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## THE CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in IRICO Group Electronics Company Limited\* (the “Company”), 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

彩虹集團電子股份有限公司

IRICO GROUP ELECTRONICS COMPANY LIMITED\*

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

(Stock Code: 0438)

### CONNECTED AND VERY SUBSTANTIAL DISPOSALS

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



金融有限公司  
OCTAL Capital Limited

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A letter from the board of directors of the Company is set out on pages 1 to 20 of this circular. A letter from the independent board committee of the Company is set out on pages 21 to 22 of this circular. A letter from Octal Capital Limited, the independent financial adviser, containing its advice and recommendation to the independent board committee and the independent shareholders of the Company is set out on pages 23 to 46 of this circular.

A notice convening the EGM to be held at the conference room of the Company at No. 1 Caihong Road, Xianyang, Shaanxi Province, the People's Republic of China at 10:00 a.m., on Tuesday, 19 August 2014 is set out on pages N-1 to N-2 of this circular.

If you are eligible and intend to attend the EGM, please complete and return the enclosed reply slip in accordance with the instructions printed thereon on or before Tuesday, 29 July 2014. Shareholders who intend to appoint a proxy to attend the EGM shall complete and return the enclosed proxy form in accordance with the instructions printed thereon and in any event not less than 24 hours before the time fixed for holding the EGM or any adjournment thereof (as the case may be). Completion and return of the proxy form will not preclude you from attending the EGM and voting in person if you so wish.

30 June 2014

\* For identification purposes only

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## DEFINITIONS

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*In this circular, unless the context otherwise requires, the following expressions have the following meanings:*

“A Share Company”	IRICO Display Devices Co., Ltd.* (彩虹顯示器件股份有限公司), a subsidiary of the Company, which is directly held as to approximately 19.82% by the Company and approximately 12.06% by IRICO Group as at the Latest Practicable Date, and a company listed on the Shanghai Stock Exchange
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Beijing Pan-China”	Beijing Pan-China Assets Appraisal Co., Ltd.* (北京天健興業資產評估有限公司), an independent valuer qualified in the PRC
“Board”	the board of directors of the Company
“Cairui Display Disposal Agreement”	the conditional equity transfer agreement dated 30 May 2014 entered into between the Company and Xianyang IRICO in relation to the Cairui Display Disposal
“Cairui Display Disposal”	the disposal of the Cairui Display Interest by the Company to Xianyang IRICO
“Cairui Display Interest”	the Company’s entire 75% equity interest in Cairui Display
“Cairui Display”	Xi’an Cairui Display Technology Co., Ltd* (西安彩瑞顯示技術有限公司), which is held as to 75% by the Company and 25% by Ruibo Electronics (Hong Kong) Co., Ltd.*(瑞博電子(香港)有限公司) as at the Latest Practicable Date
“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 controlling shareholder of the Company holding indirectly approximately 71.74% of the issued share capital of the Company through IRICO Group as at the Latest Practicable Date

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## DEFINITIONS

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“Company”	IRICO Group Electronics Company Limited* (彩虹集團電子股份有限公司), a joint stock limited company established in the PRC with limited liability, whose H shares are listed on the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“connected transaction(s)”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Disposal Group”	IRICO Zixun, Kunshan IRICO and Cairui Display
“EGM”	the extraordinary general meeting of the Company to be convened to consider and, if thought fit, to approve, among other things, the Proposed Disposals
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the committee of directors consisting of Mr. Xu Xinzhong, Mr. Feng Bing, Mr. Wang Jialu and Mr. Wang Zhicheng who are independent non-executive Directors, formed to advise the Independent Shareholders in respect of the Proposed Disposals
“Independent Shareholders”	the shareholders of the Company other than CEC and its associates (including IRICO Group and its associates) who will abstain from voting on the relevant resolutions with respect to the Proposed Disposals at the EGM
“IRICO Group”	IRICO Group Corporation* (彩虹集團公司), a wholly state-owned enterprise, a wholly-owned subsidiary of CEC and the controlling shareholder of the Company directly holding approximately 71.74% of the issued share capital of the Company as at the Latest Practicable Date
“IRICO Shadow Mask”	Xianyang IRICO Electronics Shadow Mask Co., Ltd* (咸陽彩虹電子網版有限公司), which is directly and indirectly held as to 100% by the Company as at the Latest Practicable Date

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## DEFINITIONS

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“IRICO Zixun Disposal Agreement”	the conditional equity transfer agreement dated 30 May 2014 entered into between the Company and Xianyang IRICO in relation to the IRICO Zixun Disposal
“IRICO Zixun Disposal”	the disposal of the IRICO Zixun Interest by the Company to Xianyang IRICO
“IRICO Zixun Interest”	the Company’s entire 100% equity interest in IRICO Zixun
“IRICO Zixun”	Xi’an IRICO Zixun Co., Ltd* (西安彩虹資訊有限公司), which is held as to 100% by the Company as at the Latest Practicable Date
“Jones Lang LaSalle”	Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent professional property valuer
“Latest Practicable Date”	26 June 2014, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Kunshan IRICO Disposal Agreement”	the conditional equity transfer agreement dated 30 May 2014 entered into between the Company, IRICO Shadow Mask and Xianyang IRICO in relation to the Kunshan IRICO Disposal
“Kunshan IRICO Disposal”	the disposal of the Kunshan IRICO Interest by the Company and IRICO Shadow Mask to Xianyang IRICO
“Kunshan IRICO Interest”	the 90% equity interest in Kunshan IRICO, of which 80% is directly held by the Company and 10% is directly held by IRICO Shadow Mask
“Kunshan IRICO”	Kunshan IRICO Industrial Co., Ltd* (昆山彩虹實業有限公司), which is held as to 80% by the Company, 10% by IRICO Shadow Mask and 10% by Shanghai Tongcou Automation Equipment Co., Ltd.* (上海通彩自動化設備有限公司) as at the Latest Practicable Date
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

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## DEFINITIONS

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“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 Disposals
“PRC”	the People’s Republic of China
“PRC Valuation Reports”	the PRC valuation reports prepared by Beijing Pan-China in respect of each of IRICO Zixun, Kunshan IRICO, Cairui Display and Sichuan Shuanghong with the Valuation Base Date on 31 December 2013
“Previous Disposals”	the disposals of (i) 5.01% equity interests in Western Trust Co., Ltd* (西部信託有限公司); (ii) 51% equity interests in IRICO (Foshan) Plat Panel Display Co., Ltd* (彩虹(佛山)平板顯示有限公司); and (iii) the industrial properties and supporting facilities on the west side of 1st Caihong Road, Qindu district, Xianyang by the A Share Company, the details of which are set out in the Previous Disclosures
“Proposed Disposals”	the IRICO Zixun Disposal, the Kunshan IRICO Disposal, the Cairui Display Disposal and the Sichuan Shuanghong Disposal
“Relevant Interests”	collectively, the IRICO Zixun Interest, the Kunshan IRICO Interest, the Cairui Display Interest and the Sichuan Shuanghong Interest
“Remaining Group”	the Group excluding the Disposal Group and Sichuan Shuanghong
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Shareholder(s)”	the shareholder(s) of the Company

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## DEFINITIONS

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“Sichuan Shuanghong Disposal Agreement”	the conditional equity transfer agreement dated 30 May 2014 entered into between the Company and IRICO Group in relation to the Sichuan Shuanghong Disposal
“Sichuan Shuanghong Disposal”	the disposal of the Sichuan Shuanghong Interest by the Company to IRICO Group
“Sichuan Shuanghong Interest”	the Company’s entire 20% equity interest in Sichuan Shuanghong
“Sichuan Shuanghong”	Sichuan Century Shuanghong Display Device Co., Ltd.* (四川世紀雙虹顯示器件股份有限公司), which is held as to 20% by the Company and 80% by Sichuan Changhong Electronics Group Co., Ltd.* (四川長虹電子集團有限公司) as at the Latest Practicable Date
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“Valuation Base Date”	31 December 2013, being the valuation base date as set out in each of the PRC Valuation Reports
“Xianyang IRICO”	Xianyang Zhongdian IRICO Group Holdings Ltd.* (咸陽中電彩虹集團控股有限公司), which is held as to 45.67% by IRICO Group as at the Latest Practicable Date
“%”	per cent

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



**彩虹集團電子股份有限公司**  
**IRICO GROUP ELECTRONICS COMPANY LIMITED\***  
*(A joint stock company incorporated in the People's Republic of China with limited liability)*

(Stock Code: 0438)

***Directors:***

*Executive Directors*

Guo Mengquan (*Chairman*)

Zhang Junhua (*Vice-chairman*)

*Non-executive Directors*

Si Yuncong

Huang Mingyan

Jiang Ahe

*Independent Non-executive Directors*

Xu Xinzong

Feng Bing

Wang Jialu

Wang Zhicheng

***Legal address and the head office in the PRC:***

No. 1 Caihong Road

Xianyang, Shaanxi Province

The People's Republic of China

Postal code: 712021

***Place of Business in Hong Kong:***

6/F Nexxus Building,

No. 41 Connaught Road Central,

Hong Kong

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

Computershare Hong Kong

Investor Services Limited

Rooms 1712-1716, 17th Floor,

Hopewell Centre

183 Queen's Road East

Hong Kong

30 June 2014

*To the Shareholders,*

Dear Sir or Madam,

**CONNECTED AND VERY SUBSTANTIAL DISPOSALS**

**I. BACKGROUND**

References are made to the announcement of the Company dated 30 May 2014 with respect to the Proposed Disposals.



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## LETTER FROM THE BOARD

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The Board wishes to announce that on 30 May 2014 (after trading hours on the Stock Exchange), (i) the Company entered into the IRICO Zixun Disposal Agreement with Xianyang IRICO in relation to the IRICO Zixun Disposal; (ii) the Company and IRICO Shadow Mask entered into the Kunshan IRICO Disposal Agreement with Xianyang IRICO in relation to the Kunshan IRICO Disposal; (iii) the Company entered into the Cairui Display Disposal Agreement with Xianyang IRICO in relation to the Cairui Display Disposal; and (iv) the Company entered into the Sichuan Shuanghong Disposal Agreement with IRICO Group in relation to the Sichuan Shuanghong Disposal. The major terms of each of the agreements are set out below.

The Company will convene the EGM to consider and, if appropriate, to approve, among other things, the Proposed Disposals.

The Independent Board Committee has been formed to consider the Proposed Disposals. The letter from the Independent Board Committee to the Independent Shareholders is included in this circular from pages 21 to 22. Octal Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Proposed Disposals. The letter from Octal Capital to the Independent Board Committee and the Independent Shareholders is included in this circular from pages 23 to 46.

The purposes of this circular is to provide the Shareholders with further information in respect of Proposed Disposals and the EGM notice. Shareholders are advised to refer to this circular to make a properly-informed decision with respect to the Proposed Disposals.

## II. THE IRICO ZIXUN DISPOSAL AGREEMENT

**Date:** 30 May 2014

**Parties:**

The vendor: the Company

The purchaser: Xianyang IRICO

**Assets to be disposed of**

Subject to and upon the terms and conditions of the IRICO Zixun Disposal Agreement, the Company agreed to sell and Xianyang IRICO agreed to purchase the IRICO Zixun Interest, being the entire equity interest in IRICO Zixun.

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## LETTER FROM THE BOARD

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### **Consideration**

The consideration under the IRICO Zixun Disposal Agreement is RMB187.86 million, which shall be fully paid by Xianyang IRICO to the Company in cash at one time within 90 days after the effective date of the IRICO Zixun Disposal Agreement.

The consideration under the IRICO Zixun Disposal Agreement was arrived at after arm's length negotiations between the parties to the IRICO Zixun Disposal Agreement after taking into account, among other things, (i) the appraised value of IRICO Zixun (being approximately RMB187.86 million as at 31 December 2013), as set out in the PRC Valuation Report prepared by Beijing Pan-China using the asset-based approach; and (ii) the attributable value of the IRICO Zixun Interest.

### **Conditions**

The IRICO Zixun Disposal Agreement shall become effective upon fulfilment of the following conditions:

- (i) the competent department in charge of State-owned assets management or its delegated authority having approved the IRICO Zixun Disposal pursuant to the IRICO Zixun Disposal Agreement;
- (ii) the board of directors of Xianyang IRICO having approved the IRICO Zixun Disposal pursuant to the IRICO Zixun Disposal Agreement;
- (iii) the Company having obtained the Independent Shareholders' approval of the IRICO Zixun Disposal at the EGM; and
- (iv) the effectiveness of both of the Kunshan IRICO Disposal Agreement and the Cairui Display Disposal Agreement.

### **Completion**

The completion of IRICO Zixun Disposal Agreement shall take place on the day when the Company receives the consideration under the IRICO Zixun Disposal Agreement in full. Immediately after the completion of the IRICO Zixun Disposal, (i) Xianyang IRICO will own 100% equity interest in IRICO Zixun; (ii) the Company will cease to hold any equity interest in IRICO Zixun; and (iii) IRICO Zixun will no longer be a subsidiary of the Company.

### **III. THE KUNSHAN IRICO DISPOSAL AGREEMENT**

**Date:** 30 May 2014

**Parties:**

The vendor: the Company and IRICO Shadow Mask

The purchaser: Xianyang IRICO

**Assets to be disposed of**

Subject to and upon the terms and conditions of the Kunshan IRICO Disposal Agreement, the Company agreed to sell and Xianyang IRICO agreed to purchase the 80% equity interest in Kunshan IRICO; and IRICO Shadow Mask agreed to sell and Xianyang IRICO agreed to purchase the 10% equity interest in Kunshan IRICO.

**Consideration**

The consideration under the Kunshan IRICO Disposal Agreement is RMB82.74 million, which shall be fully paid by Xianyang IRICO to the Company and Kunshan IRICO in proportion respectively in cash at one time within 90 days after the effective date of the Kunshan IRICO Disposal Agreement.

The consideration under the Kunshan IRICO Disposal Agreement was arrived at after arm's length negotiations between the parties to the Kunshan IRICO Disposal Agreement after taking into account, among other things, (i) the appraised value of Kunshan IRICO (being approximately RMB91.93 million as at 31 December 2013), as set out in the PRC Valuation Report prepared by Beijing Pan-China using the asset-based approach; and (ii) the attributable value of the Kunshan IRICO Interest.

**Conditions**

The Kunshan IRICO Disposal Agreement shall become effective upon fulfilment of the following conditions:

- (i) the competent department in charge of State-owned assets management or its delegated authority having approved the Kunshan IRICO Disposal pursuant to the Kunshan IRICO Disposal Agreement;

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## LETTER FROM THE BOARD

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- (ii) the board of directors of Xianyang IRICO having approved the Kunshan IRICO Disposal pursuant to the Kunshan IRICO Disposal Agreement;
- (iii) the Company having obtained the Independent Shareholders' approval of the Kunshan IRICO Disposal at the EGM; and
- (iv) the effectiveness of both of the IRICO Zixun Disposal Agreement and the Cairui Display Disposal Agreement.

### **Completion**

The completion of Kunshan IRICO Disposal Agreement shall take place on the day when the Company receives the consideration under the Kunshan IRICO Disposal Agreement in full. Immediately after the completion of the Kunshan IRICO Disposal, (i) Xianyang IRICO will own 90% equity interest in Kunshan IRICO; (ii) the Company and IRICO Shadow Mask will cease to hold any equity interest in Kunshan IRICO; and (iii) Kunshan IRICO will no longer be a subsidiary of the Company.

## **IV. THE CAIRUI DISPLAY DISPOSAL AGREEMENT**

**Date:** 30 May 2014

### **Parties:**

The vendor: the Company

The purchaser: Xianyang IRICO

### **Assets to be disposed of**

Subject to and upon the terms and conditions of the Cairui Display Disposal Agreement, the Company agreed to sell and Xianyang IRICO agreed to purchase the Cairui Display Interest, being the 75% equity interest in Cairui Display.

### **Consideration**

The consideration under the Cairui Display Disposal Agreement is RMB30.51 million, which shall be fully paid by Xianyang IRICO to the Company in cash at one time within 90 days after the effective date of the Cairui Display Disposal Agreement.

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## LETTER FROM THE BOARD

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The consideration under the Cairui Display Disposal Agreement was arrived at after arm's length negotiations between the parties to the Cairui Display Disposal Agreement after taking into account, among other things, (i) the appraised value of Cairui Display (being approximately RMB40.68 million as at 31 December 2013), as set out in the PRC Valuation Report prepared by Beijing Pan-China using the asset-based approach; and (ii) the attributable value of the Cairui Display Interest.

