaged in the investment, operation and management of state-owned assets and project investment management; the investment, financing, construction, operation and management of urban infrastructure and public municipal facilities; the construction, investment, operation and management of park infrastructure; the development of state-owned land; the investment in property development projects; parking lot services; housing leases and storage services (except hazardous articles). The ultimate beneficial owner of Hefei Xincheng is the State-owned Assets Management Bureau of Hefei Xinzhan High-tech Industrial Development Zone* (合肥新站高新技術產業開發區國有資產管理局), who holds 100% equity interest in Hefei Xincheng.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, Zhangjiagang Investment, Yan'an Dingyuan, Hefei Xincheng and their respective ultimate beneficial owners are third parties independent of the Company and its connected persons.

10. Reasons for and Benefits of the Proposed H Share Issue

Apart from the Proposed H Share Issue to specific investors for financing, the Company also considered the fund-raising methods such as issue of convertible corporate bonds and rights issue. Given that (i) as the Company is currently suffering from the high gearing ratio, the issuance of convertible corporate bonds will further heighten the gearing ratio of the Company, thus jeopardizing the improvement of asset structure of the Company; (ii) the Company, being a joint stock Company incorporated in the People's Republic of China with limited liability, shall not issue new shares at the par value of each share lower than RMB1 pursuant to relevant laws, and the issuance of new H shares at the price far higher than the value of net asset per share by the Company to substantial Shareholders and external investors is beneficial for the increase in net asset per share of the Company and enables the existing public investors to enjoy the benefits resulting from increase in net asset per share without any capital injection. On the contrary, in case of fund raising from solely the existing Shareholders by way of share offer, financing results will not be as fruitful as the foregoing; (iii) as there are heavy capital demands in the projects which the proceeds are about to be invested in, it is expected that financing by way of issuance of convertible corporate bonds or share offer may result in a failure in fulfilment of such capital demands, the Company did not adopt such financing methods. In addition, the Company also sought to carry out

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financing lease, factoring of accounts receivable, supply chain financing, industry funds and other financing channels to acquire the funds required, and communicate with industry funds, financial institutions, etc. However, due to the high financing costs and cumbersome approval procedures, such methods cannot effectively improve the Company's asset-liability structure. Therefore, the Company did not adopt such methods for financing.

The Board believes that the Proposed H Share Issue offers a good opportunity to raise capital for the Group's Yan'an Photovoltaic Glass Project, Hefei Photovoltaic Glass Project (Phase II), Xianyang Photovoltaic Glass Relocation and Technical Innovation Project and IRICO Yongneng 2GW Photovoltaic Modules Project. The gross proceeds from the Proposed H Share Issue will be mainly used for project construction and replenishing working capital. The proceeds, upon being received, will increase the net assets value per Share of the Company and lower the gearing ratio. The gearing ratio of the Company will decrease from 91.1% as at 30 June 2018 to approximately 62.7% (assuming the gross proceeds being approximately RMB2.3 billion). Upon being put into production, the projects will help the Company expand its business, thus further enhancing the profitability of the Company and improving the financing environment.

Currently, all of the businesses of the Company are in normal operation being financed by its own funds and the borrowings. Upon completion of the Proposed H Share Issue, such borrowings will be replaced by the proceeds from the Proposed H Share Issue, thus lowering the financing costs and optimizing the asset structure of the Company. The Board also believes that the delay in completion of the Proposed H Share Issue does not have any material adverse impact on the Company's development plan and the proceeds from the Proposed H Share Issue would satisfy the Company's expected funding needs for the next 12 months.

In March 2016, the Company's name was changed from IRICO GROUP ELECTRONICS COMPANY LIMITED* (彩虹集團電子股份有限公司) into IRICO GROUP NEW ENERGY COMPANY LIMITED* (彩虹集團新能源股份有限公司). The Company has realised transformation from the traditional colour picture tubes industry to solar photovoltaic glass, solar photovoltaic power station, new materials and other new industries. The gross proceeds from the Proposed H Share Issue will be used for photovoltaic glass and photovoltaic modules projects and can facilitate the development of new energy businesses of the Company in a better way, which is in line with the aforesaid development strategies for business transformation.

In addition, the Board believes that the Proposed Subscription by Zhongdian IRICO is beneficial for the Company to optimize its shareholding structure and asset structure.

11. Fund Raising Activities in the Past 12 Months

The Company has not conducted any fund raising activities involving the issue of equity securities in the 12 months immediately prior to the Latest Practicable Date.

LETTER FROM THE BOARD

III. PROPOSED AMENDMENTS OF THE ARTICLES OF ASSOCIATION

As a result of the issue of new H Shares pursuant to the Proposed H Share Issue, the shareholding structure of the Company will change upon completion of the Proposed H Share Issue and as such, the Articles of Association will need to be amended to reflect the relevant changes. A resolution will be proposed at the EGM and the H Share Class Meeting to approve the granting of an authorization to the Board to arrange for the necessary amendments to Article 22 of the Articles of Association after completion of the Proposed H Share Issue. The exact amendments to the Articles of Association cannot be confirmed unless and until the Proposed H Share Issue has been completed. Details of the amendments to the Articles of the Association is set out as follows.

Adding the new Clause 4 of Article 22 as:

“Approved by the 2019 Extraordinary General Meeting, the Company has completed the non-public issuance of [•] shares of overseas-listed foreign investment shares, the registered capital being changed into RMB[•], the total number of shares being changed into [•] shares, of which 1,601,468,000 shares are domestic investment shares, accounting for [•]%, and [•] shares are foreign investment shares, accounting for [•].”

IV. EGM AND H SHARE CLASS MEETING

The Proposed H Share Issue under a specific mandate shall be considered as a variation of rights of the holders of Domestic Shares and H Shares under the Articles of Association. As such, pursuant to the Articles of Association and Rule 19A.38 of the Listing Rules, the Proposed H Share Issue is required to be approved by way of a special resolution at a general meeting and separate class meetings of the holders of Domestic Shares and H Shares. Given that Zhongdian IRICO, an associate of IRICO Group, will be a subscriber for the Proposed H Share Issue, IRICO Group directly holding 1,601,468,000 Domestic Shares and indirectly holding 31,546,000 H Shares through Rui Bou Electronics, representing 100% of the existing issued Domestic Shares and approximately 73.15% of the issued share capital of the Company as at the Latest Practicable Date, may be considered as having a material interest in the Proposed H Share Issue. As such, IRICO Group and its subsidiary, Rui Bou Electronics, will be required to abstain from voting at the EGM and the class meeting of the holders of Domestic Shares (if convened) on the resolutions in relation to the Proposed H Share Issue. Accordingly, the Board will not convene a class meeting of the holders of Domestic Shares to consider and approve the Proposed H Share Issue. The resolutions in relation to the Proposed H Share Issue will only be put forward at the EGM and the H Share Class Meeting, respectively, for the consideration and approval of the Shareholders or the holders of H Shares (as the case may be).

The resolution in relation to the Proposed Subscription by Zhongdian IRICO will be put forward by way of a special resolution at the EGM for the consideration and approval of the Independent Shareholders.

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CEC and its associates, including IRICO Group and its subsidiary, Rui Bou Electronics, which directly hold 1,601,468,000 Domestic Shares and 31,546,000 H Shares, representing an aggregate of approximately 73.15% of the issued share capital of the Company as at the Latest Practicable Date, will be required to abstain from voting at the EGM on the resolutions in relation to the Proposed Subscription by Zhongdian IRICO.

The Independent Board Committee has been formed in accordance with the Listing Rules to advise the Independent Shareholders on the Proposed Subscription by Zhongdian IRICO. In this connection, Octal Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Proposed Subscription by Zhongdian IRICO.

V. RECOMMENDATIONS

The Directors (including the independent non-executive Directors) are of the view that the terms of the Proposed H Share Issue (including the subscription price) are on normal commercial terms and are fair and reasonable taking into consideration the prevailing market conditions and are in the interests of the Company and its Shareholders as a whole.

The Directors (including the independent non-executive Directors) are of the view that the terms of the Proposed Subscription by Zhongdian IRICO (including the subscription price) are on normal commercial terms, are fair and reasonable taking into consideration the prevailing market conditions and are in the interests of the Company and its Shareholders as a whole, but it is not conducted in the ordinary or usual course of business of the Company due to the nature of such transaction.

Accordingly, the Directors recommend the Shareholders or the Independent Shareholders (as the case may be) to vote in favour of all the resolutions to be proposed at each of the EGM and H Share Class Meeting.

LETTER FROM THE BOARD

VI. ADDITIONAL INFORMATION

Your attention is drawn to the letter from the Independent Board Committee set out on pages 26 to 27 of this circular containing the recommendation of the Independent Board Committee to the Independent Shareholders concerning the Proposed Subscription by Zhongdian IRICO. The advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders, on the fairness and reasonableness of the terms of the Proposed Subscription by Zhongdian IRICO is set out on pages 28 to 50 of this circular.

Your attention is also drawn to the 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*



IRICO

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

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

(Stock Code: 0438)

Legal address and the head office in the PRC:

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

Principal place of business in Hong Kong:

Unit 1908, 19th Floor
9 Queen's Road Central
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

31 December 2018

**CONNECTED TRANSACTION RELATING TO PROPOSED SUBSCRIPTION
OF NEW H SHARES BY A CONNECTED PERSON**

To the Independent Shareholders

Dear Sir or Madam,

We refer to the circular of the Company dated 31 December 2018 (the “**Circular**”), of which this letter forms a part. Terms defined therein shall have the same meanings when used in this letter unless the context otherwise requires.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

We have been appointed by the Board as the Independent Board Committee to advise you as to whether in our opinion, the terms of the Proposed Subscription by Zhongdian IRICO are fair and reasonable so far as the Independent Shareholders are concerned, the Proposed Subscription by Zhongdian IRICO 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 Proposed Subscription by Zhongdian IRICO. 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 28 to 50 of the Circular.

We wish to draw your attention to the letter from the Board set out on pages 1 to 25 of the Circular. Having considered the information contained in the letter from the Board, the interests of the Independent Shareholders and the advice and recommendations given by Octal Capital, we consider that the terms of the Proposed Subscription by Zhongdian IRICO are fair and reasonable and on normal commercial terms, and are in the interests of the Company and the Shareholders as a whole, but it is not conducted in the ordinary or usual course of business of the Company due to the nature of such transaction.

Accordingly, we recommend that the Independent Shareholders vote in favour of the resolution regarding the Proposed Subscription by Zhongdian IRICO 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 letter of advice from Octal Capital Limited to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Proposed Subscription of New H Shares by a Connected Person prepared for the purpose of inclusion in this circular.



Octal Capital Limited
801–805, 8th Floor, Nan Fung Tower
88 Connaught Road Central
Hong Kong

31 December 2018

To the Independent Board Committee and the Independent Shareholders

Dear Sirs/ Madams,

CONNECTED TRANSACTION – PROPOSED SUBSCRIPTION OF NEW H SHARES BY A CONNECTED PERSON

INTRODUCTION

We refer to our engagement to advise the Independent Board Committee and the Independent Shareholders in respect of the Proposed Subscription by Zhongdian IRICO and terms of the Subscription Agreement with Zhongdian IRICO, particulars of which are set out in the letter from the Board (the “**Letter from the Board**”) of the circular to the Shareholders dated 31 December 2018 (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 defined in the Circular.

On 24 July 2017, the Company entered into the Subscription Agreement with Zhongdian IRICO and Subscription Agreement with Yan’an Dingyuan on 24 July 2017. Pursuant to these subscription agreements, each of Zhongdian IRICO and Yan’an Dingyuan has conditionally agreed to subscribe in cash for, and the Company has conditionally agreed to allot and issue, not more than 900 million and 300 million new H Shares at a consideration of RMB900.0 million and RMB300.0 million, respectively.

On 16 October 2017, the Company entered into the Subscription Agreement with Zhangjiagang Investment, pursuant to which Zhangjiagang Investment has conditionally agreed to subscribe in cash for, and the Company has conditionally agreed to allot and issue, not more than 500 million new H Shares at a consideration of RMB500.0 million.

LETTER FROM OCTAL CAPITAL

As set out in the Letter from the Board, on 1 February 2018, the Board approved the resolution regarding the adjustments to the Proposed H Share Issue for the following reasons:

- (i) as the photovoltaic glass market's technology develops and the market expands, the Company, based on the need of strategic development and for the purpose of realizing industry upgrading and enhancing the solar photovoltaic industry chain's vertical integration, takes this opportunity to accelerate the growth of such businesses as photovoltaic glass and photovoltaic modules by way of capital market financing, which in turn will facilitate the sustained and rapid development of the Company;
- (ii) the reporting work in respect of the Proposed H Share Issue has been affected by the original power station projects due to their complex examination and approval procedures; and
- (iii) new investors intend to participate in the Proposed H Share Issue.

On 18 April 2018 (the "**Last Trading Date**"), the Company entered into the Subscription Agreement with Hefei Xincheng, pursuant to which Hefei Xincheng has conditionally agreed to subscribe in cash for, and the Company has conditionally agreed to allot and issue, not more than 200 million new H Shares at a consideration of RMB200.0 million.

Immediately upon completion of the Proposed Subscription by Zhongdian IRICO, assuming that the number of new H Shares issuable under the Proposed H Share Issue is 2,300,000,000 H Shares and Zhongdian IRICO subscribed for 900,000,000 H Shares, CEC will hold in aggregate 2,533,014,000 Shares consisting of (i) 1,601,468,000 Domestic Shares through IRICO Group; (ii) 31,546,000 H Shares through Rui Bou Electronics; and (iii) 900,000,000 H Shares through Zhongdian IRICO, representing approximately in aggregate 55.89% of the enlarged total issued share capital of the Company. The maximum new H Shares to be subscribed by Zhongdian IRICO represent (i) approximately 40.32% of the existing issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 19.86% of the issued share capital of the Company as enlarged by the Proposed H Share Issue. The Proposed H Share Issue will be made under the specific mandate to be sought at the EGM.