### **Conditions**

The Cairui Display Disposal Agreement shall become effective upon fulfilment of the following conditions:

- (i) the competent department in charge of State-owned assets management or its delegated authority having approved the Cairui Display Disposal pursuant to the Cairui Display Disposal Agreement;
- (ii) the board of directors of Xianyang IRICO having approved the Cairui Display Disposal pursuant to the Cairui Display Disposal Agreement;
- (iii) the Company having obtained the Independent Shareholders' approval of the Cairui Display Disposal at the EGM; and
- (iv) the effectiveness of both of the IRICO Zixun Disposal Agreement and the Kunshan Disposal Agreement.

### **Completion**

The completion of Cairui Display Disposal Agreement shall take place on the day when the Company receives the consideration under the Cairui Display Disposal Agreement in full. Immediately after the completion of the Cairui Display Disposal, (i) Xianyang IRICO will own 75% equity interest in Cairui Display; (ii) the Company will cease to hold any equity interest in Cairui Display; and (iii) Cairui Display will no longer be a subsidiary of the Company.

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## LETTER FROM THE BOARD

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### V. THE SICHUAN SHUANGHONG DISPOSAL AGREEMENT

**Date:** 30 May 2014

**Parties:**

The vendor: the Company

The purchaser: IRICO Group

**Assets to be disposed of**

Subject to and upon the terms and conditions of the Sichuan Shuanghong Disposal Agreement, the Company agreed to sell and IRICO Group agreed to purchase the Sichuan Shuanghong Interest, being the 20% equity interest in Sichuan Shuanghong.

**Consideration**

The consideration under the Sichuan Shuanghong Disposal Agreement is RMB90.95 million, which shall be fully paid by IRICO Group to the Company in cash at one time within 90 days after the effective date of the Sichuan Shuanghong Disposal Agreement.

The consideration under the Sichuan Shuanghong Disposal Agreement was arrived at after arm's length negotiations between the parties to the Sichuan Shuanghong Disposal Agreement after taking into account, among other things, (i) the appraised value of Sichuan Shuanghong (being approximately RMB454.77 million as at 31 December 2013), as set out in the PRC Valuation Report prepared by Beijing Pan-China using the asset-based approach; and (ii) the attributable value of the Sichuan Shuanghong Interest.

**Conditions**

The Sichuan Shuanghong Disposal Agreement shall become effective upon fulfilment of the following conditions:

- (i) the competent department in charge of State-owned assets management or its delegated authority having approved the Sichuan Shuanghong Disposal pursuant to the Sichuan Shuanghong Disposal Agreement;

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## LETTER FROM THE BOARD

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- (ii) the board of directors of IRICO Group having approved the Sichuan Shuanghong Disposal pursuant to the Sichuan Shuanghong Disposal Agreement; and
- (iii) the Company having obtained the Independent Shareholders' approval of the Sichuan Shuanghong Disposal at the EGM.

### **Completion**

The completion of Sichuan Shuanghong Disposal Agreement shall take place on the day when the Company receives the consideration under the Sichuan Shuanghong Disposal Agreement in full. Immediately after the completion of the Sichuan Shuanghong Disposal, (i) IRICO Group will hold 20% equity interest in Sichuan Shuanghong; and (ii) the Company will cease to hold any equity interest in Sichuan Shuanghong.

## **VI. REASONS FOR AND BENEFITS EXPECTED TO ACCRUE FROM THE PROPOSED DISPOSALS**

Following the upgrading of the display devices industry in the PRC, the industry direction of the Group had changed from the traditional CRT (Cathode Ray Tube) businesses to the new businesses, including solar photovoltaic glass, luminous materials and new electronic materials, and liquid crystal glass substrate, etc. The principal businesses of IRICO Zixun, Kunshan IRICO, Cairui Display and Sichuan Shuanghong, which are the target companies of the Proposed Disposals, are not directly relevant to such principal businesses of the Group. The principal businesses of each of IRICO Zixun, Kunshan IRICO, Cairui Display and Sichuan Shuanghong do not consist with such industry direction of the Company.

IRICO Zixun, Kunshan IRICO, Cairui Display and Sichuan Shuanghong recorded loss for the year ended 31 December 2013. After completion of the Proposed Disposals, the financial information of IRICO Zixun, Kunshan IRICO, Cairui Display and Sichuan Shuanghong will no longer be reflected in consolidated financial statements of the Company. As a result and upon completion of the Proposed Disposals, the bank balance of the Company will increase by RMB357.41 million, and the gains from the Proposed Disposals expected to accrue to the Company will be RMB220.33 million.

Upon the completion of the Proposed Disposals, the carrying value of the Disposal Group and Sichuan Shuanghong will be reassessed and may be different from the estimated ones as stated in the Appendix III of the Circular. As a result of the Proposed Disposals, gain on disposal at the date of the completion may be different from the estimated amount presented in the Appendix III of the Circular.

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## LETTER FROM THE BOARD

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The gearing ratio of the Company was about 87.68% as at 31 December 2013. As a result and upon completion of the Proposed Disposals, the gearing ratio of the Company is estimated to decline by 1.71 percentage points to approximately 85.97%.

The Proposed Disposals will better clarify the industrial direction of the Group, give more prominence to its principal business, reduce operating losses, improve the Group's results in operation, increase its working capitals and reduce its gearing ratio.

Based on the above reasons and benefits, the Directors believe that the terms of the Proposed Disposals are fair and reasonable and are in the interests of the Company and its shareholders as a whole.

In particular, the Directors believe that the appraised value of each of IRICO Zixun, Kunshan IRICO, Cairui Display and Sichuan Shuanghong, as set out in the PRC Valuation Reports, are fair and reasonable references to determine the respective consideration for each Proposed Disposals, for the following reasons:

1. The major assets of the target companies to be disposed under the Proposed Disposals (except Sichuan Shuanghong, whose major assets are long-term equity investments) are real estates. Considering the recently more stringent control imposed by the PRC government on the real estate market through fiscal policies, financial policies and taxes to curb the too-rapid rise of real estate prices, the real estate market in the PRC gradually stabilizes in the recent period. The real estate price as at the date of the relevant disposal agreements is basically the same as that on the Valuation Base Date; and
2. The target companies to be disposed under the Proposed Disposals did not conduct any material asset transactions from the Valuation Base Date to the Latest Practicable Date.

The Directors confirmed that there is no matter occurred since the Valuation Base Date of the PRC Valuation Reports up to the Latest Practicable Date, which may materially affect the valuation.



## VII. INFORMATION ON THE TARGET COMPANIES

### IRICO Zixun

IRICO Zixun was principally engaged in the development, production and sales of display devices parts, electronics, information products and rubber products. IRICO Zixun's manufacturing operation of the traditional CRT (Cathode Ray Tube) business was ceased since 2013 and it will be principally engaged in property leasing and management businesses. The major assets of IRICO Zixun are a construction in progress, details of which are set out below:

On 21 December 2011, IRICO Zixun and Shaanxi Taihua Property Development Co., Ltd.\* (陝西泰華置業發展有限公司) ("**Shaanxi Taihua**"), being a independent third party of the Company, entered into an agreement (the "**Land Cooperation and Development Agreement**"), pursuant to which, IRICO Zixun and Shaanxi Taihua shall cooperate in developing the land situated at southwest of the junction between Fenghui South Road and Technology Road No. 2, Advanced Technology Industry Development District, Xi'an City, the PRC (the "**Land**"), whereby (i) IRICO Zixun will contribute the Land and its existing fixtures and (ii) Shaanxi Taihua will construct various properties on the Land and pay the remaining development costs as its corresponding contribution. Shaanxi Taihua will bear the risks of the redevelopment project. The size of the Land is 41,736 sq.m..

The value of the Land and its existing fixtures, being the contribution made by IRICO Zixun under the Land Development and Cooperation Agreement is RMB142,428,900 as ascertained by an independent valuer as at the date when entering into the Land Development Cooperation Agreement.

Upon completion, the following properties will be returned to IRICO Zixun at cost as a return for its contribution to the redevelopment project, (i) certain units comprising an aggregate ground floor area of 31,540 sq.m. of the commercial office building to be erected on the Land, including 3 floors of commercial offices with a ground floor area of 4,610 sq.m., (ii) certain units in the apartment or serviced apartments to be erected on the Land with an aggregate ground floor area of 10,000 sq.m., and (iii) 200 car parking spaces (together the "**Returned Properties**"). If the contribution made by IRICO Zixun (i.e. RMB142,428,900) is not sufficient to offset the price of the Returned Properties at cost, IRICO Zixun can offset the outstanding amount by returning some properties amongst the Returned Properties to Shaanxi Taihua at the market offer price of similar properties on the Land offered by Shaanxi Taihua to the public. According to the Area Measurement Record Report of the Pre-sale Property (《房屋預售備案面積測算報告》) dated January 2014, the gross floor areas of the commercial building has been increased from 31,560 sq.m. to 34,559.83 sq.m.. It is expected that the construction of the redevelopment project will be completed by the end of April 2016.

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## LETTER FROM THE BOARD

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The Company decided to dispose the IRICO Zixun Interest at this stage for the following reasons:

- 1 The principal business of IRICO Zixun after the redevelopment project has completed will be property leasing and management, which is not in line with the industrial direction of the Company;
- 2 The Company needs to optimize its asset structure and strip off its non-core businesses so as to better develop its principal business;
- 3 The gearing ratio and finance costs of the Company are both relatively high, therefore, the disposal of IRICO Zixun at the current stage can reduce gearing ratio and finance costs of the Group; and
- 4 The above-mentioned property redevelopment is expected to complete by the end of April 2016. The Company is of the view that there is uncertainty with the future development of the real estate industry in the PRC.

Based on the above, the Company believes that the disposal of IRICO Zixun at this stage can not only optimize and adjust the asset structure of the Company, but also timely replenish the operating capital, reduce finance costs, therefore improve the operating conditions of the Company, which is in line with the comprehensive development of the Company as well as the overall interest of the Company.

The table below sets out the assets and liabilities of IRICO Zixun as at 31 December 2013, prepared under Hong Kong accounting standards:

Total assets	:	RMB127,402,000
Total liabilities	:	RMB41,812,000
Net assets	:	RMB85,590,000

The table below sets out the loss before taxation and net loss of IRICO Zixun for the two financial years ended 31 December 2013 and 2012, prepared under Hong Kong accounting standards:

	<b>For the financial year ended 31 December 2013</b>	<b>For the financial year ended 31 December 2012</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Loss before taxation	(16,522)	(21,525)
Net loss for the year	(16,522)	(21,525)

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## LETTER FROM THE BOARD

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The Company is expected to gain approximately RMB101,278,000, after taking into consideration of the estimated direct expenses amounted to approximately RMB992,000, from the IRICO Zixun Disposal and such gain is calculated by reference to the carrying value of the IRICO Zixun Interest in the accounts. The Company intends to use such proceeds to supplement its working capital so as to develop the principal businesses of the Company. As at the Latest Practicable Date, the Company has not identified specific projects for such proceeds.

### **Kunshan IRICO**

Kunshan IRICO is principally engaged in the development, production and sales of rubber products. The major assets of Kunshan IRICO are a parcel of land and buildings above the ground, details of which are set out in the paragraph headed “VIII. Property Valuation” in the section headed “Letter from the Board” in this circular.

The table below sets out the assets and liabilities of Kunshan IRICO as at 31 December 2013, prepared under Hong Kong accounting standards:<sup>(Note)</sup>

Total assets	:	RMB82,983,000
Total liabilities	:	RMB28,321,000
Net assets	:	RMB54,662,000

*Note:* The total assets, total liabilities and net assets on page V-19 of this circular represent only the financial information of the parent company (i.e. Kunshan IRICO); while the figures mentioned in the above table represent the consolidated figures of Kunshan IRICO and its subsidiaries.

The table below sets out the loss before taxation and net profit/loss of Kunshan IRICO for the two financial years ended 31 December 2013 and 2012, prepared under Hong Kong accounting standards:

	<b>For the financial year ended 31 December 2013 RMB'000</b>	<b>For the financial year ended 31 December 2012 RMB'000</b>
(Loss) profit before taxation	(1,197)	473
Net profit (loss) for the year	(1,197)	473

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## LETTER FROM THE BOARD

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The Company is expected to gain approximately RMB36,835,000, after taking into consideration of the estimated direct expenses and non-controlling interest amounted to approximately RMB246,000 and RMB9,003,000 respectively, from the Kunshan IRICO Disposal and such gain is calculated by reference to the carrying value of the Kunshan IRICO Interest in the accounts. The Company intends to use such proceeds to supplement its working capital so as to develop the principal businesses of the Company. As at the Latest Practicable Date, the Company has not identified specific projects for such proceeds.

### Cairui Display

Cairui Display used to principally engaged in the research and development, production and sales of CRT and the electronic products. Cairui Display's manufacturing operation of the traditional CRT business was ceased in the end of 2007 and it is currently principally engaged in lease of real estates. The main assets of Cairui Display are a land parcel and buildings above the ground, details of which are set out in the paragraph headed "VIII. Property Valuation" in the section headed "Letter from the Board" in this circular.

The table below sets out the assets and liabilities of Cairui Display as at 31 December 2013, prepared under Hong Kong accounting standards:

Total assets	:	RMB33,869,000
Total liabilities	:	RMB11,668,000
Net assets	:	RMB22,201,000

The table below sets out the net loss before taxation and net loss of Cairui Display for the two financial years ended 31 December 2013 and 2012, prepared under Hong Kong accounting standards:

	<b>For the financial year ended 31 December 2013</b>	<b>For the financial year ended 31 December 2012</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Loss before taxation	(213)	(453)
Net loss for the year	(213)	(453)

The Company is expected to gain approximately RMB13,719,000, after taking into consideration of the estimated direct expenses and non-controlling interest amounted to approximately RMB140,000 and RMB5,550,000 respectively, from the Cairui Display Disposal and such gain is calculated by reference to the carrying value of the Cairui Display Interest in the accounts. The Company intends to use such proceeds to supplement its working capital so as to develop the principal businesses of the Company. As at the Latest Practicable Date, the Company has not identified specific projects for such proceeds.

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## LETTER FROM THE BOARD

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### Sichuan Shuanghong

Sichuan Shuanghong and its subsidiaries are principally engaged in production, research and development and sale of plasma display panels (PDP) and related materials. The main assets of Sichuan Shuanghong are long-term equity investments, details of which are set out in the pages VII-12 to VII-13 of this circular.

The table below sets out the assets and liabilities of Sichuan Shuanghong as at 31 December 2013, prepared under Hong Kong accounting standards:<sup>(Note)</sup>

Total assets	:	RMB1,372,985,000
Total liabilities	:	RMB135,190,000
Net assets	:	RMB1,237,795,000

*Note:* The total assets, total liabilities and net assets on page VII-12 of this circular represented only the financial information of the parent company (i.e. Sichuan Shuanghong); while the figures mentioned in the above table represent the consolidated figures of Sichuan Shuanghong, its subsidiaries and associates.

As at 31 December 2013, the Company's interests in Sichuan Shuanghong, prepared under Hong Kong accounting standards is approximately RMB13,035,000.

The table below sets out the loss before taxation and net loss of Sichuan Shuanghong for the two financial years ended 31 December 2013 and 2012, prepared under Hong Kong accounting standards:

	<b>For the financial year ended 31 December 2013</b>	<b>For the financial year ended 31 December 2012</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Loss before taxation	(198,671)	(209,922)
Net loss for the year	(202,732)	(211,668)

The Company is expected to gain approximately RMB68,501,000, after taking into consideration of the cumulative share of exchange reserve of an associate reclassified from equity to profit or loss and the estimated direct expenses amounted to approximately RMB9,071,000 and RMB343,000 respectively from the Sichuan Shuanghong Disposal and such gain is calculated by reference to the carrying value of the Sichuan Shuanghong Interest in the accounts. The Company intends to use such proceeds to supplement its working capital so as to develop the principal businesses of the Company. As at the Latest Practicable Date, the Company has not identified specific projects for such proceeds.