As Zhongdian IRICO, which is directly held as to 72.08% by CEC (the ultimate controlling Shareholder), is an associate of CEC and thus a connected person of the Company, the Proposed Subscription by Zhongdian IRICO constitutes a connected transaction for the Company and is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

LETTER FROM OCTAL CAPITAL

Certain Directors, namely, Mr. Si Yuncong and Mr. Huang Mingyan, by virtue of their respective existing senior positions in IRICO Group or Zhongdian IRICO, may be considered as having a material interest in the Proposed Subscription by Zhongdian IRICO. As such, they have abstained from voting on the Board resolution in respect of the Proposed Subscription by Zhongdian IRICO. Save as stated above, none of the other Directors has a material interest in the Proposed Subscription by Zhongdian IRICO and hence no other Director has abstained from voting on such resolution.

We are not connected with the Directors, chief executive and substantial shareholders of the Company or Zhongdian IRICO or IRICO Group or 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 discloseable disposal of 90% equity interest in Kunshan IRICO; (ii) the connected and discloseable disposal of 51% equity interest in Zhuhai Caizhu; and (iii) the continuing connected transactions (for details please refer to the circulars of the Company dated 3 April 2017, 1 June 2018 and 3 December 2018 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 Zhongdian IRICO or IRICO Group or CEC or any of their respective subsidiaries or associates.

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

LETTER FROM OCTAL CAPITAL

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion regarding the terms of the Proposed Subscription by Zhongdian IRICO and giving our independent financial advice to the Independent Board Committee and the Independent Shareholders, we have considered the following principal factors and reasons:

1. Background of and reasons for the Proposed Subscription by Zhongdian IRICO and use of proceeds

The Company is a joint stock company incorporated in the PRC with limited liability, the H Shares of which are listed on the Main Board of the Stock Exchange. The Group 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, an upstream material for photovoltaic glass.

Set out below is a summary of the consolidated financial information of the Company for the two years ended 31 December 2016 and 2017 and the six months ended 30 June 2018 as extracted from the Company's annual results announcement for the year ended 31 December 2017 (the "2017 Annual Results Announcement") and interim results announcement for the six months ended 30 June 2018 (the "2018 Interim Results Announcement"):

	For the six months ended		For the year ended	
	30 June		31 December	
	2018	2017	2017	2016
	unaudited	unaudited	audited	audited
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	1,167,281	1,066,212	2,363,402	1,809,333
Gross profit	198,727	107,992	247,888	210,132
Profit for the year/period attributable to the owners of the Company	202,030	29,644	123,704	105,712
	As at 30 June		As at 31 December	
	2018		2017	
	unaudited		audited	
	<i>RMB'000</i>		<i>RMB'000</i>	
Property, plant and equipment	2,196,765 ^{Note}		1,772,602	1,297,645
Bank balances and cash	327,386		269,400	428,178
Total assets	5,046,829		4,591,123	3,638,622
Total liability	4,595,722		4,323,448	3,486,123
Net assets	451,107		267,675	152,499

LETTER FROM OCTAL CAPITAL

Note: The property, plant and equipment as at 30 June 2018 included fixed assets and construction in progress in the 2018 Interim Results Announcement.

As set out above, we noted that (i) the turnover of the Group was approximately RMB2,363 million for the year ended 31 December 2017, representing a year-on-year growth of approximately 30.6% and (ii) the gross profit of the Group was approximately RMB248 million for the year ended 31 December 2017, representing a year-on-year growth of approximately 17.8%. The improved financial performance was mainly due to the combined effect of the enhancement of proficiency in the Group's operation by controlling production costs, the improvement in the production capacity of photovoltaic glass and the significant decrease in its cost, the consolidation of Jiangsu Yongneng and the increase of government grants. As a result, the Group has recorded a net profit attributable to the owners of the Company of approximately RMB124 million, representing a year-on-year growth of approximately 17.0% when compared to the year 2016. As regards the financial position of the Group, the net assets of the Group increased from approximately RMB153 million as at 31 December 2016 to RMB268 million as at 31 December 2017. Such increase was mainly attributable to an increase in property, plant and equipment related to the solar photovoltaic business of the Company in 2017.

As set out above, we noted that (i) the turnover of the Group was approximately RMB1,167 million for the six months ended 30 June 2018, representing a year-on-year growth of approximately 9.5% and (ii) the gross profit of the Group was approximately RMB199 million for the six months ended 30 June 2018, representing a year-on-year growth of approximately 84.0%. The Group has recorded a net profit attributable to the owners of the Company of approximately RMB202 million, representing a year-on-year growth of approximately 581.5% when compared to the same period in 2017. The improved financial performance was mainly due to the combined effect of the new breakthroughs in the proportion of qualified products and product output, cost reduction resulting from lean production and energy saving and consumption reduction, and the investment gains of RMB144 million from the transfer of 51% equity interests in Zhuhai Caizhu by the Group. As regards the financial position of the Group, the net assets of the Group increased from approximately RMB268 million as at 31 December 2017 to RMB451 million as at 30 June 2018. Such increase was mainly attributable to an increase in long-term equity investments and construction in progress of the Company in the 1st half of 2018.

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As set out in the announcement of the Company dated 6 February 2015, the Group disposed part of the interest in a subsidiary (the “**Disposal**”), which carried out the Group’s TFT-LCD glass substrate and display devices production and sales. According to the 2015 Annual Report, the financial performance of the Group for the year ended 31 December 2015 improved as a result of this Disposal and the enhanced cost management. After the completion of the Disposal in 2015, the Group has continued to shift its focus on the development of new energy business and new materials business. As a result, the Group implemented a series of measures in the business of solar photovoltaic glass including increasing discharging quantity of furnace, improving productivity, improving rate of good product, innovating sales patterns and strengthening the management and control of sales process. As a result of the Group’s effort, the Group has experienced a rapid growth in the solar photovoltaic glass business enabling the Group to remain as one of the top three manufacturers among its domestic peers in respect of solar photovoltaic glass capacity in 2015. On the other side of the new energy business, the Group has been active in seeking opportunities in solar photovoltaic power station business. During the reporting period of 2015, the Hefei 12MW Photovoltaic Power Station of the Group was accepted upon successful connection to the grid, and put into operation. The Group would constructively build solar photovoltaic power station and make every effort to complete 1GW-2GW quality solar photovoltaic power station projects within the 13th Five Year Plan for National Economic and Social Development. References are made to the 2016 Annual Report, the Group enhanced its strategic deployment and realised the vertical integration of the photovoltaic industry chain. The Group’s Hanzhong Quartz Sand Mine Processing Plant achieved the scale of mass production and bulk supply. Its supply of quartz sand has effectively lowered the production cost of photovoltaic glass which in turn secured the supply and ensured the quality of construction material for construction of photovoltaic power station and at the same time extended the industry chain.

As advised by the Company, the Company is now planning to invest in four projects (the “**Four Projects**”), which are (i) Yan’an Photovoltaic Glass Project; (ii) Hefei Photovoltaic Glass Project (Phase II); (iii) Xianyang Photovoltaic Glass Relocation and Technical Innovation Project; and (iv) IRICO Yongneng 2GW Photovoltaic Modules Project, as the continuity of the Company’s business transformation into new energy and new materials business. To finance the Four Projects and provide extra general working capital to support the business transformation, the Company shall issue not more than 2.3 billion new H Shares to not more than 10 target subscribers, including Zhongdian IRICO, with gross proceeds not exceeding RMB2.3 billion under the Proposed H Share Issue. As part of the Proposed H Share Issue, Zhongdian IRICO has conditionally agreed to subscribe for not more than 900 million new H Shares at a cash consideration of RMB900 million pursuant to the Subscription Agreement with Zhongdian IRICO.

LETTER FROM OCTAL CAPITAL

In respect of the Yan'an Photovoltaic Glass Project, the Company plans to allocate approximately 21.7% of the gross proceeds of Proposed H Share Issue for the construction of a furnace and ancillary production lines for solar photovoltaic glass with a daily melting capacity of 800–850 t/d in Yan'an City. As set out in the announcement of the Company dated 17 August 2016, the Yan'an Photovoltaic Glass Project's annual output of solar photovoltaic glass coated products is expected to reach 26 million square meters upon completion.

In respect of the Hefei Photovoltaic Glass Project (Phase II), the Company plans to allocate approximately 21.7% of the gross proceeds of Proposed H Share Issue as the investment costs for the development of such project. As disclosed in the announcement of the Company dated 12 September 2016, the self-developed oxygen-fuel combustion furnace in Hefei Photovoltaic Glass Project (Phase II) has already passed the expert appraisal organized by the Chinese Institute of Electronics and is expected to have the annual production of 24.84 million square meters of tempered and coated photovoltaic glass. Featured with low energy consumption, low emission and high efficiency, the oxygen-fuel combustion glass furnace is qualified for numerous proprietary intelligent property rights and its key technology has reached the advanced standard in the world.

In respect of the Xianyang Photovoltaic Glass Relocation and Technical Innovation Project, the Company plans to allocate approximately 21.7% of the gross proceeds of Proposed H Share Issue as the investment costs for the development of such project. As advised by the Company, the Xianyang Photovoltaic Glass Relocation and Technical Innovation Project is expected to have annual production of photovoltaic tempered glass of approximately 25 million square meters. The Company is of the opinion that the Xianyang Photovoltaic Glass Relocation and Technical Innovation Project can bring stable revenue to the Group considering that (i) the global solar photovoltaic market is expected to grow from USD4.3 billion in 2017 to USD18.4 billion in 2022, representing a compound annual growth rate of 33.7% according to a report published by Markets and Markets; (ii) the Xianyang Photovoltaic Glass Relocation and Technical Innovation Project can produce photovoltaic tempered glass at a lower unit cost; and (iii) the Xianyang Photovoltaic Glass Relocation and Technical Innovation Project is located in the central part of China where the Group can conveniently transport photovoltaic tempered glass product to the customers including but not limited to the ones in north-western China.

Further, the Company plans to allocate approximately 21.7% of the gross proceeds of Proposed H Share Issue for the investment in IRICO Yongneng 2GW Photovoltaic Modules Project. As advised by the Company, Jiangsu IRICO Yongneng New Energy Company Limited, a subsidiary of the Company, proposes to invest in the construction of the project in Zhangjiagang Economic Development Zone, purchase 200 sets of full-automatic production equipment and photovoltaic modules instruments and equip with the relevant power auxiliary facilities. Upon completion, the annual production capacity of photovoltaic module products is expected to be 2GW and the total investment amount of this project is approximately RMB1.75 billion.

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In view that the Company only has bank balances and cash of approximately RMB327 million as at 30 June 2018 while the Four Projects will require approximately RMB2,000 million to complete and the Company will require an extra general working capital of RMB300 million, a fund-raising exercise is required through the Proposed H Share Issue in order to support the Four Projects and maintain the cash balance to support the daily operation of the Group.

On the other hand, upon completion of the Proposed H Share Issue, there will be a dilution impact on the shareholding of CEC. The shareholding of the Company indirectly held by CEC through IRICO Group and its subsidiary, Rui Bou Electronics, will decrease from approximately 73.15% of the issued share capital of the Company as at the Latest Practicable Date to approximately 36.03% of the enlarged total issued share of the Company. In order to maintain CEC's controlling stake over the Company, Zhongdian IRICO has conditionally agreed to subscribe in cash for and the Company has conditionally agreed to allot and issue not more than 900 million new H Shares at a total consideration of RMB900 million. Assuming the full exercise of the specific mandate, the shareholding of Zhongdian IRICO will be 19.86% of the enlarged total issued share capital of the Company upon completion of the Proposed H Share issue. Despite the dilution impact of the Proposed H Share Issue, the shareholding of the Company indirectly held by CEC through IRICO Group, Rui Bou Electronics and Zhongdian IRICO will be approximately 55.89% in total upon the completion of the Proposed H Share Issue. CEC will still be able to maintain the control of the Company and lead the Company in the transformation of business.

Having considered the above and our discussion with the management of the Company, we concur with the view of the Company that the Proposed Subscription by Zhongdian IRICO is in the interests of the Company and Shareholders as a whole to contribute fund for the Four Projects as to strengthen the capabilities for future development of the Group and also allow CEC to maintain status of ultimate controlling Shareholder in order to steer the business transformation.

2. Terms of Proposed Subscription by Zhongdian IRICO

Pursuant to the Subscription Agreement with Zhongdian IRICO approved by the Board on 24 July 2017, the Company shall allot and issue not more than 900 million new H Shares with a nominal value of RMB1.00 to Zhongdian IRICO as part of the Proposed H Share Issue. The total consideration of RMB900 million shall be payable in cash by Zhongdian IRICO upon Completion.

Pursuant to the Subscription Agreement with Zhongdian IRICO, the subscription price of the new H Shares to be issued to Zhongdian IRICO (the "**Subscription Price**") shall be the same as that of the new H Shares to be issued to the other target subscribers subject to the same pricing principle.

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The Subscription Price shall be determined with reference to the market price of the H Shares, the capital market conditions at the time of issue and the valuation of comparable companies, taking into account the interest of shareholders, the risk appetite of investors, and in accordance with international practices and regulatory requirements.

The Subscription Price shall not be lower than 90% of the average closing price of H Shares as quoted on the Stock Exchange over the five consecutive trading days preceding the price determination date (i.e., the date of signing of the relevant placing agreement). In any event, the issue price shall not be less than the latest audited net asset value per Share before the Proposed H Share Issue and the nominal value of RMB1.00 per H Share.