## LETTER FROM THE BOARD

### VIII. PROPERTY VALUATION

The property valuation report prepared by Jones Lang LaSalle, full text of which is set out in Appendix VIII to this circular, has included all the property interests being disposed of by the Disposal Group. A summary of the details of the material properties of the Disposal Group are set out below:

No.	Owner	Property and Address	Area (m <sup>2</sup> )		Actual Use and Restrictions on Use	Owned or Leased (Lease Term)	Method of Acquisition of Land Use Right/Expiry Date of Land Use Right	Net book value as at 31 March 2014 (RMB)	Capital value in existing state as at 31 March 2014 (RMB)
			Land	Building					
1	Kunshan IRICO	A parcel of land, 7 buildings and various ancillary structures No. 36 Xihu Road, Kunshan City, Jiangsu Province, the PRC	40,000	13,875.44	Production purpose	Owned	Land grant: expiring on 7 March 2057 for industrial use	26,414,400	35,858,000
2	Cairui Display	A parcel of land, 5 buildings and various ancillary structures located at Export Processing Zone, Xi'an City, Shaanxi Province, the PRC	37,455.30	17,834.82	Production and office purposes	Owned	Land grant: expiring in October 2054 for industrial use	31,928,700	28,941,000 (refer to the note (1) below)
3	IRICO Zixun	A commercial building, various apartment units and 200 underground car parking spaces No. 16 Fenghui Nan Road, Hi-tech Development Zone, Xi'an City, Shaanxi Province, the PRC	N/A	44,559.83 Plus 200 lots car parking spaces	Office, retail, apartment and car parking	Under development and will be returned to IRICO Zixun	N/A	N/A	No commercial value (refer to the note (2) below)

#### Notes

- (1) Cairui Display has not obtained proper title documents for two manufacturing buildings, the capital value of them as at 31 March 2014 would be RMB21,445,000 assuming all relevant title documents had been obtained and the buildings could be freely transferred. The Company has not, and will not provide any indemnity to the purchaser on further costs or related penalties, if any. Please refer to pages VIII-9 and VIII-11 of this circular for details.
- (2) The property has not been assigned to IRICO Zixun, and the capital value of the property as if completed as at 31 March 2014 would be RMB560,000,000 on condition that the relevant title certificates have been obtained by IRICO Zixun and RICO Zixun is entitled to freely transfer, lease, mortgage or otherwise dispose of the property. Please refer to pages VIII-14 to VIII-16 of this circular for details.

## LETTER FROM THE BOARD

### *Accounting treatment to be adopted in the relevant properties*

The properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, the properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of the properties over their estimated useful lives and after taking into account of their estimated residual values, using the straight-line method.

Property is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the item is derecognised.

### *Comparison between the property value under the PRC Valuation Reports and the property valuation set out in Appendix VIII to this circular*

No.	Owner	Property and Address	Area (m <sup>2</sup> )		Owned or Leased	Market value in existing state as at 31 March 2014 in the property valuation report as set out in Appendix VIII to this circular	Market value in existing state as at 31 December 2013 in the relevant PRC Valuation Reports	Difference between the PRC Valuation Reports and the property valuation report set out in Appendix VIII to this circular
			Land	Building		(RMB)	(RMB)	(RMB)
1	Kunshan IRICO	A parcel of land, 7 buildings and various ancillary structures located at No. 36 Xihu Road, Kunshan City, Jiangsu Province, the PRC	40,000	13,875.44	Owned	35,858,000	36,426,700	568,700
2	Cairui Display	A parcel of land, 5 buildings and various ancillary structures located at Export Processing Zone, Xi'an City, Shaanxi Province, the PRC	37,455.30	17,834.82	Owned	50,386,000 (including the commercial and reference value)	50,804,000	418,000
3	Kunshan IRICO	A 2-storey street shop located at No. 236 Tongfeng Road West, Kunshan City, Jiangsu Province, the PRC	N/A	154.47	Owned	1,412,000	1,552,600	140,600
4	IRICO Zixun	A commercial building, various apartment units and 200 underground car parking spaces located at No. 16 Fenghui Nan Road, Hi-tech Development Zone, Xi'an City, Shaanxi Province, the PRC	N/A	44,559.83 Plus 200 lots car parking spaces	Under development and will be returned to IRICO Zixun	560,000,000 (reference value)	158,660,000	401,340,000

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## LETTER FROM THE BOARD

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*Notes:*

1. For properties No. 1 to 3, the different results of the property valuations are caused by the use of parameters from different valuers, and there have no material differences as the differences are acceptable within the industry.
2. As to property No. 4, the contents of the valuation disclosed in the two valuation reports are different. What is disclosed in the property valuation report is the market value of the property on the assumption that the property has been completed on the valuation date of the property valuation report as set out in Appendix VIII to this circular and IRICO Zixun has already obtained the relevant property ownership certificates and has the discretion to transfer, lease, pledge or dispose of such property by other means; while what is disclosed in the PRC Valuation Report is the net gains obtained upon IRICO Zixun's jointly property development with Shaanxi Taihua by leveraging its land and its existing fixture, i.e. market value of properties upon the completion of joint development deducts the subsequent expenses (including sale cost and tax). Please refer to the summary of PRC Valuation Report of IRICO Zixun as set out in Appendix IV to this circular for details.

## IX. INFORMATION ON THE COMPANY AND THE COUNTERPARTIES

### **The Company**

The Company is principally engaged in the production and sales of solar photovoltaic glass, luminous material and new electronics materials, and liquid crystal glass substrate.

### **IRICO Shadow Mask**

IRICO Shadow Mask is principally engaged in the research and development, design and manufacturing of shadow masks and auxiliary related products.

### **Xianyang IRICO**

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

### **IRICO Group**

IRICO Group is a wholly state-owned enterprise and the controlling Shareholder of the Company, holding approximately 71.74% of the equity interest in the Company as at the Latest Practicable Date. IRICO Group, in addition to operating businesses through the Company, is principally engaged in the research and development, production and trading of businesses relating to colour picture tubes, display panels and their components, colour television sets and electronic products.



**X. LISTING RULES IMPLICATIONS**

Reference is made to the Company's announcement dated 31 July 2013, 22 August 2013, 23 August 2013, 24 December 2013 and 17 April 2014 and the circular of the Company dated 26 September 2013 (together, the "**Previous Disclosures**") in relation to, among other things, the Previous Disposals.

IRICO Group is a controlling shareholder of the Company and thus a connected person of the Company. Xianyang IRICO, of which 45.67% equity interest was held by IRICO Group as at the Latest Practicable Date, is an associate of IRICO Group and thus a connected person of the Company.

Having considered the implications of Rules 14.22, 14.23, 14A.25 and 14A.26 of the Listing Rules, the Company aggregates the impact of the Proposed Disposals and the Previous Disposals for the purpose of classifying the Proposed Disposals under Chapters 14 and 14A of the Listing Rules.

As the highest percentage ratio among all the relevant percentage ratios, calculated on an aggregate basis, for the Proposed Disposals exceeds 75%, the Proposed Disposals constitute connected and very substantial disposals of the Company and are subject to announcement and Independent Shareholders' approval requirements under the Listing Rules.

The Previous Disposals was initiated by the A Share Company, being a subsidiary of the Company, in 2013, with the purposes to adjust its the industrial structure, to focus on growing and strengthening of its core businesses, and to turn the A Share Company from severe losses into profit within the shortest period of time. The Proposed Disposals are initiated by the Company in 2014, which are intended to strip off the non-principal and non-profitable businesses of the Group so as to better facilitate the future development of the Group. The Proposed Disposals and the Previous Disposal were not made by the Company under a restructuring plan of the Company.

The Company may from time to time optimise and adjust its corporate structure and business structure when the Directors considered necessary for the overall development of the Company. Saved as disclosed previously by Company, the Company does not have any other specific acquire or disposal plans which are discloseable under Rule 13.23 or Rule 13.09(2)(a) of the Listing Rules.

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## LETTER FROM THE BOARD

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### **XI. THE EGM**

The Board will convene the EGM for the Independent Shareholders to consider, if appropriate, to approve the Proposed Disposals.

The Independent Board Committee has been formed to consider the Proposed Disposals. Octal Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Proposed Disposals.

Certain Directors, namely, Mr. Guo Mengquan, Mr. Zhang Junhua, Mr. Si Yuncong, Mr. Huang Mingyan and Mr. Jiangahe, by virtue of their respective senior positions in IRICO Group, may be considered as having material interests in the Proposal Disposals. As such, they have abstained from voting at the meeting of the Board convened for the purpose of approving the Proposal Disposals. No Director holds any shares of the Company and therefore none of them is eligible for voting or is required to abstain from voting at the EGM.

CEC and its associates (including IRICO Group and its associates), holding approximately 71.74% of the issued share capital of the Company as at the Latest Practicable Date, will be required to abstain from voting at the EGM. The proposed resolutions will be passed by way of ordinary resolutions and voting will be conducted by way of poll in accordance with the requirements of the Listing Rules. Other than CEC and its associates (including IRICO Group and its associates), no Shareholder has any material interest in the Proposed Disposals and therefore is required to abstain from voting on the resolutions approving the Proposed Disposals at the EGM.

### **XII. RECOMMENDATIONS**

The Directors are of the view that the Proposed Disposals are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Directors recommend the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM.

Your attention is drawn to the letter from the Independent Board Committee set out on pages 21 to 22 of this circular, the letter from Octal Capital set out on pages 23 to 46 of this circular. The Independent Shareholders are advised to read the aforesaid letters before deciding as to how to vote on the resolutions regarding the Proposed Disposals.

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## LETTER FROM THE BOARD

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### XIII. ADDITIONAL INFORMATION

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

By order of the Board  
**IRICO Group Electronics Company Limited\***  
**Chu Xiaohang**  
*Company Secretary*



彩虹集團電子股份有限公司  
**IRICO GROUP ELECTRONICS COMPANY LIMITED\***

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

(Stock Code: 0438)

***Legal address and the head office in the PRC:***

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

***Principal Place of Business in Hong Kong:***

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

30 June 2014

**CONNECTED AND VERY SUBSTANTIAL DISPOSALS**

*To the Independent Shareholders*

Dear Sir or Madam,

We refer to the circular of the Company dated 30 June 2014 (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.

We have been appointed by the Board as the Independent Board Committee to advise you as to whether in our opinion, the terms and conditions of the Proposed Disposals are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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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 and conditions of the Proposed Disposals. 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 23 to 46 of the Circular.

We wish to draw your attention to the letter from the Board set out on pages 1 to 20 of the Circular.

Having considered the information contained in the letter from the Board, the interests of the Independent Shareholders and the advice and recommendation given by Octal Capital, we consider that the terms and conditions of the Proposed Disposals are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend that the Independent Shareholders vote in favour of the resolutions regarding the Proposed Disposals at the EGM.

Yours faithfully,

**IRICO Group Electronics Company Limited**  
**Xu Xinzhong, Feng Bing, Wang Jialu, Wang Zhicheng**  
*Independent Board Committee*

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## LETTER FROM OCTAL CAPITAL

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



801-805, 8/F, Nan Fung Tower,  
173 Des Voeux Road Central,  
Hong Kong

30 June 2014

*To the Independent Board Committee and the Independent Shareholders*

Dear Sirs,

### CONNECTED AND VERY SUBSTANTIAL DISPOSALS

#### INTRODUCTION

We refer to our engagement to advise the Independent Board Committee and the Independent Shareholders in respect of the Proposed Disposals and terms thereof, particulars of which are set out in the letter from the Board (the “**Letter from the Board**”) of the circular to the Shareholders dated 30 June 2014 (the “**Circular**”) and in which this letter is reproduced. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as given to them under the definitions section of the Circular.

As set out in the Letter from the Board, on 30 May 2014, the Company entered into four separate agreements with the respective parties regarding the Proposed Disposals which comprised the IRICO Zixun Disposal Agreement, the Kunshan IRICO Disposal Agreement, the Cairui Display Disposal Agreement and the Sichuan Shuanghong Disposal Agreement. Pursuant to the IRICO Zixun Disposal Agreement and the Cairui Display Disposal Agreement, the Company has agreed to sell and Xianyang IRICO has agreed to purchase 100% equity interest in IRICO Zixun at a consideration of RMB187.86 million and 75% equity interest in Cairui Display at a consideration of RMB30.51 million respectively (i.e. the IRICO Zixun Disposal and the Cairui Display Disposal). Pursuant to the Kunshan IRICO Disposal Agreement, the Company and IRICO Shadow Mask, a subsidiary of the Company, have agreed to sell and Xianyang IRICO has agreed to purchase an aggregate of 90% equity interest in Kunshan IRICO at a consideration of RMB82.74 million (i.e. the Kunshan IRICO Disposal, together with the IRICO Zixun Disposal and the Cairui Display Disposal, the “**First Disposal**”). Pursuant to the Sichuan Shuanghong Disposal Agreement, the Company has agreed to sell and IRICO Group has agreed to purchase 20% equity interest in Sichuan Shuanghong at a consideration of RMB90.95 million (i.e. the Sichuan Shuanghong Disposal or the “**Second Disposal**”).

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## LETTER FROM OCTAL CAPITAL

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IRICO Group is a controlling shareholder of the Company and thus a connected person of the Company. Xianyang IRICO, of which 45.67% equity interest was owned by IRICO Group, is an associate of IRICO Group and thus a connected person of the Company.

Having considered the implications of Rules 14.22, 14.23, 14A.25 and 14A.26 of the Listing Rules, the Company aggregates the impact of the Proposed Disposals and the Previous Disposals for the purpose of classifying the Proposed Disposals under Chapters 14 and 14A of the Listing Rules. As the highest percentage ratio among all the relevant percentage ratios, calculated on an aggregate basis, for the Proposed Disposals exceeds 75%, the Proposed Disposals constitute connected and very substantial disposals of the Company under Chapter 14A and Chapter 14 of the Listing Rules respectively which are subject to the Independent Shareholders' approval requirement.

We are not connected with the Directors, chief executive and substantial shareholders of the Company, Xianyang IRICO and IRICO Group 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 continuing connected transactions and a possible connected and major transaction in respect of disposals (for details please refer to the circulars of the Company dated 15 January 2013 and 26 September 2013 respectively). Under the Previous Engagements, we were required to express our opinion on and give recommendation to the Independent Board Committee and Independent Shareholders in respect of the relevant transactions. Apart from normal professional fees payable to us by the Company in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company or the directors, chief executive and substantial shareholders of the Company or the purchasers or any of their respective subsidiaries or associates.

In formulating our opinion, we have relied on the accuracy of the information and representations contained in the Circular and have assumed that all information and representations made or referred to in the Circular were true at the time they were made and continue to be true as at the Latest Practicable Date. We have also relied on our discussion with the Directors and management of the Company regarding the Group, including the information and representations contained in the Circular. We have also assumed that all statements of belief, opinion and intention made by the Directors and management of the Company in the Circular were reasonably made after due enquiry. We consider that we have reviewed sufficient information to reach an informed view, to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have no reason to suspect that any material facts have been omitted or withheld from the information contained or opinions expressed in the Circular nor to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and management of the Company. We have not, however, conducted an independent in-depth investigation into the business and affairs of the Group, IRICO Zixun, Kunshan IRICO, Cairui Display, Sichuan Shuanghong, IRICO Group and their respective subsidiaries or associates nor have we carried out any independent verification of the information supplied.