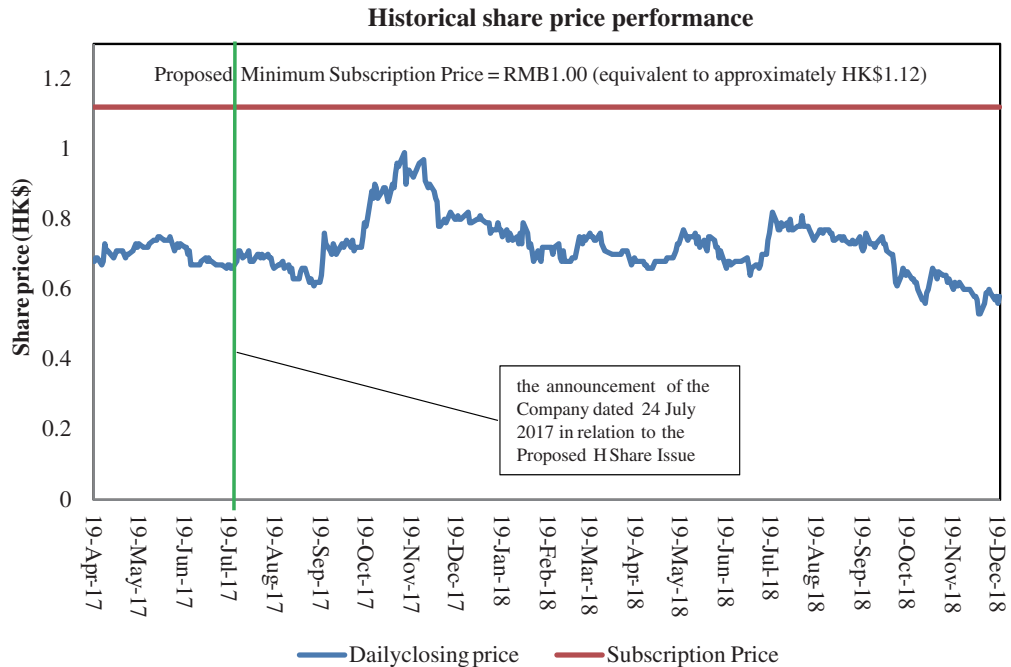
The net price to the Company of each new H Share to be issued under the Proposed H Share Issue (including the Proposed Subscription by Zhongdian IRICO) will be determined and disclosed upon completion of the Proposed H Share Issue and the determination of the relevant expenses incurred or to be incurred in relation to the Proposed H Share Issue in accordance with the requirements of the Listing Rules.

In order to assess the fairness and reasonableness of the Subscription Price, we took reference to, among other things, (i) a comparison between the Subscription Price and the historical closing prices of the Company's H Shares; and (ii) comparison of Subscription Price with comparables.

(i) A comparison between the Subscription Price and the historical closing prices of the Company's H Shares

Solely for illustration purposes, we consider that it is relevant to compare the closing price level of the Shares traded on the Stock Exchange during the period from 19 April 2017 (being the date twelve months prior to the Last Trading Date) to 20 December 2018 (being the Latest Practicable Date) (the “**Review Period**”) against the lowest possible subscription price (the “**Proposed Minimum Subscription Price**”) of RMB1.00 (equivalent to approximately HK\$1.14). The exchange rate adopted for the above figure is HK\$1.00 = RMB0.88 as stated in the quotation of the People's Bank of China as at the Last Trading Date.

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Source: Stock Exchange (www.hkex.com.hk)

During the Review Period, the average closing price was approximately HK\$0.721 per Share. The lowest closing price was HK\$0.530, being recorded on 6 December 2018 and 7 December 2018. The highest closing price was HK\$0.990, being recorded on 14 November 2017. During the Review Period, there was no material fluctuation of the closing price noted. We noted that the closing price of the whole Review Period was below the Proposed Minimum Subscription Price of RMB1.00 per Share (equivalent to approximately HK\$1.14 per Share). Further, we noted that the Proposed Minimum Subscription Price represents:

- (a) a premium of approximately 15.2% over the maximum closing price of HK\$0.990 per Share as quoted on the Stock Exchange during the Review Period;
- (b) a premium of approximately 115.1% over the minimum closing price of HK\$0.530 per Share as quoted on the Stock Exchange during the Review Period;
- (c) a premium of approximately 58.1% over the average closing price of approximately HK\$0.721 per Share for the whole Review Period as quoted on the Stock Exchange;
- (d) a premium of approximately 65.2% over the closing price of HK\$0.690 per Share as quoted on the Stock Exchange on the Last Trading Date;

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- (e) a premium of approximately 64.7% over the average closing price of HK\$0.692 per Share as quoted on the Stock Exchange for the last 5 trading days up to and including the Last Trading Date;
- (f) a premium of approximately 395.7% over the unaudited net asset value of approximately HK\$0.230 per share as at 30 June 2018 based on the unaudited consolidated net assets attributable to owners of the Company of approximately RMB451,107,577 as at 30 June 2018 and 2,232,349,400 Shares in issue as at the Latest Practicable Date, using the exchange rate of HK\$1 = RMB0.88; and
- (g) a premium of approximately 96% over the closing price of HK\$0.58 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

(ii) ***Comparison of Subscription Price with comparables***

- *Price/earnings multiple*

Price-to-earnings multiple (the “**P/E Multiple**”) analysis is the most common approach adopted by the investment community in valuing profit-generating entities. For the purpose of assessing the reasonableness of the Subscription Price, we have identified (to the best of our knowledge) three companies (the “**P/E Comparables**”) which (i) are listed on the Main Board of the Stock Exchange; (ii) are principally engaged in solar power business as that of the Group; (iii) are profit-making in the latest financial year; and (iv) have market capitalisation from HK\$1,000 million up to HK\$10,000 million that are comparable to the market capitalisation of the Company’s H Shares, for P/E Multiple analysis. We consider the P/E Comparables set forth in the table below an exhaustive list under such criteria. Summarised below are our relevant findings:

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Company Name	Stock code	Principal business	Closing price as at Last Trading Date (HK\$)	Market capitalisation as at Last Trading Date (HK\$ million)	Latest published audited profit attributable to owners of company before the Latest Practicable Date ^{Note 1} (HK\$ million)	Closing price as at Latest Practicable Date (HK\$)	Market capitalisation as at Latest Practicable Date (HK\$ million)	Latest published audited profit attributable to owners of company before the Latest Practicable Date ^{Note 1} (HK\$ million)	P/E Multiple (times)	P/E Multiple (times)	Maximum	Minimum	Average	Median
Panda Green Energy Group Ltd.	686	Development, investment, operation and management of solar power plants.	0.89	8,481.5	173.9	0.45	4,288.42	173.9	48.78	24.67				
China Singyes Solar Technologies Holdings Ltd.	750	Design, manufacturing, supply and installation of conventional curtain walls and building integrated photovoltaic BIPV system manufacture and sale of solar power products.	2.79	2,327.1	163.4	2.15 ^{Note 2}	1,793.26	163.4	14.24	10.97				
Xinte Energy Co., Ltd.	1799	Polysilicon production and rendering of engineering and construction contracting service for solar and wind power plants and systems in the PRC.	7.98	8,339.1	1,216.7	7.97	8,328.69	1,216.7	6.85	6.85	24.67	6.85	14.16	10.97
The Company	438		0.69 ^{Note 3}	1,540.3 ^{Note 4}	140.6	0.58 ^{Note 3}	1,294.8 ^{Note 3}	140.6	10.96	9.21	48.78	6.85	23.29	14.24
			1.14 ^{Note 3}	2,508.3 ^{Note 4}	140.6	1.14 ^{Note 3}	2,508.3 ^{Note 3}	140.6	17.84	17.84				

Source: Stock Exchange (www.hkex.com.hk)

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Notes:

1. The audited profit attributable to owners of the Company and the P/E Comparables are calculated using the exchange rate of HK\$1 = RMB0.88.
2. Trading in the shares of China Singyes Solar Technologies Holdings Ltd. has been halted since 15 October 2018, hence its latest trading price before suspension is used in calculation.
3. The Proposed Minimum Subscription Price.
4. The market capitalisation is calculated using the Proposed Minimum Subscription Price multiplied by the total number of issued shares of the Company as at the Last Trading Date.
5. The market capitalisation is calculated using the Proposed Minimum Subscription Price multiplied by the total number of issued shares of the Company as at the Latest Practicable Date.

We noted that the P/E Multiples of the P/E Comparables as at the Last Trading Date ranged from approximately 6.85 to approximately 48.78 and have an average of approximately 23.29 and a median of approximately 14.24. The P/E Multiple of the Company, where the price was based on Proposed Minimum Subscription Price, was approximately 17.84. Upon comparison, we noted that the P/E Multiple of the Company as at the Last Trading Date was close to the average of P/E Multiples of the P/E Comparables and higher than the median of P/E Multiples of the P/E Comparables.

We also noted that the P/E Multiples of the P/E Comparables as at the Latest Practicable Date ranged from approximately 6.85 to approximately 24.67 and have an average of approximately 14.16 and a median of approximately 10.97. The P/E Multiple of the Company, where the price was based on Proposed Minimum Subscription Price, was approximately 17.84. Upon comparison, we noted that the P/E Multiple of the Company as at the Latest Practicable Date was higher than the average of P/E Multiples of the P/E Comparables and the median of P/E Multiples of the P/E Comparables.

- *Net asset value*

In order to have another perspective for analysing and assessing the Subscription Price, we have identified (to the best of our knowledge) four companies (the “**Industry Comparables**”) which (i) are listed on the Main Board of the Stock Exchange; (ii) are principally engaged in solar power business as that of the Group; and (iii) and have market capitalisations from HK\$1,000 million up to HK\$10,000 million that are comparable to the market capitalisation of the Company. We consider the Industry Comparables set forth in the table below an exhaustive list under such criteria.

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Notes:

1. The net asset value of the Company and the Industry Comparables are calculated using the exchange rate of HK\$1 = RMB0.88.
2. Trading in the shares of China Singyes Solar Technologies Holdings Ltd and Shunfeng International Clean Energy Ltd. have been halted since 15 October 2018 and 11 December 2018 respectively, hence their latest trading prices before suspension are used in calculation.
3. The Proposed Minimum Subscription Price.
4. The market capitalisation is calculated using the Proposed Minimum Subscription Price multiplied by the total number of issued shares of the Company as at the Last Trading Date.
5. The market capitalisation is calculated using the Proposed Minimum Subscription Price multiplied by the total number of issued shares of the Company as at the Latest Practicable Date.

From the above table, we noted that the closing share price as at Last Trading Date of the majority of the Industry Comparables were at the range from discount of approximately 75.57% to premium of approximately 27.02% to the latest published net asset value per share. Only one of the Industry Comparables had the premium of approximately 27.02% over the latest published net asset value per share. In the Company's case, the Proposed Minimum Subscription Price represented a premium over the latest published net asset value per Share of approximately 13.5 times, which is the highest among the premium/discount of the closing share price as at the Last Trading Date over/to the latest published net asset value per share of the Industry Comparables. The reason of the Proposed Minimum Subscription Price representing a significantly high level of premium of over the latest published net asset value per Share is mainly because of the light net asset value position of the Group, which is approximately HK\$173.4 million, in comparison to the net asset values of the Industry Comparables, which were ranged from approximately HK\$4,592.3 million to HK\$10,463.0 million.

From the above table, we also noted that the closing share price as at Latest Practicable Date of the majority of the Industry Comparables were at the range from discount of approximately 18.61% to 65.56% to the latest published net asset value per share. In the Company's case, the Proposed Minimum Subscription Price represented a premium over the latest published net asset value per Share of approximately 6.0 times, which is the highest among the premium/discount of the closing share price as at the Latest Practicable Date over/to the latest published net asset value per share of the Industry Comparables. The reason of the Proposed Minimum Subscription Price representing a significantly high level of premium of over the latest published net asset value per Share is mainly because of the light net asset value position of the Group, which is approximately HK\$360.1 million, in comparison to the net asset values of the Industry Comparables, which were ranged from approximately HK\$3,183.2 million to HK\$11,209.8 million.

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- *Market comparables on subscription of new shares*

In addition to P/E Multiple and net asset value approaches, we also consider it is worthwhile to assess the Subscription Price against the prevailing market trends. We have identified (to the best of our knowledge) an exhaustive list of shares subscriptions/placements (the “**Transaction Comparables**”) for raising funds using specific mandate as announced by companies listed on the Main Board of the Stock Exchange with announcement in the last six months up to the Latest Practicable Date. We consider that the terms of the comparable fund raising exercises are appropriate benchmarks to reflect the recent market sentiment and risk appetite of the investment community.

For each of the 16 Transaction Comparables identified, we compared the premium/(discounts) of its subscription price or placing price over/(to) (i) the closing price on the respective last trading date; and (ii) the average closing price for the respective last five consecutive trading days up to and including the respective last trading date, summarised in the following table:

Date of announcement	Company name	Stock code	Subscription price (HK\$)	Gross proceeds (HK\$)	Premium/(discount)	Premium/(discount)
					over/to the closing price of the shares as at the respective last trading date (%)	over/to the average closing price of the shares during the respective last five consecutive trading days (%)
1/6/2018	China Grand Pharmaceutical and Healthcare Holdings Limited	512	5.2	1,141,000,000	(33.80)	(19.37)
3/7/2018	CMBC Capital Holdings Limited	1141	0.363	295,000,000	(18.40)	(19.50)
11/7/2018	FDG Electric Vehicles Limited	729	0.06	360,000,000	(52.38)	(50.17)
24/7/2018	Shougang Concord International Enterprises Company Limited	697	0.25	1,225,900,000	28.87	31.44
30/7/2018	China Putian Food Holding Limited	1699	0.14	40,460,000	(27.10)	(24.73)
31/7/2018	Truly International Holdings Limited	732	1.18	199,000,000	(6.35)	(4.84)
20/8/2018	Ban Loong Holdings Limited	30	0.18	180,000,000	0.00	(1.21)
5/10/2018	China Zenith Chemical Group Limited	362	0.315	69,300,000	(1.59)	(2.54)
12/10/2018	Forebase International Holdings Limited	2310	0.342	42,287,848	3.64	0.00
26/10/2018	Elife Holdings Limited	223	0.105	120,000,000	6.06	9.38