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## LETTER FROM OCTAL CAPITAL

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### PRINCIPLE FACTORS AND REASONS CONSIDERED IN RELATION TO THE PROPOSED DISPOSALS

In arriving at our opinion regarding the terms of the Proposed Disposals, we have considered the following principal factors and reasons:

#### I. Background of and reasons for the Proposed Disposals

##### 1. Principal activities and business of the Group

The Group is principally engaged in the production and sales of solar photovoltaic glass, luminous materials and new electronics materials, and liquid crystal glass substrate. The table below sets out the financial highlights of the Group for the years ended 31 December 2012 and 2013:

	For the year ended 31 December 2013 (Audited)	For the year ended 31 December 2012 (Audited)
<i>Expressed in RMB'000</i>		
<b>Revenue</b>		
Colour picture tubes (“CPTs”) production and sales and others	166,879	318,701
Luminous materials production and sales	352,136	520,064
Liquid crystal related products production and sales	1,219,279	1,552,654
Thin film transistor liquid crystal display (“TFT-LCD”) glass substrate and display devices production and sales	152,319	81,967
Solar photovoltaic glass production and sales	389,145	171,827
Total	<u>2,279,758</u>	<u>2,645,213</u>



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**LETTER FROM OCTAL CAPITAL**

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<i>Expressed in RMB'000</i>	<b>For the year ended 31 December 2013 (Audited)</b>	<b>For the year ended 31 December 2012 (Audited)</b>
<b>Segment results</b>		
CPTs production and sales and others	(103,519)	(245,823)
Luminous materials production and sales	9,986	28,265
Liquid crystal related products production and sales	(29,934)	(11,768)
TFT-LCD glass substrate and display devices production and sales	(126,856)	(1,997,407)
Solar photovoltaic glass production and sales	(92,957)	(654,709)
	<hr/>	<hr/>
Sub-total	(343,280)	(2,881,442)
Unallocated income	194,214	37,474
Unallocated expenses	(33,506)	(115,120)
Gain on disposal of available-for-sale investment	221,254	—
Finance costs	(227,029)	(180,632)
Share of loss of associates	(26,409)	(241,296)
	<hr/>	<hr/>
(Loss) before and after taxation	(214,756)	(3,381,016)
	<hr/> <hr/>	<hr/> <hr/>
Revenue	2,279,758	2,645,213
(Loss) before and after taxation	(214,756)	(3,381,016)
Net loss attributable to the owners of the Company	(226,352)	(1,662,002)
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## LETTER FROM OCTAL CAPITAL

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<i>Expressed in RMB'000</i>	As at 31 December 2013 (Audited)	As at 31 December 2012 (Audited)
Non-current assets	8,200,487	8,107,972
Current assets	2,778,580	4,188,162
Current liabilities	(5,744,346)	(5,153,073)
Non-current liabilities	(3,881,596)	(5,501,046)
Net assets	1,353,125	1,642,015
Net current liabilities	(2,965,766)	(964,911)
Equity attributable to owners of the Company	<u>(20,462)</u>	<u>206,678</u>

*Source: Annual report of the Company for the year ended 31 December 2013*

As set out in the above table, the Company recorded revenue of approximately RMB2,280 million during the year ended 31 December 2013, representing a decrease of approximately 13.8% as compared to that of approximately RMB2,645 million for the year ended 31 December 2012. Net loss attributable to the owners of the Company was approximately RMB226 million for the year ended 31 December 2013, representing a decrease of approximately 86.4% as compared to that of approximately RMB1,662 million for the year ended 31 December 2012.

According to the annual report of the Company for the year ended 31 December 2013, the decrease in revenue was mainly due to a year-on-year decrease in income from businesses such as luminous materials and liquid crystal related products affected by global economy and industrial factors. However, improvement in sales of solar photovoltaic glass had been subsidising the decline in sales of luminous materials and liquid crystal related products.

In addition, as set out in the annual report of the Company for the year ended 31 December 2013, the Group would continue to focus on the development of its three core businesses in the areas of solar photovoltaic glass business, luminous materials and new electronics chemical materials businesses, and LCD glass substrate business. The effort of the Group on focusing on core businesses have shown positive results in the year ended 31 December 2013 as we noted that results of the segments of “Solar photovoltaic glass production and sales” and “TFT-LCD glass substrate and display devices production and sales” had shown significant improvement with a substantial reduction in the segment losses in both segments for the year ended 31 December 2013 whilst the segment losses of the three core businesses in 2013 of approximately RMB210 million has decreased substantially as compared to that of approximately RMB2,624 million for the year ended 31 December 2012.

Moreover, we noted from Appendix I to the Circular that the Company will continue to make more efforts in improving its techniques in a market-oriented manner. It will also continuously carry out staff resettlement and placement to ensure the stability of the corporation and speed up adjustment and optimization of assets structure in order to improve operation efficiency of assets. Furthermore, the Company will strive to develop businesses of solar photovoltaic glass, new electronic material and other businesses, and make every effort to become the most promising corporation with the largest scale in the new energy field.

## **2. The Proposed Disposals**

According to the annual report of the Company for the year ended 31 December 2012, at the end of 2012, as approved by the State-owned Assets Supervision and Administration Commission (the “SASAC”), IRICO Group, the controlling shareholder of the Company, was consolidated into CEC by allocation at nil consideration, which was a significant decision made by the SASAC for boosting the reform and reorganisation of central enterprises and also an important measure to accelerate the comprehensive industrial transformation of IRICO Group. Meanwhile, as mentioned in the annual report of the Group for the year ended 31 December 2013, in order to fully cooperate with IRICO Group in reorganisation, integration and coordination in the industry, the Group endeavored to improve the competitiveness of solar photovoltaic glass business and new electronics chemical materials business and to enhance the yield rate of the production line of liquid crystal glass substrate.

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## LETTER FROM OCTAL CAPITAL

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According to the announcements of the Company dated 24 December 2013 and 17 April 2014, the Group had successfully disposed of several assets and companies related to its non-core businesses during the financial years 2013 and 2014, which included the disposals of Western Trust Co., Ltd., certain industrial properties and supporting facilities in Xianyang and IRICO (Foshan) Plat Panel Display Co., Ltd.. As noted from the annual report of the Company for the year ended 31 December 2013, the disposals of Western Trust Co., Ltd. and the industrial properties and supporting facilities resulted in gain on disposals of approximately RMB221 million and RMB41 million respectively.

As advised by the Company, following the upgrading of the display devices industry in the PRC, the industry direction of the Group had changed from the traditional CRT (Cathode Ray Tube) businesses to the new businesses, including solar photovoltaic glass, luminous material and new electronic materials, and liquid crystal glass substrate, etc. Since the business of each of the companies under the Proposed Disposals (the respective specific business of IRICO Zixun, Kunshan IRICO, Cairui Display and Sichuan Shuanghong are described in details in the following sections headed “Terms of the Proposed Disposal”) are not directly relevant to the three aforesaid core businesses of the Group and do not consist with such industry direction of the Company and these companies have been loss-making in the recent years, the Proposed Disposals form part of the plan of optimization and adjustment in the asset structure of the Group with a view to off-load the non-core businesses and loss-making companies in order to reduce the operating losses of the Group.

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## LETTER FROM OCTAL CAPITAL

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Moreover, as advised by the Company, the Proposed Disposals would better clarify the industrial direction of the Group, give more prominence to its principal business, reduce operating losses, improve the Group's results in operation, increase its working capitals and reduce its gearing ratio. Furthermore, as further advised by the Company, the terms of the Proposed Disposals are fair to the Company and the Shareholders as a whole as the assets to be disposed of have been appraised by an independent valuer with relevant qualifications and will be sold at prices reasonably and fairly determined.

On the other hand, according to the announcement of the Company dated 21 December 2011, IRICO Zixun and Shaanxi Taihua Property Development Co., Ltd.\* (陝西泰華置業發展有限公司) (“**Shaanxi Taihua**”), being an independent third party of the Company, entered into an agreement (the “**Land Cooperation and Development Agreement**”), to redevelop its land and structures erected thereon into a real estate complex with office buildings and residential buildings since late 2011 whereby (i) IRICO Zixun will contribute its land and structures; and (ii) Shaanxi Taihua will construct various properties on the land and pay the remaining development costs as its corresponding contribution. Shaanxi Taihua will bear the risks of the redevelopment project. The value of the land and structures of Gross Floor Area (“**GFA**”) of approximately 41,736 square meters, being the contribution made by IRICO Zixun under the Land Development and Cooperation Agreement, was RMB142,428,900 as ascertained by an independent valuer as at the date when entering into the Land Development Cooperation Agreement. In return, IRICO Zixun will receive (i) certain units comprising an aggregate GFA of 31,540 square meters of the commercial office building to be erected on the land, including 3 floors of commercial offices with a GFA of 4,610 square meters, (ii) certain units in the apartment or serviced apartments to be erected on the land with an aggregate GFA of 10,000 square meters, and (iii) 200 car parking spaces (together the “**Returned Properties**”). If the contribution made by IRICO Zixun (i.e. RMB142,428,900) is not sufficient to offset the price of the Returned Properties at cost, IRICO Zixun can offset the outstanding amount by returning some properties amongst the Returned Properties to Shaanxi Taihua at the market offer price of similar properties on the land offered by Shaanxi Taihua to the public. According to the Area Measurement Record Report of the Pre-sale Property (《房屋預售備案面積測算報告》) dated January 2014, the GFA of the commercial building has been increased from 31,560 square meters to 34,559.83 square meters. It is expected that the construction of such real estate complex will be completed by mid 2016.

*Note: The English names of the PRC entities and PRC certificate adopted in this letter marked “\*” are translations from their Chinese names for identification purposes only.*

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## LETTER FROM OCTAL CAPITAL

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As further advised by the Company, in view that (i) IRICO Zixun will be principally engaged in the property investment and management business after the redevelopment has completed which is not the principal business of the Group; (ii) the construction of such real estate complex will be completed by mid 2016 which is two years ahead and the Company is of the view that there is uncertainty about the prospect and market conditions of the then property market; (iii) the IRICO Zixun Disposal will enable the Group to receive an immediate cash inflow which can be used as working capital and facilitate the Group to optimize the asset structure of the Group, the Company prefers to carry out the IRICO Zixun Disposal at present instead of retaining IRICO Zixun and realizing the prospective gain after the property redevelopment is completed. Thus, the Company is of the opinion that the IRICO Zixun Disposal is in the interest of the Company.

According to the statistics of the National Bureau of Statistics of the PRC, we noted that the growth of the property market in the Shaanxi Province has started to slow down in recent months. In addition, we noted that the PRC government had implemented stringent policies to stabilize the real estate market which included raising down-payment and mortgage requirements of second-hand properties and the home purchases restrictions in more than 40 cities (including Xian) in the PRC leading to the uncertainty of the property price in the near future. Accordingly, we concur with the view of the Company and we consider that the IRICO Zixun Disposal is in the interest of the Company as it will allow the Company to retrieve immediate cash influx with certainty which can be applied towards the Group's existing operations and/or any investment opportunities which may arise in future instead of receiving future cash inflows with unpredictable timeframe.

Based on the above, we consider that the Proposed Disposals represent a good opportunity for the Company to focus on and strengthen its core businesses whilst the proceeds from the Proposed Disposals could provide working capital to the Group. In view that the Proposed Disposals would off-load the non-core businesses and loss-making companies of the Group and thus improving its financial performance, we are of the view that the Proposed Disposals are to be in the interests of the Company and the Shareholders as a whole.

**II. Terms of the Proposed Disposals**

For the purpose of assessing the fairness and reasonableness of the terms of each of the Proposed Disposals and given that there are several disposals contemplated under the Proposed Disposals, we set out below our analysis on each of the individual disposals accordingly.

**1. The IRICO Zixun Disposal**

IRICO Zixun was principally engaged in the development, production and sale of display devices parts, electronics, information products and rubber products. IRICO Zixun's manufacturing operation of the traditional CRT business was ceased since 2013 and it will be principally engaged in property leasing and management business. The Company has 100% equity interest in IRICO Zixun. The table below sets out the assets and liabilities of IRICO Zixun as at 31 December 2013 prepared under Hong Kong accounting standards:

Total assets:	RMB127,402,000
Total liabilities:	RMB41,812,000
Net assets:	RMB85,590,000

The table below sets out the loss before taxation and net loss of IRICO Zixun for the two financial years ended 31 December 2012 and 2013 prepared under Hong Kong accounting standards:

	<b>For the year ended 31 December 2013</b>	<b>For the year ended 31 December 2012</b>
<i>Expressed in RMB'000</i>		
Loss before taxation	(16,522)	(21,525)
Net loss for the year	(16,522)	(21,525)

As set out in the above table, IRICO Zixun recorded net loss for the year of approximately RMB16.5 million for the year ended 31 December 2013, representing a decrease of approximately 23.2% as compared to that of approximately RMB21.5 million for the year ended 31 December 2012. In the year 2011, IRICO Zixun had begun its plan to redevelop certain of its factory buildings into commercial buildings in order to revitalize the value of its assets. IRICO Zixun had positive net assets as at 31 December 2013 and its assets mainly consisted of its construction-in-process and its liabilities mainly consist of salaries payable and other payables.

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## LETTER FROM OCTAL CAPITAL

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The consideration for the IRICO Zixun Disposal is approximately RMB187.86 million (“**IRICO Zixun Consideration**”). As set out in the Letter from the Board, the IRICO Zixun Consideration was arrived at after arm’s length negotiations between the parties to the IRICO Zixun Disposal Agreement after taking into account, among other things, (i) the appraised value of IRICO Zixun (being approximately RMB187.86 million as at 31 December 2013), as set out in a valuation report (the “**IRICO Zixun Valuation Report**”) prepared by Beijing Pan-China (the “**Independent Valuer**”) using asset-based approach; and (ii) the attributable value of the IRICO Zixun Interest.

We have reviewed the IRICO Zixun Valuation Report prepared by the Independent Valuer and we have also discussed with the Independent Valuer regarding the methodology and principal basis and assumptions adopted for the valuation of IRICO Zixun. We understand the common valuation approaches are market approach, income approach and asset-based approach. We further understand from the Independent Valuer that the adoption of market approach may not be appropriate because IRICO Zixun is not a publicly listed company and the transactions of companies with comparable characteristics are limited. On the other hand, we understand from the Independent Valuer that the adoption of income approach may not be appropriate due to (1) the manufacturing operation of IRICO Zixun had ceased in 2013 and it is mainly engaged in trading business and property leasing business afterwards where IRICO Zixun continued to record losses consecutively since 2011; and (2) the income and expenses from these two business streams are uncertain. Hence, the Independent Valuer adopted asset-based approach for the valuation of IRICO Zixun. We understand asset-based approach primarily involves the assessment of individual assets and liabilities to appraise their values, for instance, the appraisal of a fixed asset may include an assessment of the purchase or construction cost and the residual ratio of such asset. As for the properties under development of IRICO Zixun, we understand from the Independent Valuer that a mixed-approach which includes the residual value method which was applied to estimate the sales value of the properties and market approach which was applied to compare the market value of the properties to be sold as estimated from the residual value approach. We have discussed with the Independent Valuer in respect of the assumptions and methodology applied in the valuation of the properties under development and we understand that it is a common practice of applying a mixed approach in valuing this kind of assets.

In compliance with the requirements of Rule 13.80 of the Listing Rules, we have obtained from the Independent Valuer and reviewed a copy of the Assets Appraisal Credentials Certificate\* (資產評估資格證書) issued by the Ministry of Finance of Beijing, the PRC (北京市財政局).



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We have reviewed and enquired the qualification and experience of the valuers of the Independent Valuer in charge of the valuation. As per our discussion with the valuers, we noticed that they are Certified Public Valuers who have experiences in undertaking valuations of corporations, properties and securities listed in the Stock Exchange, Shanghai Stock Exchange and Shenzhen Stock Exchange. As such, we are of the view that the valuers possess sufficient experience in performing the valuations.

Based on our review of the IRICO Zixun Valuation Report, we consider that the valuation approaches adopted are common valuation methodologies in appraising such company and the basis and assumptions adopted by the Independent Valuer for IRICO Zixun are fair and reasonable. We also consider the level of the IRICO Zixun Consideration of approximately RMB187.86 million, which was determined based on the IRICO Zixun Valuation Report, is reasonable.

### **2. The Kunshan IRICO Disposal**

Kunshan IRICO is principally engaged in the development, production and sales of rubber products. The Company has 90% equity interest in Kunshan IRICO. The table below sets out the assets and liabilities of Kunshan IRICO as at 31 December 2013 prepared under Hong Kong accounting standards:

Total assets:	RMB82,983,000
Total liabilities:	RMB28,321,000
Net assets:	RMB54,662,000

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## LETTER FROM OCTAL CAPITAL

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The table below sets out the profit/loss before taxation and net profit/loss of Kunshan IRICO for the two financial years ended 31 December 2012 and 2013 prepared under Hong Kong accounting standards:

	For the year ended 31 December 2013	For the year ended 31 December 2012
<i>Expressed in RMB'000</i>		
Profit/(loss) before taxation	(1,197)	473
Net profit/(loss) for the year	(1,197)	473

As set out in the above table, Kunshan IRICO recorded net loss for the year of approximately RMB1.2 million for the year ended 31 December 2013, as compared to net profit for the year of approximately RMB0.5 million for the year ended 31 December 2012. The net loss for the year ended 31 December 2013 was mainly attributable to the provision for inventory obsolescence of approximately RMB1.4 million. Kunshan IRICO had positive net assets as at 31 December 2013 and its assets mainly consisted of deposits and other receivables and its factory buildings and equipment and its liabilities mainly consist of government fees relating to relocation compensation. Other than the main assets as mentioned above, Kunshan IRICO had a long-term investment in a subsidiary, namely Kunshan IRICO Yingguang Electronics Company Limited\* (昆山彩虹櫻光電子有限公司) (“**Kunshan Yingguang**”), with an equity interest of 86%. Since the operating period of Kunshan Yingguang had been expired in November 2012, it had ceased operation and is undergoing a dismissal where its assets and liabilities will be allocated to its shareholders based on their respective shareholdings.