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Date of announcement	Company name	Stock code	Subscription price (HK\$)	Gross proceeds (HK\$)	Premium/(discount) over/to the closing price of the shares as at the respective last trading date (%)	Premium/(discount) over/to the average closing price of the shares during the respective last five consecutive trading days (%)
6/11/2018	Minshang Creative Technology Holdings Limited	1632	1.1	62,300,000	(38.89)	(32.52)
13/11/2018	Xinte Energy Co Ltd	1799	8.8	1,364,000,000	15.79	21.95
26/11/2018	Zhuguang Holdings Group Company Limited	1176	1.3	1,001,000,000	(6.50)	(7.80)
9/12/2018	Alibaba Pictures Group Limited	1060	1.25	1,250,000,000	1.63	1.13
14/12/2018	Shenwan Hongyuan (HK) Limited	218	2.068	1,582,020,000	29.30	30.40
14/12/2018	Bank of Jinzhou Co., Ltd.	416	8.03	8,300,000,000	7.07	7.79
				Maximum	29.30	31.44
				Minimum	(52.38)	(50.17)
				Average	(5.79)	(3.79)
				Median	(0.80)	(1.87)
The Company			1.14 ^{Note 1}	2,613,636,364 ^{Note 2}	65.22	64.74

Source: Stock Exchange (www.hkex.com.hk)

Notes:

- The Proposed Minimum Subscription Price.
- The expected gross proceeds attributable from the Subscription Agreements is calculated using the exchange rate of HK\$1 = RMB0.88.

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From the above table, we noted that eight out of the 16 Transaction Comparables had their subscription price or placing price at discount to the closing price of the respective last trading date and nine out of 13 Transaction Comparables had their subscription price or placing price at discount to the average closing price during the respective last five consecutive trading days. We noted that the Proposed Minimum Subscription Price has a premium of 65.22% over the closing price of the share as at the Last Trading Date which is higher than the range of the premium/discount of the subscription price over the closing price of the Shares on the Last Trading Date of the selected Transaction Comparables. We also noted that the Proposed Minimum Subscription Price has a premium of 64.74% over the 5-day closing price, which is higher than the range of the premium/discount of the subscription price over the average closing price of the Shares during the respective last five consecutive trading days of the Transaction Comparables.

In order to further assess the Subscription Price against the prevailing market trends, we selected Transaction Comparables of which their respective subscriber(s) is/are connected person for our analysis.

For each of the 12 selected Transaction Comparables identified, we compared the premium/(discounts) of its subscription price or placing price over/(to) (i) the closing price on the respective last trading date; and (ii) the average closing price for the respective last five consecutive trading days up to and including the respective last trading date, summarised in the following table:

Date of announcement	Company name	Stock code	Subscription price (HK\$)	Gross proceeds (HK\$)	Premium/(discount)	Premium/(discount)
					over/to the closing price of the shares as at the respective last trading date (%)	average closing price of the shares during the respective last five consecutive trading days (%)
1/6/2018	China Grand Pharmaceutical and Healthcare Holdings Limited	512	5.2	1,141,000,000	(33.80)	(19.37)
3/7/2018	CMBC Capital Holdings Limited	1141	0.363	295,000,000	(18.40)	(19.50)
24/7/2018	Shougang Concord International Enterprises Company Limited	697	0.25	1,225,900,000	28.87	31.44
31/7/2018	Truly International Holdings Limited	732	1.18	199,000,000	(6.35)	(4.84)
20/8/2018	Ban Loong Holdings Limited	30	0.18	180,000,000	0.00	(1.21)
5/10/2018	China Zenith Chemical Group Limited	362	0.315	69,300,000	(1.59)	(2.54)

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Date of announcement	Company name	Stock code	Subscription price (HK\$)	Gross proceeds (HK\$)	Premium/(discount) over/to the closing price of the shares as at the respective last trading date (%)	Premium/(discount) over/to the average closing price of the shares during the respective last five consecutive trading days (%)
12/10/2018	Forebase International Holdings Limited	2310	0.342	42,287,848	3.64	0.00
26/10/2018	Elife Holdings Limited	223	0.105	120,000,000	6.06	9.38
13/11/2018	Xinte Energy Co Ltd	1799	8.8	1,364,000,000	15.79	21.95
26/11/2018	Zhuguang Holdings Group Company Limited	1176	1.3	1,001,000,000	(6.50)	(7.80)
9/12/2018	Alibaba Pictures Group Limited	1060	1.25	1,250,000,000	1.63	1.13
14/12/2018	Shenwan Hongyuan (HK) Limited	218	2.068	1,582,020,000	29.30	30.40
				Maximum	29.30	31.44
				Minimum	(33.80)	(19.50)
				Average	1.55	3.25
				Median	0.82	(0.60)
The Company			1.14 ^{Note 1}	2,613,636,364 ^{Note 2}	65.22	64.74

Source: Stock Exchange (www.hkex.com.hk)

Notes:

- The Proposed Minimum Subscription Price.
- The expected gross proceeds attributable from the Subscription Agreements is calculated using the exchange rate of HK\$1 = RMB0.88.

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From the above table, we noted that five out of the 12 selected Transaction Comparables had their subscription price or placing price at discount to the closing price of the respective last trading date and six out of the 12 selected Transaction Comparables had their subscription price or placing price at discount to the average closing price during the respective last five consecutive trading days. We noted that the Proposed Minimum Subscription Price has a premium of 65.22% over the closing price of the share as at the Last Trading Date, which is higher than the range of the premium/discount of the subscription price over the closing price of the Shares on the Last Trading Date of the selected Transaction Comparables. We also noted that the Proposed Minimum Subscription Price has a premium of 64.74% over the 5-day closing price, which is higher than the range of the premium/discount of the subscription price over the average closing price of the Shares during the last five consecutive trading days of the selected Transaction Comparables.