The consideration for the Kunshan IRICO Disposal is approximately RMB82.74 million (the “**Kunshan IRICO Consideration**”). As set out in the Letter from the Board, we understand that the Kunshan IRICO Consideration was arrived at after arm’s length negotiations between the parties to the Kunshan IRICO Disposal Agreement after taking into account, among other things, (i) the appraised value of Kunshan IRICO (being approximately RMB91.93 million as at 31 December 2013), as set out in a valuation report (the “**Kunshan IRICO Valuation Report**”) prepared by the Independent Valuer using asset-based approach; and (ii) the attributable value of the Kunshan IRICO Interest.

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We have reviewed the Kunshan IRICO Valuation Report prepared by the Independent Valuer and we have also discussed with the Independent Valuer regarding the methodology and principal basis and assumptions adopted for the valuation of Kunshan IRICO. We understand the common valuation approaches are market approach, income approach and asset-based approach. We further understand from the Independent Valuer that the adoption of market approach may not be appropriate because Kunshan IRICO is not a publicly listed company and the transactions of companies with comparable characteristics are limited. On the other hand, we understand from the Independent Valuer that the adoption of income approach, which is heavily relied on projection on expected discounted future revenue and/or cash inflows, may not be appropriate because (i) the profit margin of Kunshan IRICO has been decreasing and operating profit from sales of rubber parts is low due to the intensity of the competition in the market where it would render the Company difficult to make meaningful and accurate projections; (ii) Kunshan IRICO has recorded operating cash outflow of about RMB50 million; (iii) a substantial part of net income was only accounting profit derived from recognition of previous compensation of forced relocation by instalments which cannot be used for projection of future cashflows. Hence, the Independent Valuer adopted asset-based approach for the valuation of Kunshan IRICO. We understand asset-based approach primarily involves the assessment of assets and liabilities to appraise their values, for instance, the appraisal of a fixed asset may include an assessment of the purchase or construction cost and the residual ratio of such asset. In particular, we noted from the Kunshan IRICO Valuation Report that the assessment of the appraised value of the long-term investment in Kunshan Yingguang was also based on asset-based approach since the core assets of Kunshan Yingguang were machinery and equipment. We also noted that income approach is not applicable as it had ceased its operation after the expiry of operating period of Kunshan Yingguang since late 2012 and it is undergoing a dismissal whilst market approach is not applicable as there are not sufficient samples of comparable transactions. The appraised value of its investment in Kunshan Yingguang of approximately RMB26 million was determined based on Kunshan IRICO's equity interest of 86% in Kunshan Yingguang. Upon comparison, such appraised value was above its carrying value.

Based on the Kunshan IRICO Valuation Report, we consider that the valuation approaches adopted are common valuation methodologies in appraising such company and the basis and assumptions adopted by the Independent Valuer for Kunshan IRICO are fair and reasonable. We consider the level of the Kunshan IRICO Consideration of RMB82.74 million, which was determined based on the Kunshan IRICO Valuation Report, is reasonable.

### **3. The Cairui Display Disposal**

Cairui Display used to be principally engaged in the research and development, production and sales of CRT and the electronic products. Cairui Display's manufacturing operation of the traditional CRT business was ceased in the end of year 2007 and it is currently principally engaged in the lease of real estate. The Company has 75% equity interest in Cairui Display. The table below sets out the assets and liabilities of Cairui Display as at 31 December 2013 prepared under Hong Kong accounting standards:

Total asset:	RMB33,869,000
Total liabilities:	RMB11,668,000
Net assets:	RMB22,201,000

The table below sets out the loss before taxation and net loss of Cairui Display for the two financial years ended 31 December 2012 and 2013 prepared under Hong Kong accounting standards:

	<b>For the year ended 31 December 2013</b>	<b>For the year ended 31 December 2012</b>
<i>Expressed in RMB'000</i>		
Loss before taxation	(213)	(453)
Net loss for the year	(213)	(453)

As set out in the above table, Cairui Display recorded net loss for the year of approximately RMB0.2 million for the year ended 31 December 2013 which was comparable to that of approximately RMB0.5 million for the year ended 31 December 2012. Cairui Display had positive net assets as at 31 December 2013 and, its assets mainly consisted of its investment property and its factory building and its liabilities mainly consist of others payable.

The consideration for the Cairui Display Disposal is approximately RMB30.51 million ("**Cairui Display Consideration**"). As set out in the Letter from the Board, we understand that the Cairui Display Consideration was arrived at after arm's length negotiations between the parties to the Cairui Display Disposal Agreement after taking into account, among other things, (i) the appraised value of Cairui Display (being approximately RMB40.68 million as at 31 December 2013), as set out in a valuation report (the "**Cairui Display Valuation Report**") prepared by the Independent Valuer using asset-based approach; and (ii) the attributable value of the Cairui Display Interest.

We have reviewed the Cairui Display Valuation Report prepared by the Independent Valuer and we have also discussed with the Independent Valuer regarding the methodology and principal basis and assumptions adopted for the valuation of Cairui Display. We understand the common valuation approaches are market approach, income approach and asset-based approach. We further understand from the Independent Valuer that the adoption of market approach may not be appropriate because Cairui Display is not a publicly listed company and the transactions of companies with comparable characteristics are limited. On the other hand, we understand from the Independent Valuer that the adoption of income approach may not be appropriate because Cairui Display had ceased its CRT manufacturing operation in 2007 and it is only operating on its property leasing business while Cairui Display had been suffering net losses in 2012 and 2013. Hence the Independent Valuer adopted asset-based approach for the valuation of Cairui Display as the principal business of Cairui Display is the leasing of its factory buildings to third parties and the majority of its assets are investment properties. We understand asset-based approach primarily involves the assessment of assets and liabilities to appraise their values, for instance, the appraisal of a fixed asset may include an assessment of the purchase or construction cost and the residual ratio of such asset.

Based on the Cairui Display Valuation Report, we consider that the valuation approaches adopted are common valuation methodologies in appraising such company and the basis and assumptions adopted by the Independent Valuer for Cairui Display are fair and reasonable. We consider the level of the Cairui Display Consideration of approximately RMB30.51 million, which was determined based on the Cairui Display Valuation Report, is reasonable.

#### **4. The Sichuan Shuanghong Disposal**

Sichuan Shuanghong is principally engaged in the production, research and development and sale of plasma display panels and related materials. The Company has 20% equity interest in Sichuan Shuanghong. The table below sets out the assets and liabilities of Sichuan Shuanghong as at 31 December 2013 prepared under Hong Kong accounting standards:

Total assets:	RMB1,372,985,000
Total liabilities:	RMB135,190,000
Net assets:	RMB1,237,795,000

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The table below sets out the loss before taxation and net loss of Sichuan Shuanghong for the two financial years ended 31 December 2013 and 2012 prepared under Hong Kong accounting standards:

	For the year ended 31 December 2013	For the year ended 31 December 2012
<i>Expressed in RMB'000</i>		
Loss before taxation	(198,671)	(209,922)
Net loss for the year	(202,732)	(211,668)

As set out in the above table, Sichuan Shuanghong recorded net loss for the year of approximately RMB202.7 million for the year ended 31 December 2013 which was comparable to that of approximately RMB211.7 million for the year ended 31 December 2012. Sichuan Shuanghong had positive net assets as at 31 December 2012 and 2013, where its assets mainly consisted of its goodwill arising from acquisition of its subsidiary and its investment in associates and its liabilities mainly consist of a loan due within one year. Other than the main assets as mentioned above, as at 31 December 2013, Sichuan Shuanghong had certain long-term investments which consist of an investment in a subsidiary, Sterope Investments B.V. (“**Sterope**”), with an equity interest of 75% and an investment in an associate, Sichuan COC Display Devices Co., Ltd (“**COC Company**”), with an equity interest of 27.11%. Sterope is an investment holding company with minimal operations and it holds a subsidiary, ORION CO. LTD (“**Orion Co**”), that operates in the plasma display panel production while COC Company is principally engaged in the production, research and development and sales of plasma display panel and related materials.

The consideration for the Sichuan Shuanghong Disposal Interest is approximately RMB90.95 million (“**Sichuan Shuanghong Consideration**”). As set out in the Letter from the Board, we understand that the Sichuan Shuanghong Consideration was arrived at after arm’s length negotiations between the parties to the Sichuan Shuanghong Disposal Agreement after taking into account, among other things, (i) the appraised value of Sichuan Shuanghong (being approximately RMB454.77 million as at 31 December 2013), as set out in a valuation report (the “**Sichuan Shuanghong Valuation Report**”) prepared by the Independent Valuer using asset-based approach; and (ii) the attributable value of the Sichuan Shuanghong Interest.

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We have reviewed the Sichuan Shuanghong Valuation Report prepared by the Independent Valuer and we have also discussed with the Independent Valuer regarding the methodology and principal basis and assumptions adopted for the valuation of Sichuan Shuanghong. We understand the common valuation approaches are market approach, income approach and asset-based approach. We further understand from the Independent Valuer that the adoption of market approach may not be appropriate because Sichuan Shuanghong is not a publicly listed company and the transactions of companies with comparable characteristics are limited. On the other hand, we understand from the Independent Valuer that Sichuan Shuanghong does not have its own business operation but is principally an investment holding company with majority of its assets consisting of its investment in two subsidiaries and an associate company. Also, Sichuan Shuanghong has transferred its research and development equipment and the related personnel to its associate company since 2014. Hence, it is not practicable to value Sichuan Shuanghong using income approach to yield a meaningful result. Therefore, the Independent Valuer adopted asset-based approach for the valuation of Sichuan Shuanghong. We understand asset-based approach primarily involves the assessment of assets and liabilities to appraise their values, for instance, the appraisal of a fixed asset may include an assessment of the purchase or construction cost and the residual ratio of such asset. In particular, we noted from the Sichuan Shuanghong Valuation Report that the assessment of Sichuan Shuanghong's investment in Sterope was based on asset-based approach as Sterope is an investment holding company and its investment in Orion Co accounted for substantially all of its assets. The Independent Valuer has further assessed the valuation of Orion Co based on income approach as the future risks and return from the operation of Orion Co could be estimated and quantified. We understand from the Independent Valuer that market approach is not applicable as there are not sufficient samples of comparable transactions. We also understand from the Independent Valuer that asset-based approach was not applicable since the Independent Valuer lacks sufficient information due to the fact that the Company could not obtain full details of the relevant information of Orion Co as a minority shareholder of Sichuan Shuanghong. The appraised value of Sichuan Shuanghong's investment in Sterope of approximately RMB235 million was determined based on Sichuan Shuanghong's equity interest of 75% in Sterope. Upon comparison, such appraised value was significantly lower than its carrying value. As plasma display panel had been taken over by liquid crystal display technology, the competitiveness of plasma display panel decreased and Orion Co recorded significant loss for the year ended 31 December 2013. As a result, the appraised value of Orion Co decreased and thus the appraised value of Sterope decreased accordingly.

On the other hand, we noted from the Sichuan Shuanghong Valuation Report that as Sichuan Shuanghong is an investor in COC Company with an equity interest of 27.11% and it does not control COC Company, the Independent Valuer considered that income approach and market approach on the valuation of COC Company were not appropriate. Therefore, the appraised value of Sichuan Shuanghong's investment in COC Company was determined by multiplying Sichuan Shuanghong's equity interest of 27.11% in COC Company by the net asset value of COC Company on the valuation base date on 31 December 2013. Upon comparison, the appraised value of its investment in COC Company of approximately RMB121 million was slightly less than its carrying value.

Based on the Sichuan Shuanghong Valuation Report, we consider that the valuation approaches adopted are common valuation methodologies in appraising such company and the basis and assumptions adopted by the Independent Valuer for Sichuan Shuanghong are fair and reasonable. We consider the level of the Sichuan Shuanghong Consideration of approximately RMB90.95 million, which was determined based on the Sichuan Shuanghong Valuation Report, is reasonable.

#### **5. Comparison of the Property Valuation Report and the PRC Valuation Reports**

We noted that the appraised values of the properties (i.e. properties No. 1 to 4 as set out in the Letter from the Board) of IRICO Zixun, Kunshan IRICO and Cairui Display as disclosed in the PRC Valuation Reports are different from the valuation of the respective properties as disclosed in the property valuation report prepared by Jones Lang LaSalle as set out in Appendix VIII to this Circular (the “**Property Valuation Report**”).

As for the appraised values of the properties of Kunshan IRICO and Cairui Display (i.e. properties No.1 to 3 as set out in the Letter from the Board), based on our discussion with the Independent Valuer and Jones Lang LaSalle, we were advised that the differences in the results are attributable to the differences in the parameters applied. We noted that differences in the results of the appraised values are within a range of less than 10% and we understand that such differences are acceptable within the industry.

As for the property valuation of IRICO Zixun (i.e. property No.4 as set out in the Letter from the Board), we noted in the Property Valuation Report that Jones Lang LaSalle attributed no commercial value to the property as the property has not been assigned to IRICO Zixun and the title of the property has not been vested in IRICO Zixun. However, as disclosed in the Property Valuation Report, Jones Lang LaSalle prepared a reference value of approximately RMB560 million to the property on the assumption that the property has been completed on the valuation date of the Property Valuation Report and the relevant title certificates have been obtained by IRICO Zixun which is entitled to freely transfer, lease, mortgage or otherwise dispose of the property.



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On the other hand, we noted that the appraised value of the corresponding property disclosed in the IRICO Zixun Valuation Report of approximately RMB158.7 million, on the assumption that IRICO Zixun has obtained the relevant title certificates of the property upon completion of the redevelopment of the property, was computed based on the estimated revenue generated from the sales of the property of approximately RMB573.6 million after deducting the relevant selling expenses and taxes and taking into account a discount factor upon completion of the redevelopment of the property under the Land Cooperation and Development Agreement. The difference in the appraised values of the property as disclosed in the Property Valuation Report and the IRICO Zixun Valuation Report was due to the difference in the valuation approach adopted by Jones Lang LaSalle and the Independent Valuer as the Independent Valuer has taken into consideration the relevant selling expenses and taxes upon completion of the redevelopment of the property while Jones Lang LaSalle assessed the then market value of the property on a stand-alone basis.

Having considered that (i) the differences in the appraised value of the properties of Kunshan IRICO and Cairui Display as disclosed in the PRC Valuation Reports and the Property Valuation Report were within the range of 10%; and (ii) the appraised values of the respective properties in the PRC Valuation Reports are higher than those disclosed in the Property Valuation Report, we conclude that the adoption of the appraised value of the properties No. 1 to 3 using the Kunshan Valuation Report and the Cairui Display Valuation Report does not affect our opinion on the Kunshan IRICO Consideration and the Cairui Display Consideration.

On the other hand, having considered that (i) the Independent Valuer noted the issue of the absence of the title of the property in preparing the appraised value of the property No. 4; and (ii) both the Independent Valuer and Jones Lang LaSalle assess the appraised value of the property No. 4 on the assumption that IRICO Zixun has obtained the title of the property, the estimated revenue derived from the sales of the property No.4 is higher than the reference value of the corresponding property as set out in the Property Valuation Report, we conclude that the adoption of the appraised value of property No. 4 using the IRICO Zixun Valuation Report does not affect our opinion on the IRICO Zixun Consideration.

### III. Financial effects of the Proposed Disposals

The Company has 100% equity interest in IRICO Zixun; 90% equity interest in Kunshan IRICO; 75% equity interest in Cairui Display and 20% equity interest in Sichuan Shuanghong. The financial effects of the Proposed Disposals on the Group are as follow:

#### 1. Earnings

- *The IRICO Zixun Disposal*

Upon completion of the IRICO Zixun Disposal, the Group shall not have any interest in IRICO Zixun and the financial performance and position of IRICO Zixun will cease to be consolidated in the accounts of the Group.

The Group recorded consolidated audited net loss attributable to the Shareholders of approximately RMB226 million for the year ended 31 December 2013. IRICO Zixun has been loss-making for the year ended 31 December 2013. As set out in the Letter from the Board, upon completion of the IRICO Zixun Disposal at a consideration of approximately RMB187.86 million, the Group is expected to realise a gain on disposal of approximately RMB101.28 million, after taking into consideration of the estimated direct expenses amounted to approximately RMB992,000 based on Hong Kong accounting standards. Accordingly, it is expected that the earnings of the Group will improve significantly.

- *The Kunshan IRICO Disposal*

Upon completion of the Kunshan IRICO Disposal, the Group shall not have any equity interest in Kunshan IRICO and the financial performance and position of Kunshan IRICO will cease to be consolidated in the accounts of the Group.

Kunshan IRICO has been loss-making for the year ended 31 December 2013. As set out in the Letter from the Board, upon completion of the Kunshan IRICO Disposal at a consideration of approximately RMB82.74 million, the Group is expected to realise a gain on disposal of approximately RMB36.84 million, after taking into consideration of the estimated direct expenses and non-controlling interest amounted to approximately RMB246,600 and RMB9,003,000 respectively based on Hong Kong accounting standards. Accordingly, it is expected that the earnings of the Group will improve significantly.

- *The Cairui Display Disposal*

Upon completion of the Cairui Display Disposal, the Group shall not have any equity interest in Cairui Display and the financial performance and position of Cairui Display will cease to be consolidated in the accounts of the Group.

Cairui Display has been loss-making for the year ended 31 December 2013. As set out in the Letter from the Board, upon completion of the Cairui Display Disposal at a consideration of approximately RMB30.51 million, the Group is expected to realise a gain on disposal of approximately RMB13.72 million, after taking into consideration of the estimated direct expenses and non-controlling interest amounted to RMB140,000 and RMB5,550,000 respectively based on Hong Kong accounting standards. Accordingly, it is expected that the earnings of the Group will improve significantly.

- *The Sichuan Shuanghong Disposal*

Upon completion of the Sichuan Shuanghong Disposal, the Group shall not have any equity interest in Sichuan Shuanghong and the financial performance and position of Sichuan Shuanghong will cease to be recognized as investment in associates in the accounts of the Group.

Sichuan Shuanghong has been loss-making for the year ended 31 December 2013. As set out in the Letter from the Board, upon completion of the Sichuan Shuanghong Disposal at a consideration of approximately RMB90.95 million, the Group is expected to realise a gain on disposal of approximately RMB68.50 million, after taking into consideration of the cumulative share of exchange reserve of an associate reclassified from equity to profit or loss and the estimated direct expenses amounted to RMB9,071,000 and RMB343,000 respectively based on Hong Kong accounting standards. Accordingly, it is expected that the earnings of the Group will improve significantly.

## 2. Net asset value

The Group had consolidated audited net asset value of approximately RMB1,353 million as at 31 December 2013. Assuming the completion of the First Disposal as presented in scenario I of Appendix III to the Circular, the net asset value of the Group is expected to increase to approximately RMB1,490 million. Assuming the completion of the Second Disposal as presented in scenario II of Appendix III to the Circular, the net asset value of the Group is expected to increase to approximately RMB1,431 million. Assuming the completion of both the First Disposal and the Second Disposal as presented in scenario III of Appendix III to the Circular, the net asset value of the Group is expected to increase to approximately RMB1,568 million.

**3. Working capital**

The Group had consolidated audited bank balances and cash of approximately RMB822 million as at 31 December 2013. As set out in the unaudited pro forma consolidated statement of financial position of the Remaining Group in Appendix III to the Circular, assuming the completion of the First Disposal has taken place, the Group's bank balances and cash will increase by approximately RMB266.8 million. In addition, assuming the completion of the Second Disposal has taken place, the Group's bank balances and cash will increase by approximately RMB90.6 million. Furthermore, assuming the completion of the First Disposal and the Second Disposal have taken place, the Group's bank balances and cash will increase by approximately RMB357.4 million.

**4. Gearing ratio**

The gearing ratio of the Group, as measured by dividing total liabilities of approximately RMB9,626 million by consolidated total assets of approximately RMB10,979 million, was approximately 87.8% as at 31 December 2013. As set out in the unaudited pro forma consolidated statement of financial position of the Remaining Group in Appendix III to the Circular, assuming the completion of the First Disposal has taken place, the gearing ratio of the Group, as measured by dividing total liabilities of approximately RMB9,611 million by pro forma consolidated total assets of the Remaining Group of approximately RMB11,101 million, is expected to decrease to approximately 86.6%. Assuming the completion of the Second Disposal has taken place, the gearing ratio of the Group, as measured by dividing total liabilities of approximately RMB9,626 million by pro forma consolidated total assets of approximately RMB11,057 million, is expected to decrease to approximately 87.1%. Assuming the completion of the First Disposal and the Second Disposal has taken place, the gearing ratio of the Group, as measured by dividing total liabilities of approximately RMB9,611 million by pro forma consolidated total assets of approximately RMB11,179 million, is expected to decrease to approximately 86.0%.

Based on the above analysis, the Proposed Disposals would have (i) an overall improvement on the earnings of the Group; (ii) an overall improvement on the Group's net asset value; (iii) an increase in cash inflow to the Group; and (iv) a reduction in the gearing ratio of the Group. On such basis, we are of the view that the Proposed Disposals are in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM OCTAL CAPITAL

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### RECOMMENDATION

Having considered the principal factors and reasons as discussed above and in particular the following,

- (i) the Proposed Disposals would enable the Company to focus on its core businesses and to off-load its non-core and loss-making businesses and allow the Company to reduce operating losses, improve the Group's results in operation, increase its working capital and reduce its gearing ratio;
- (ii) the terms of the Proposed Disposals are fair to the Company and the Shareholders as a whole as the respective consideration of the Proposed Disposals have been appraised by an independent valuer with relevant qualifications and will be sold at prices reasonably and fairly determined; and
- (iii) the Proposed Disposals would have improvement on the earnings, net asset value, cashflow position and gearing ratio of the Group,

we consider that the Proposed Disposals are conducted in the ordinary and usual course of business and on normal commercial terms and the terms of the Proposed Disposals contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned and are in the interest of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders, and we recommend the Independent Shareholders, to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Proposed Disposals contemplated thereunder.

Yours faithfully,  
For and on behalf of  
**Octal Capital Limited**

<b>Alan Fung</b>	<b>Louis Chan</b>
<i>Managing Director</i>	<i>Director</i>

*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 20 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions in respect of connected transactions of listed companies in Hong Kong. Mr. Louis Chan has been a responsible officer of Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities since 2008. Mr. Chan has more than 10 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions in respect of connected transactions of listed companies in Hong Kong.*

**I. FINANCIAL INFORMATION OF THE GROUP FOR THE LAST THREE YEARS**

The Company is required to set out in this circular the information for the last three financial years with respect to the Group's profits and losses, financial record and position, and the latest published audited balance sheet together with the notes to the annual accounts for the latest financial year.

The audited consolidated financial statements together with relevant notes thereto of the Company for the years ended 31 December 2011, 2012 and 2013 have been disclosed in the following documents published on the Stock Exchange's website (<http://www.hkexnews.hk>) and the Company's website (<http://www.irico.com.cn/>):

- Annual report of the Company for the year ended 31 December 2013 published on 11 April 2014 (Page 59 to page 173);
- Annual report of the Company for the year ended 31 December 2012 published on 29 April 2013 (Page 63 to page 182);
- Annual report of the Company for the year ended 31 December 2011 published on 17 April 2012 (Page 56 to page 170).

**II. STATEMENT OF INDEBTEDNESS****Borrowings and securities**

As at 30 April 2014, being the latest practicable date for the purpose of this indebtedness statement, the Group had total outstanding bank borrowings of approximately RMB4,261,121,000. RMB1,430,238,000 of the total borrowings are due within one year and the remaining of approximately RMB2,830,883,000 falls due within the second to the fifth year.

As at 30 April 2014, the Group had total outstanding other borrowings of approximately RMB1,886,760,000 and the total amount is due within one year.

**— Bank borrowings:**

The Group's bank borrowings of approximately RMB1,178,690,000 in aggregate were secured by certain of the Group's property, plant and equipment, leasehold land and land use rights with net carrying value of approximately RMB967,824,000 in aggregate.

The remaining balance of the Group's bank borrowings of approximately RMB3,082,431,000 were unsecured, with which approximately RMB3,026,433 were guaranteed by the immediate holding company.

— **Other borrowings:**

As at 30 April 2014, the balance of the Group's other borrowings of approximately RMB1,886,760,000 were unsecured and guaranteed by the immediate holding company.

**Obligations under finance lease**

As at 30 April 2014, the Group had total outstanding obligations under finance lease of approximately RMB17,217,000 which fall due within one year.

**Commitments, guarantees and contingent liabilities**

As at 30 April 2014, the Group had total future minimum lease payments under non cancelable operating leases in respect of rented premises which fall due within one year amounting to approximately RMB12,561,000 and commitment to future capital expenditures of approximately RMB628,259,000 in aggregate, which has been contracted but not provided in the Group's unaudited consolidated statement of financial position.

Apart from the material litigation as stated in Appendix IX "General Information" of this circular, the Group had no other material contingent liabilities as at 30 April 2014.

Save as aforesaid and apart from intra-group liabilities and normal trade and bills payables, as at the close of business on 30 April 2014, being the latest practicable date for ascertaining certain information relating to this indebtedness statement prior to printing of this circular, the Group did not have any debt securities issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptance (other than normal trade bills) or acceptable credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

**III. WORKING CAPITAL**

The Directors are of the opinion that, taking into consideration the Group's internal resources, the existing available banking facilities and the estimate net proceeds from the Proposed Disposals, the Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of this circular.

**IV. FINANCIAL EFFECTS AND BUSINESS OUTLOOK****Financial Effects**

The purpose of the Proposed Disposals is to adjust the industrial structure by focusing on strengthening the principal business, reducing operational loss and improve the structure of assets and liabilities of the Group. The gain from the Proposed Disposals will have a significant impact on the consolidated revenue of the Company for 2014. Upon completion of the Proposed Disposals, the Disposal Group and Sichuan Shuanghong will cease to be subsidiaries and/or associate (as the case maybe) of the Group and the Group will not hold any equity interests in the Disposal Group and Sichuan Shuanghong upon completion of the Proposed Disposals.

**Earnings**

The Group recorded an audited loss attributable to owners of the Company of approximately RMB226.4 million for the year ended 31 December 2013. Assuming completion on 1 January 2013, the unaudited pro forma net loss of the Remaining Group would be approximately RMB6.02 million as set out in Appendix III to this circular.

**Total assets**

As at 31 December 2013, the unaudited total assets of the Group were approximately RMB10,979.1 million. Assuming completion on 31 December 2013, the unaudited pro forma total assets of the Remaining Group would be approximately RMB11,179.0 million as set out in Appendix III to this circular.

**Liabilities**

As at 31 December 2013, the unaudited total liabilities of the Group were approximately RMB9,625.9 million. Assuming completion on 31 December 2013, the unaudited pro forma total liabilities of the Remaining Group would be approximately RMB9,611.0 million as set out in Appendix III to this circular.



**Net assets**

As at 31 December 2013, the unaudited net assets of the Group were approximately RMB1,353.2 million. Assuming completion on 31 December 2013, the unaudited pro forma net assets of the Remaining Group would be approximately RMB1,568.0 million as set out in Appendix III to this circular.

**Business outlook of the Company**

The revenue of the Company for the year ended 31 December 2013 was approximately RMB 2,280 million, representing a decrease of approximately 13.8% from the year ended 31 December 2012. The reason for the decrease was due to the year-on-year decrease in revenue of luminous materials, liquid crystal products and other business as affected by the global economy and industry factors. However, the increase in the sales of solar photovoltaic glass and LCD glass substrate has offset the decrease in the sales of luminous materials and liquid crystal products.

*Unit: RMB'000*

	<b>Year ended 31 December 2013 (Audited)</b>	<b>Year ended 31 December 2012 (Audited)</b>
Revenue		
Production and sales of colour picture tubes	166,879	318,701
Production and sales of luminous materials	352,136	520,064
Production and sales of liquid crystal products	1,219,279	1,552,654
Production and sales of LCD glass substrate	152,319	81,967
Production and sales of solar photovoltaic glass	389,145	171,827
	<hr/>	<hr/>
Total	<b>2,279,758</b>	<b>2,645,213</b>
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The Company will focus on the following aspects in its business in the year ending 31 December 2014:

- (i) To improve in techniques in a market-oriented manner

The markets of solar photovoltaic glass and new electronic materials (such as lithium battery materials, electronic silver paste, etc.) is expected to continue to see a growth momentum, and the market prospect of domestic substitutes for the LCD glass substrate is expected to be promising. The Company's focus on these three business areas in its future development manifests that the development of the Company's principal businesses is based on the market demand.

In addition, the solar photovoltaic glass business still faces a fierce market competition. The large-scale production of lithium battery materials, electronic silver paste still needs expansion, while the yield rate of LCD glass substrate is subject to improvement. The Company will put more efforts in technology upgrading, so as to reduce the costs and increasing the yield rate.

- (ii) To speed up adjustment and optimization of assets structure in order to improve operation efficiency of assets

According to its development needs, the Company will strip out its bad assets, non-principal and non-profitable businesses, adjust and optimize assets structure in order to improve operation efficiency of assets and the overall competency of the Company.

- (iii) To carry out staff resettlement and placement to ensure the stability of the corporation

- (iv) To develop businesses of solar photovoltaic glass, new electronic material and other businesses

In respect of solar photovoltaic glass, faced with the continuous growth in global photovoltaic market, there will be opportunities for rapid development in the domestic photovoltaic power generation industry. The Company will exploit potential capacity and revitalize existing assets. It will resume the operation of PV Phase I Production Line in Xianyang, press ahead with the PV Phase IV Coating Renovation Project and revitalize the PV assets in Hefei, so as to further expand the market scale.

In respect of luminous materials and new electronic materials, the Company will maintain the market share of energy saving lamp phosphor, proactively upgrade the technology of lithium battery anode materials and electronic silver paste, and expand the production scale.

- (v) To become the most promising corporation with the largest scale in the new energy field

The traditional CRT industry has been withering rapidly. Having gone through a tough strategic transformation, the Company has basically established the direction of industries, i.e. solar photovoltaic glass, luminous materials and new electronic materials and LCD glass substrate. The solar photovoltaic glass business of the Company has achieved good performance. In 2013, the revenue attributable to the solar photovoltaic glass business was approximately RMB390 million, representing a year-on-year increase of 127%. Both the production to sales ratios of lithium battery materials and electronic silver paste in 2013 increased as compared with last year. In the future, the Company will continue to enlarge the market scale, expand towards the upstream and downstream of industry, improve the technology standards and reduce the costs, making every effort to become the most promising corporation with the largest scale in the new energy field.

## **V. MATERIAL ADVERSE CHANGE**

As at 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 2013, being the date to which the latest published audited consolidated financial statements of the Group were made up.

## **VI. MANAGEMENT DISCUSSION AND ANALYSIS**

The management discussion and analysis on the Remaining Group for each of the years ended 31 December 2011, 2012 and 2013 is set out below.

The Company has ceased all the traditional color picture tube business and is actively developing its principal businesses in solar photovoltaic glass, new electronic materials and LCD glass substrate, etc.

At the end of 2012, the reorganization plan between IRICO Group, the controlling shareholder of the Company and CEC was approved by the State-owned Assets Supervision and Administration Commission of the State Council, pursuant to which IRICO Group was incorporated into CEC in whole by way of allocation at nil consideration. The parties will actively promote the reorganization and integration, optimize resource allocation and realize the complementation of advantages to encourage the continuous sound development of the Company. Against the backdrop of reorganization and the synergetic development of industries, the Company is expected to achieve sustainable development on a larger platform and embrace new opportunities in its future development.

The Company will continuously consolidate and develop the transformation results and further develop various businesses proactively. In respect of solar photovoltaic glass, faced with the continuous growth in global photovoltaic market, there will be opportunities for rapid development in the domestic photovoltaic power generation industry. The Group is expected to exploit potential capacity, revitalize existing assets and further expand the market scale. In respect of new electronic materials business, the Group is expected to maintain the market share of energy saving lamp phosphor, proactively expand the electronic silver paste and lithium battery anode materials businesses, and increasingly improve the technology level. The manufacturing process for LCD glass substrate is expected to be optimized with further improvement in yield rate and sales volume of products.