Considering that:

- (i) the P/E Multiples of the Company based on the Proposed Minimum Subscription Price as at the Last Trading Date and the Latest Practicable Date were both higher than the respective median of P/E Multiples of the P/E Comparables, representing a premium over the P/E Multiples of the P/E Comparables and hence a lower dilution impact on the shareholding of the Company;
- (ii) the premium of the Proposed Minimum Subscription Price over the latest published net asset value per Share as at the Last Trading Date and the Latest Practicable Date are both higher than the respective premium/discount of the closing share price over/to the latest published net asset value per share of the Industry Comparables, representing a lower dilution impact on the shareholding of the Company;
- (iii) the premium of the Proposed Minimum Subscription Price over the closing price of the Shares on the Last Trading Date and average closing price of the Shares during the last five consecutive trading days were both higher than the range of the premium/discount of the subscription price over the closing price of the Shares on the Last Trading Date and average closing price of the Shares during the last five consecutive trading days of the Transaction Comparables; and

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- (iv) the premium of the Proposed Minimum Subscription Price over the closing price of the Shares on the Last Trading Date and average closing price of the Shares during the last five consecutive trading days were both higher than the range of the premium/discount of the subscription price over the closing price of the Shares on the Last Trading Date and average closing price of the Shares during the last five consecutive trading days of the selected Transaction Comparables of which their respective subscriber(s) is/are connected person,

we are of the view that the Subscription Price is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

3. Financial effects of the Proposed Subscription by Zhongdian IRICO on the Group

Cashflow

According to the 2018 Interim Results Announcement and 2017 Annual Results Announcement, the Group had cash and cash equivalents of approximately RMB327.4 million as at 30 June 2018, while the balance was approximately RMB269.4 million as at 31 December 2017. Upon completion of the Proposed Subscription by Zhongdian IRICO (the “**Completion**”), the cash position of the Group will be improved as the Proposed Subscription by Zhongdian IRICO will increase the cash and cash equivalents by approximately RMB900.0 million. Accordingly, the cash position, net current assets and current ratio of the Company are expected to be improved upon Completion.

Earnings

Save for the expenses in relation to the Proposed Subscription by Zhongdian IRICO, the Completion will not have any immediate material impact on the earnings of the Company. Hence, immediately upon Completion, there will be no effect on the earnings of the Company.

Net Asset Value

According to the 2018 Interim Results Announcement and 2017 Annual Results Announcement, the net asset value of the Group as at 30 June 2018 was approximately RMB451.1 million, while the net asset value as at 31 December 2017 was approximately RMB267.7 million. Upon Completion, the net asset value of the Company will increase as the Proposed Subscription would increase the cash balance of the Company.

Gearing

According to the 2018 Interim Results Announcement and 2017 Annual Results Announcement, the gearing ratio of the Group as at 30 June 2018, as derived by dividing total liabilities by total assets of the Group as at 30 June 2018, was approximately 91.1%, while gearing ratio as at 31 December 2017 was 94.7%. Upon Completion and assuming the total debt of the Group would remain the same, the total assets of the Group would be increased by RMB2.3 billion as a result of the Proposed Subscription assuming the total number of H Shares to be issued is 2.3 billion at the Proposed Minimum Subscription Price. Thus, the gearing level of the Group will decrease from 91.1% to 62.6% upon Completion.

Based on the above, the Proposed Subscription by Zhongdian IRICO would have an overall positive effect on the financial position of the Group in terms of cashflow, net asset value, and gearing upon Completion. Meanwhile, the Proposed Subscription by Zhongdian IRICO will not have any material impact on earnings of the Group. On such basis, we are of the view that the Proposed Subscription by Zhongdian IRICO is in the interests of the Company and the Shareholders as a whole.

4. Potential dilution effect on the shareholding of the Company

As set out in the table showing the shareholdings changes of the Company under the section headed “Possible Changes in Share Capital and Shareholding Structure” as contained in the Letter from the Board, the shareholding of the existing public Shareholders as at the Latest Practicable Date was approximately 26.85%. The Shares issued under the Proposed Subscription by Zhongdian IRICO, assuming that the number of new H Shares issuable is 900 million, represent approximately 40.32% of the existing issued share capital of the Company as at the Latest Practicable Date and 19.86% of the issued share capital of the Company as enlarged by the issue of the Shares in the Proposed Subscription by Zhongdian IRICO. As a whole, the Shares issued under the Proposed H Share Issue (including the Proposed Subscription by Zhongdian IRICO), assuming that the number of new H Shares issuable is 2.3 billion, represent (i) approximately 364.57% of the existing issued H Shares and approximately 103.03% of the existing total issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 78.47% of the enlarged issued H Shares and approximately 50.75% of the of the enlarged total issued share capital of the Company immediately upon completion of the Proposed H Share Issue. On such basis, the shareholdings of the existing public Shareholders will be diluted from approximately 26.85% to 13.22% and the public float will be approximately 33.08%.

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Having considered the reasons stated in details in the section headed “Background of and reasons for the Proposed Subscription by Zhongdian IRICO and use of proceeds” above, in particular, the following:

- (a) the Company has a strong need for funding to support the Four Projects in new materials and new energy business in order to continue the business transformation in progress; and
- (b) the Proposed Subscription by Zhongdian IRICO will allow the Group to contribute funding to the Four Projects and will also allow CEC to maintain its controlling stake over the Company to lead the Company in the business transformation;

we are of the opinion that the shareholding dilution to the Independent Shareholders is acceptable so far as the Independent Shareholders are concerned.

RECOMMENDATION

After taking into account the above principal factors and reasons, we consider that the Proposed Subscription by Zhongdian IRICO was entered into on normal commercial terms and the terms of the Proposed Subscription by Zhongdian IRICO are fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and Shareholders as a whole, but it is not conducted in the ordinary and usual course of business of the Company due to the nature of such transaction. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to, and we recommend the Independent Shareholders to, vote in favour of the resolution to approve the Proposed Subscription by Zhongdian IRICO.

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 mergers and acquisitions, connected transactions and transactions subject to the compliance to the Takeovers Code of listed companies in Hong Kong. Mr. Louis Chan has been a responsible officer of Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities since 2008. Mr. Chan has more than 15 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions in respect of mergers and acquisitions, connected transactions and transactions subject to the compliance to the Takeovers Code of listed companies in Hong Kong.

1. RESPONSIBILITY STATEMENT

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

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

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

Mr. Si Yuncong, Mr. Zou Changfu, Mr. Fan Laiying and Mr. Chen Xiaoning act as the Directors of the Company. Mr. Si Yuncong concurrently acts as the chairman, the Party secretary and the legal representative of IRICO Group, Mr. Zou Changfu concurrently acts as the member of the leading group and a member of the Party Committee of IRICO Group, Mr. Fan Laiying concurrently acts as the chief accountant of IRICO Group and Mr. Chen Xiaoning concurrently acts as the deputy chief engineer of IRICO Group. Mr. Ding Wenhui acts as a Supervisor and the chairman of the supervisory committee of the Company, and he concurrently serves as the deputy secretary of the Chinese Communist Party, the deputy secretary of discipline inspection commission and the chairman of the employee union 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 2017 (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 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 2017, 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 will be available for inspection during normal business hours at the Company's principal place of business in Hong Kong at Unit 1908, 19th Floor, 9 Queen's Road Central, Central, Hong Kong for a period of 14 days (excluding Saturdays and public holidays) from the date of this circular:

- (a) the Subscription Agreement with Zhongdian IRICO;
- (b) the Subscription Agreement with Zhangjiagang Investment;
- (c) the Subscription Agreement with Yan'an Dingyuan; and
- (d) the Subscription Agreement with Hefei Xincheng.