- Segmental information

Revenue by product (RMB'000)	2013	2012	2011	Year- on-year increase (decrease) of 2013	Percentage of change	Year- on-year increase (decrease) of 2012	Percentage of change
Sales of solar photovoltaic glass	389,145	171,827	355,475	217,318	126.47%	(183,648)	-51.66%
Sales of luminous materials	352,136	520,064	1,088,734	(167,928)	-32.29%	(568,670)	-52.23%
Sales of liquid crystal related products	1,143,559	1,552,654	1,310,085	(409,095)	-26.35%	242,569	18.52%
Sale of TFT-LCD glass substrate and display devices	152,319	81,967	5,004	70,352	85.83%	76,963	1538.03%
Sales of CPTs and ancillary components	67,568	149,295	405,234	(81,727)	-54.74%	(255,939)	-63.16%
Total	<u>2,104,727</u>	<u>2,475,807</u>	<u>3,164,532</u>	<u>(371,080)</u>	<u>-14.99%</u>	<u>(688,725)</u>	<u>-21.76%</u>

The Proposed Disposals will not have significant impact on the revenue segment of the Remaining Group.

For the year ended 31 December 2012, the sales of luminous materials of the Remaining Group amounted to RMB520,064,000, representing a decrease of RMB568,670,000 or 52.23% compared with the corresponding period of 2011. The decrease is due to stagnancy in the global economy and the industry. The sales of liquid crystal related products of the Remaining Group amounted to RMB1,552,654,000, representing an increase of RMB242,569,000 or 18.52% compared with the corresponding period of 2011. The increase is due to the capability of the marketing of liquid crystal-related products had been strengthened and both production and sales of the products increased. The sales of solar photovoltaic glass of the Remaining Group amounted to RMB171,827,000, representing a decrease of RMB183,648,000 or 51.66% compared with the corresponding period of 2011. The reason for the decrease is that the market operations of the solar photovoltaic glass which was affected by the overall excess supply in the market and witnessed continuously low selling prices and decrease in revenue. The sales of TFT-LCD glass substrate and display devices of the Remaining Group amounted to RMB81,967,000, representing an increase of RMB76,963,000 or 1538.03% compared with the corresponding period of 2011. The reason for the increase is that the product certification and the sale of TFT-LCD glass substrate and display devices saw breakthroughs with further increase in sales volume and improvement in revenue. The sales of the CPTs and others of the Remaining Group amounted to RMB149,295,000, representing a decrease of RMB255,939,000 or 63.16% compared with the corresponding period of 2011. The decrease is due to the Company's withdrawal from the CRT industry.

For the year ended 31 December 2013, the sales of luminous materials of the Remaining Group amounted to RMB352,136,000, representing a decrease of RMB167,928,000 or 32.29% compared with the corresponding period of 2012. The reason for the decrease is that the market of luminous material shrunk and the selling price and the revenue of the material decreased. The sales of liquid crystal related products of the Remaining Group amounted to RMB1,143,559,000, representing a decrease of RMB409,095,000 or 26.35% compared with the corresponding period of 2012. The reason for the decrease is that both the product sales volume and revenue of liquid crystal-related products decreased. The sales of solar photovoltaic glass of the Remaining Group amounted to RMB389,145,000, representing an increase of RMB217,318,000 or 126.47% compared with the corresponding period of 2012. The reason for the increase is that the sales volume and revenue of solar photovoltaic glass increased subsequent to the improvement of the solar market. The sales of TFT-LCD glass substrate and display devices of the Remaining Group amounted to RMB152,319,000, representing an increase of RMB70,352,000 or 85.83% compared with the corresponding period of 2012. The reason for the increase is that the production yield, sales volume and revenue of TFT-LCD substrate glass and display devices increased. The sales of the CPTs and others of the Remaining Group amounted to RMB67,568,000, representing a decrease of RMB81,727,000 or 54.74% compared with the corresponding period of 2012. The revenue of CPTs and components decreased significantly as the Company fully withdrew from the CRT industry.

- Turnover and gross profit margin

In 2011, 2012 and 2013, the Remaining Group recorded a sales of RMB3,164,532,000, RMB2,475,807,000 and RMB2,104,727,000 respectively.

The sales of the Remaining Group for the year ended 31 December 2012 decreased by RMB688,725,000 or 21.76% over the same period last year while the overall gross profit margin declined to gross loss of 4.04% in 2012 from gross profit of 3.35% in 2011, which was mainly attributable to the following reasons: (1) selling price of photovoltaic glass stayed at low levels as a result of an overall oversupply in the market, which led to a gross loss; and (2) the profitability of luminous material business declined due to stagnancy in global economy and the industry.

For the year ended 31 December 2013, the sales of the Remaining Group decreased by RMB371,080,000 or 14.99% while the overall gross profit margin rise to gross profit of 2.96% in 2013 from gross loss of 4.04% in 2012, which was mainly attributable to the recovery of the photovoltaic market. So the gross profit margin of photovoltaic glass increased.

- Administrative expenses

In 2011, 2012 and 2013, the Remaining Group's administrative expenses were RMB304,033,000, RMB487,956,000 and RMB425,286,000 respectively.

For the year ended 31 December 2012, the Remaining Group's administrative expenses increased by RMB183,923,000, or 60.49% over the same period last year. The increase in administrative expenses was mainly due to the following reasons: (i) the provision for resettlement expenses of the redundant staff increased as a result of the full shutdown of the CPT business in the reporting period; and (ii) shutdown losses increased as some production lines were closed down.

For the year ended 31 December 2013, administrative expenses of the Remaining Group decreased by RMB62,670,000, or 12.84% as compared with the corresponding period last year. The decrease in administrative expenses was mainly due to the actual progress made in enhancing expense management and control by the Company.

- Finance costs

The finance costs included in profit and loss of the Remaining Group for 2011, 2012 and 2013 amounted to RMB79,736,000, RMB180,632,000 and RMB227,029,000 respectively.

For the year ended 31 December 2012, the finance costs included in profit and loss of the Remaining Group increased RMB100,896,000, or 126.54% as compared with the corresponding period last year. The increase in the finance costs was mainly due to the increase in bank borrowings for the development of new businesses of the Company.

For the year ended 31 December 2013, the finance costs included in profit and loss of the Remaining Group increased RMB46,397,000, or 25.69% as compared with the corresponding period last year. The increase in the finance costs was mainly due to the increase in bank borrowings for the development of new businesses of the Company.

- Current assets and financial resources

As at 31 December 2012, the cash and bank balances of the Remaining Group amounted to RMB1,189,904,000, representing a decrease of 39.72% as compared to RMB1,973,945,000 of the cash and bank balances of the Remaining Group as at 31 December 2011.

As at 31 December 2013, the cash and bank balances of the Remaining Group amounted to RMB788,677,000, representing a decrease of 33.72% as compared to RMB1,189,904,000 of the cash and bank balances of the Remaining Group as at 31 December 2012.

As at 31 December 2013, the total borrowings of the Remaining Group amounted to RMB6,744,750,000, of which borrowings due within one year amounted to RMB3,481,450,000 and borrowings due beyond one year amounted to RMB3,263,300,000. As at 31 December 2012, the total borrowings were RMB7,617,133,000, of which borrowings due within one year amounted to RMB2,723,490,000 and borrowings due beyond one year amounted to RMB4,893,643,000. As at 31 December 2011, the total borrowings were RMB5,777,233,000, of which borrowings due within one year amounted to RMB1,568,601,000 and borrowings due beyond one year amounted to RMB4,208,632,000. As at 30 April 2014, the borrowings with fixed interest rate of the Remaining Group amounted to RMB4,879,606,000, representing 79.15% of the total amount of borrowings (i.e. RMB6,165,098,000).

As at 30 April 2014, the commitment to future capital expenditures of the Remaining Group was RMB628,259,000, among which, RMB 310,597,000 was for solar photovoltaic glass production lines and RMB317,662,000 was from TFT-LCD glass substrate production lines.

The Remaining Group will meet its capital expenditure demand by using its own fund or by way of bank financing.

If the working capital of the Company is insufficient, the Company will ease the financial pressure by adopting various means, such as borrowing from financial institutions or non-financial institutions (including finance leases, equity pledge), comprehensively considering financing cost and potential risks, and select the appropriate financing measure to minimize financing cost and risks. Borrowing rate will be based on the RMB benchmark interest rate for loans of financial institutions issued by PBOC (subject to no more than 10% upward or downward variations). The Company does not use financial instruments for hedging purposes or make investments using foreign currency.

The income and most of the expenditure of the Remaining Group are denominated in RMB and USD. The impact of increase in operating cost as a result of exchange rate fluctuation on the financial position of the company is little.

*Unit: RMB'000*

<b>Items</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Operating cost increased as a result of foreign exchange risk	(2,015)	(3,106)	(10,008)
Profit (loss) attributable to the owners of the Company	(226,352)	(1,662,002)	(253,038)
Proportion	0.890%	0.187%	3.955%



- Capital structure

For each of the years ended 31 December 2011, 31 December 2012 and 31 December 2013, the borrowings of the Remaining Group were mainly denominated in Renminbi and US dollars, while its cash and bank balances were mainly denominated in Renminbi, Hong Kong dollars and US dollars. The Remaining Group intends to maintain a suitable ratio of share capital to liabilities, to ensure an effective capital structure. For each of the years ended 31 December 2011, 31 December 2012 and 31 December 2013, the liabilities of the Remaining Group totaled RMB8,245,666,000, RMB10,656,091,000 and RMB9,611,048,000 respectively. For each of the years ended 31 December 2011, 31 December 2012 and 31 December 2013, the gearing ratio of the Remaining Group was 64.31%, 88.23% and 89.08% respectively. For the year ended 31 December 2013, if the total consideration of the Proposed Disposals of RMB390,339,000 (with reference to Appendix III to this circular) was included, the gearing ratio will decrease to 85.97%.

- Contingent liabilities

For each of the years ended 31 December 2011, 31 December 2012 and 31 December 2013, the Group had no material contingent liability.

- Pledged assets

As at 31 December 2013, the bank loans amounted to approximately RMB3,056,859,000, which were secured by certain properties, plants, equipment, land use rights and inventories of the Remaining Group with a net carrying amount of approximately RMB2,288,041,000.

As at 31 December 2012, the bank loans amounted to approximately RMB3,312,542,000, which were secured by certain properties, plants, equipment, land use rights and inventories of the Remaining Group with a net carrying amount of approximately RMB1,113,822,000.

As at 31 December 2011, the bank loans amounted to approximately RMB2,772,157,000, which were secured by certain properties, plants, equipment, land use rights and inventories of the Remaining Group with a net carrying amount of approximately RMB2,007,041,000.

- Employees, retirement benefits and other benefits

As at 31 December 2013, 31 December 2012, and 31 December 2011, the Remaining Group had 5,903 employees, 6,811 employees, and 7,137 employees, respectively.

The employment and remuneration policy including retirement schemes and other benefits of the Company remained the same as set out in the Company's prospectus dated 8 December 2004. With full enthusiasm in work, the Group's employees are committed to ensure the high quality and reliability of products and services.

- Material acquisitions and disposals

On 24 December 2013, the A Share Company entered into an equity transfer agreement in relation to the disposal of 5.01% equity interests in Western Trust Co., Ltd\* (西部信託有限公司) at a consideration of approximately RMB245,314,000 with IRICO Group.

On 24 December 2013, the A Share Company entered into an asset transfer agreement in relation to the disposal of the industrial properties and supporting facilities on the west side of 1st Carhong Road, Qindu district, Xianyang at a consideration of approximately RMB214,533,400 with Xianyang IRICO.

On 11 April 2014, the A Share Company entered into an equity transfer agreement in relation to the disposal of 51% equity interests in IRICO (Foshan) Plat Panel Display Co., Ltd\* (彩虹(佛山)平板顯示有限公司) at a consideration of RMB1 with IRICO Group.

The Previous Disposals are for the purpose of adjusting the industrial structure of the A Share Company and focusing on developing and strengthening the principal business so as to reduce the loss. For details, please refer to the announcements of the Company dated 31 July 2013, 22 August 2013, 23 August 2013, 24 December 2013 and 17 April 2014 and the circular of the Company dated 26 September 2013.

- Plan of the Group for material investment and acquisition of capital assets

Acquisition of a further 30% equity interest in Jiangsu Yongneng Photovoltaic Technology Company Limited\* (江蘇永能光伏科技有限公司) (“**Jiangsu Yongneng**”)

As considered and approved by the fourth written resolution of the Second Session of the Board in 2011, the Company was approved to enter into a share transfer agreement with parties including Yongneng Photoelectricity Holding Company Limited\* (永能光電控股有限公司) to acquire the 30% equity interest in Jiangsu Yongneng, at a consideration of RMB105,000,000. The aforesaid acquisition, if being proceeded, may be funded through the Company's own funds, bank loans from commercial banks and other sources of financing. However, as at the Latest Practicable Date, the afore acquisition is still subject to further confirmation. For details, please refer to the announcement of the Company dated 29 September 2011, 21 October 2011, 30 December 2011, 28 June 2012 and 31 December 2012, 28 June 2013 and 3 January 2014.

*The following is the text of a report in connection with the Financial Information on the Disposal Group and Sichuan Shuanghong received from the independent reporting accountant, SHINEWING (HK) CPA Limited, Certified Public Accountants, Hong Kong for incorporation in this circular.*

## REVIEW REPORT ON UNAUDITED FINANCIAL INFORMATION OF THE GROUP



SHINEWING (HK) CPA Limited  
43/F., The Lee Gardens  
33 Hysan Avenue  
Causeway Bay, Hong Kong

### TO THE BOARD OF DIRECTORS OF IRICO GROUP ELECTRONICS COMPANY LIMITED

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

#### Introduction

We have reviewed the financial information set out on pages II-5 to II-24, which comprises the consolidated statements of financial position of IRICO Group Electronics Company Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) as at 31 December 2011, 2012 and 2013, and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for the years ended 31 December 2011, 2012 and 2013, and explanatory notes (the “Financial Information”). The Financial Information has been prepared solely for the purpose of inclusion in the circular to be issued by the Company in connection with the disposal of 100%, 90%, 75% and 20% equity interest of Xi'an IRICO Zixun Co., Ltd\* (西安彩虹資訊有限公司) (“IRICO Zixun”), Kunshan IRICO Industrial Co., Ltd\* (昆山彩虹實業有限公司) (“Kunshan IRICO”), Xi'an Cairui Display Technology Co., Ltd\* (西安彩瑞顯示技術有限公司) (“Cairui Display”) (collectively referred to as the “Disposal Group”) and Sichuan Century Shuanghong Display Device Co., Ltd\* (四川世紀雙虹顯示器件股份有限公司) (“Sichuan Shuanghong”) in accordance with paragraph 14.68(2)(a)(i)(B) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Main Board Listing Rule”).

\* For identification purpose only

The directors of the Company are responsible for the preparation and presentation of the Financial Information in accordance with the basis of preparation set out in note 1 to the Financial Information and paragraph 14.68(2)(a)(i) of the Main Board Listing Rules. The directors of the Company are also responsible for such internal control as management determines is necessary to enable the preparation of the Financial Information that is free from material misstatement, whether due to fraud or error. The Financial Information does not contain sufficient information to constitute a complete set of financial statements as defined in Hong Kong Accounting Standard 1 (Revised) “Presentation of Financial Statements” or an interim financial report as defined in Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). Our responsibility is to form a conclusion on the Financial Information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### **Scope of Review**

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” and with reference to Practice Note 750 “Review of Financial Information under the Hong Kong Listing Rules for a Very Substantial Disposal” issued by the HKICPA. A review of the Financial Information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## **CONCLUSION**

Based on our review, nothing has come to our attention that causes us to believe that the Financial Information of the Group for the relevant periods is not prepared, in all material respects, in accordance with the basis of preparation set out in note 1 to the Financial Information.

**SHINEWING (HK) CPA Limited**

*Certified Public Accountants*

**Chong Kwok Shing**

Practising Certified Number: P05139

Hong Kong

30 June 2014

**UNAUDITED FINANCIAL INFORMATION OF THE GROUP, DISPOSAL GROUP AND SICHUAN SHUANGHONG**

*The Disposal Group are subsidiaries of the Group and is consolidated in the Group's consolidated financial statements. Sichuan Shuanghong is 20% owned by the Group and is accounted for as interest in an associate using equity method in preparing the Group's consolidated financial statements. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post-acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment. Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees, impairment loss for the year and share of the post-acquisition post-tax items of the investees' other comprehensive income are recognised in the consolidated statements of profit or loss and other comprehensive income.*

*Set out below are the unaudited consolidated statements of financial position of the Group as at 31 December 2011, 2012 and 2013 and the unaudited consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years ended 31 December 2013, and explanatory notes, which have been reviewed by the reporting accountants of the Company, SHINEWING (HK) CPA Limited, Certified Public Accountants, Hong Kong, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" and with reference to the Practice Note 750 "Review of Financial Information under the Hong Kong Listing Rules for a Very Substantial Disposal" issued by the Hong Kong Institute of Certified Public Accountants.*

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Year ended 31 December		
	2011	2012	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	3,270,348	2,645,213	2,279,758
Cost of sales	<u>(3,164,459)</u>	<u>(2,744,232)</u>	<u>(2,214,203)</u>
Gross profit (loss)	105,889	(99,019)	65,555
Gain on disposal of available-for-sale investment	—	—	221,254
Other operating income	196,875	87,682	315,805
Selling and distribution costs	(86,412)	(66,830)	(84,465)
Administrative expenses	(325,703)	(522,193)	(450,912)
Other operating expenses	(6,776)	(8,883)	(5,927)
Finance costs	(79,736)	(180,632)	(227,029)
Impairment loss recognised in respect of property, plant and equipment	(416,544)	(2,349,845)	(22,628)
Share of loss of associates	<u>(43,038)</u>	<u>(241,296)</u>	<u>(26,409)</u>
Loss before tax	(655,445)	(3,381,016)	(214,756)
Income tax (expense) credit	<u>(27,523)</u>	<u>(24,155)</u>	<u>119</u>
Loss for the year	<u>(682,968)</u>	<u>(3,405,171)</u>	<u>(214,637)</u>

	Year ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
<b>Other comprehensive (expense) income</b>			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation	237	110	(19)
Share of exchange reserve of an associate	(3,667)	3,466	(650)
Other comprehensive (expense) income for the year	(3,430)	3,576	(669)
Total comprehensive (expense) income for the year	(686,398)	(3,401,595)	(215,306)
(Loss) profit for the year attributable to:			
Owners of the Company	(253,038)	(1,662,002)	(226,352)
Non-controlling interests	(429,930)	(1,743,169)	11,715
	(682,968)	(3,405,171)	(214,637)
Total comprehensive (expense) income attributable to:			
Owners of the Company	(256,468)	(1,658,426)	(227,021)
Non-controlling interests	(429,930)	(1,743,169)	11,715
	(686,398)	(3,401,595)	(215,306)



CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	As at 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Non-current assets			
Property, plant and equipment	8,202,921	7,467,134	7,753,178
Properties under development	—	56,358	56,387
Investment properties	55,272	19,136	23,273
Leasehold land and land use rights	324,664	298,816	276,079
Intangible assets	870	1,085	277
Interests in associates	278,394	113,904	86,645
Available-for-sale investment	24,060	24,060	—
Deposits paid for acquisition of property, plant and equipment	196,001	127,479	4,648
Deposit paid for acquisition of an associate	73,500	—	—
	<u>9,155,682</u>	<u>8,107,972</u>	<u>8,200,487</u>
Current assets			
Inventories	402,839	305,172	259,227
Trade and bills receivables	545,034	658,981	637,957
Other receivables, deposits and prepayments	1,030,783	1,279,068	993,660
Tax recoverable	—	—	4,178
Held-to-maturity investments	—	600,000	—
Restricted bank balances	104,716	66,089	61,956
Bank balances and cash	2,080,334	1,278,852	821,602
	<u>4,163,706</u>	<u>4,188,162</u>	<u>2,778,580</u>

**APPENDIX II FINANCIAL INFORMATION ON THE DISPOSAL GROUP AND SICHUAN SHUANGHONG**

	As at 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Current liabilities			
Trade and bills payables	819,765	847,119	807,084
Other payables and accruals	1,065,524	1,348,482	1,229,097
Tax payables	3,733	9,498	1,125
Bank and other borrowings - due within one year	1,568,601	2,723,490	3,481,450
Termination benefits	3,112	158,394	191,533
Obligations under finance leases	60,717	66,090	34,057
	<u>3,521,452</u>	<u>5,153,073</u>	<u>5,744,346</u>
Net current assets (liabilities)	<u>642,254</u>	<u>(964,911)</u>	<u>(2,965,766)</u>
Total assets less current liabilities	<u>9,797,936</u>	<u>7,143,061</u>	<u>5,234,721</u>
Capital and reserves			
Share capital	2,232,349	2,232,349	2,232,349
Other reserves	1,329,286	1,340,250	1,339,514
Accumulated losses	<u>(1,703,828)</u>	<u>(3,365,921)</u>	<u>(3,592,325)</u>
Equity attributable to owners of the Company	1,857,807	206,678	(20,462)
Non-controlling interests	<u>3,194,371</u>	<u>1,435,337</u>	<u>1,373,587</u>
Total equity	<u>5,052,178</u>	<u>1,642,015</u>	<u>1,353,125</u>
Non-current liabilities			
Bank and other borrowings — due after one year	4,208,632	4,893,643	3,263,300
Deferred income	421,693	559,831	571,862
Termination benefits	7,567	6,117	38,723
Obligations under finance leases	99,526	33,430	—
Deferred tax liabilities	8,340	8,025	7,711
	<u>4,745,758</u>	<u>5,501,046</u>	<u>3,881,596</u>
	<u>9,797,936</u>	<u>7,143,061</u>	<u>5,234,721</u>

CONSOLIDATED STATEMENTS OF CHANGE IN EQUITY

	Attributable to owners of the Company				Non-	Total equity RMB'000
	Share	Other	Accumulated	Total	controlling	
	capital RMB'000	reserves RMB'000	losses RMB'000		interests RMB'000	
At 1 January 2011	2,232,349	1,332,716	(1,450,790)	2,114,275	3,623,424	5,737,699
Loss for the year	—	—	(253,038)	(253,038)	(429,930)	(682,968)
Other comprehensive income						
Exchange differences arising on translation	—	237	—	237	—	237
Share of exchange reserve of an associate	—	(3,667)	—	(3,667)	—	(3,667)
Other comprehensive income for the year	—	(3,430)	—	(3,430)	—	(3,430)
Total comprehensive expenses for the year	—	(3,430)	(253,038)	(256,468)	(429,930)	(686,398)
Capital contribution from non-controlling interests of subsidiaries	—	—	—	—	29,053	29,053
Release on disposal of a subsidiary	—	—	—	—	(3,450)	(3,450)
Dividend paid to non- controlling interests of subsidiaries	—	—	—	—	(24,726)	(24,726)

	Attributable to owners of the Company				Non-	Total equity RMB'000
	Share	Other	Accumulated	Total	controlling	
	capital RMB'000	reserves RMB'000	losses RMB'000		interests RMB'000	
At 31 December 2011 and 1 January 2012	2,232,349	1,329,286	(1,703,828)	1,857,807	3,194,371	5,052,178
Loss for the year	—	—	(1,662,002)	(1,662,002)	(1,743,169)	(3,405,171)
Other comprehensive income						
Exchange differences arising on translation	—	110	—	110	—	110
Share of exchange reserve of an associate	—	3,466	—	3,466	—	3,466
Other comprehensive income for the year	—	3,576	—	3,576	—	3,576
Total comprehensive income (expenses) for the year	—	3,576	(1,662,002)	(1,658,426)	(1,743,169)	(3,401,595)
Capital contribution from non-controlling interests of subsidiaries	—	7,388	—	7,388	(6,149)	1,239
Dividend paid to non-controlling interests of subsidiaries	—	—	(91)	(91)	(9,716)	(9,807)

	Attributable to owners of the Company			Total	Non-controlling interests	Total equity
	Share capital	Other reserves	Accumulated losses			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2012 and 1 January 2013	2,232,349	1,340,250	(3,365,921)	206,678	1,435,337	1,642,015
(Loss) profit for the year	—	—	(226,352)	(226,352)	11,715	(214,637)
Other comprehensive expense						
Exchange differences arising on translation	—	(19)	—	(19)	—	(19)
Share of exchange reserve of an associate	—	(650)	—	(650)	—	(650)
Other comprehensive expense for the year	—	(669)	—	(669)	—	(669)
Total comprehensive (expense) income for the year	—	(669)	(226,352)	(227,021)	11,715	(215,306)
Release on deregistration of a subsidiary	—	(67)	—	(67)	(70,796)	(70,863)
Dividend paid to non-controlling interest of a subsidiary	—	—	(52)	(52)	(2,669)	(2,721)
At 31 December 2013	<u>2,232,349</u>	<u>1,339,514</u>	<u>(3,592,325)</u>	<u>(20,462)</u>	<u>1,373,587</u>	<u>1,353,125</u>

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the year ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
OPERATING ACTIVITIES			
Loss before tax	(655,445)	(3,381,016)	(214,756)
Adjustments for:			
Allowance for doubtful debts of trade and other receivables	9,336	11,169	4,355
Allowance for inventories	156,628	85,308	13,593
Amortisation of deferred income on government grants received	(8,743)	(23,100)	(37,321)
Amortisation of leasehold land and land use rights and intangible assets	5,238	5,843	5,620
Cash-settled share-based payments expense	656	1,540	645
Depreciation for property, plant and equipment and investment properties	94,907	136,630	125,201
Gain on disposal of leasehold land and land use rights	—	—	(17,025)
Dividend income from available-for-sale investment	(2,175)	(3,164)	(6,109)
Finance costs	79,736	180,632	227,029
Gain on disposal of property, plant and equipment	(55,852)	(18,337)	(40,550)
Gain on disposal of a subsidiary	(12,871)	—	—
Gain on disposal of an associate	(3,235)	—	—
Gain on disposal of available-for-sale investment	—	—	(221,254)
Impairment loss recognised in respect of property, plant and equipment	416,544	2,349,845	22,628
Bank interest income	(14,140)	(20,316)	(16,085)
Interest income from held-to-maturity investments	—	—	(12,025)
Provision for warranty	9,515	8,844	6,255
Gain on deregistration of a subsidiary	—	—	(1,200)
Reversal of allowance for doubtful debts of trade and other receivables	(988)	(2,451)	(6,373)
Share of loss of associates	43,038	241,296	26,409
Reversal of allowance for inventories	(25,210)	—	—

	<b>For the year ended 31 December</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Operating cash flows before movements in working capital	36,939	(427,277)	(140,963)
Decrease in inventories	70,431	12,359	32,352
(Increase) decrease in trade and bills receivables, other receivables, deposits and prepayments	(613,068)	(303,712)	309,849
Increase (decrease) in trade and bills payables, other payables and accruals	750,299	253,772	(182,123)
Increase in termination benefits	255	153,832	65,745
Increase in deferred income	107,206	162,977	49,352
Cash generated from (used in) operations	352,062	(148,049)	134,212
Income tax paid	(24,988)	(18,705)	(12,746)
<b>NET CASH FROM (USED IN) OPERATING ACTIVITIES</b>	<b>327,074</b>	<b>(166,754)</b>	<b>121,466</b>
<b>INVESTING ACTIVITIES</b>			
Purchases of property, plant and equipment	(2,828,837)	(1,055,457)	(694,152)
Deposits paid for acquisition of property, plant and equipment	(196,001)	(69,128)	—
Purchases of leasehold land and land use rights	(179,129)	—	—
Placement of restricted bank balances	(171,753)	(335,826)	(306,372)
Deposits paid for acquisition of an associate	(73,500)	—	—
Dividend income from an associate	320	160	200
Dividend income received from available-for-sale investment	2,175	3,164	6,109
Proceeds from disposal of an associate	4,860	—	—
Interest received	14,140	20,632	28,110
Proceeds from disposal of a subsidiary	35,032	—	—
Withdrawal of restricted bank balances	116,455	374,453	310,505
Proceeds from disposal of property, plant and equipment	266,356	38,610	356,421
(Placement) withdrawal of held for maturity investment	—	(600,000)	600,000
Purchases of investment properties	—	(1,257)	—
Purchases of intangible assets	—	(1,165)	—
Acquisition of additional interests in subsidiaries	—	(500)	—
Removal compensation received	—	12,999	—
Distribution to non-controlling shareholders upon deregistration of a subsidiary	—	—	(70,863)

**APPENDIX II FINANCIAL INFORMATION ON THE DISPOSAL GROUP AND SICHUAN SHUANGHONG**

	<b>For the year ended 31 December</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Increase in property under development	—	—	(29)
Proceeds from disposal of prepaid lease payments	—	—	33,717
Proceeds from disposal of available-for-sale investment	—	—	245,314
<b>NET CASH (USED IN) FROM INVESTING ACTIVITIES</b>	<b>(3,009,882)</b>	<b>(1,613,315)</b>	<b>508,960</b>
<b>FINANCING ACTIVITIES</b>			
Bank and other borrowings raised	3,812,915	3,676,977	5,853,300
Proceeds of sale and leaseback transactions	195,000	—	—
Capital contribution from non-controlling interests of subsidiaries	29,053	—	—
Dividends paid to non-controlling interests of subsidiaries	(24,726)	(9,807)	(2,721)
Repayments of obligations under finance leases	(35,836)	(60,723)	(65,463)
Interest expense paid	(256,209)	(410,722)	(147,090)
Repayments of bank and other borrowings	(1,655,646)	(2,149,134)	(6,725,569)
Loan to a non-controlling interests shareholder	—	(68,000)	—
<b>NET CASH FROM (USED IN) FINANCING ACTIVITIES</b>	<b>2,064,551</b>	<b>978,591</b>	<b>(1,087,543)</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(618,257)</b>	<b>(801,478)</b>	<b>(457,117)</b>
<b>CASH AND CASH EQUIVALENTS AT 1 JANUARY</b>	<b>2,698,430</b>	<b>2,080,334</b>	<b>1,278,852</b>
<b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES</b>	<b>161</b>	<b>(4)</b>	<b>(133)</b>
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER, represented by bank balances and cash</b>	<b>2,080,334</b>	<b>1,278,852</b>	<b>821,602</b>



**NOTES TO THE FINANCIAL INFORMATION****1.      BASIS OF PREPARATION OF THE UNAUDITED FINANCIAL INFORMATION**

The unaudited financial information of the IRICO Group Electronics Company Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) has been prepared solely for the purpose of inclusion in the circular to be issued by the Company in connection with the disposal of 100%, 90% and 75% equity interest of Xi’an IRICO Zixun Co., Ltd\* (西安彩虹資訊有限公司) (“IRICO Zixun”), Kunshan IRICO Industrial Co., Ltd\* (昆山彩虹實業有限公司) (“Kunshan IRICO”), Xi’an Cairui Display Technology Co., Ltd\* (西安彩瑞顯示技術有限公司) (“Cairui Display”), respectively, (collectively referred to as the “Disposal Group”) (the “Disposal A”) and the disposal of 20% equity interest of Sichuan Century Shuanghong Display Device Co., Ltd\* (四川世紀雙虹顯示器件股份有限公司) (“Sichuan Shuanghong”) (the “Disposal B”) in accordance with paragraph 14.68(2)(a)(i)(B) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Main Board Listing Rule”).

The unaudited financial information of the Group comprising the consolidated statements of financial position of the Group as at 31 December 2011, 2012 and 2013, and the consolidated statements of profit and loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for the years ended 31 December 2011, 2012 and 2013 and explanatory notes, has been prepared in accordance with the same accounting policies as those adopted by the Group in preparation of the consolidated financial statements of the Group for those respective years. The consolidated financial statements of the Group have been prepared in accordance with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

The unaudited financial information of the Group does not contain sufficient information to constitute a complete set of financial statements as defined in Hong Kong Accounting Standard 1 (Revised), “Presentation of Financial Statements” or an interim financial report as defined in Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the HKICPA.

\* For identification purpose only

## **2. THE DISPOSAL EVENTS AFTER THE REPORT PERIOD**

### **A. Disposal A**

On 30 May 2014, the Company entered into three disposal agreements with its related party, Xianyang Zhongdian IRICO Group Holdings Ltd.\* (咸陽中電彩虹集團控股有限公司) (“Xianyang IRICO”), subject to and upon the terms and conditions of these disposal agreements, the Company has conditionally agreed to dispose of the 100%, 90% and 75% equity interest of three of the subsidiaries, IRICO Zixun, Kunshan IRICO and Cairui Display at cash considerations of RMB187,860,000, RMB82,740,000 and RMB30,510,000 respectively.

Upon the completion of the Disposal A, the Company will not hold any interest in the Disposal Company and the Disposal Company will cease to be subsidiaries of the Company.

The Disposal A has not yet been completed at the date of this report and is subject to, among other things, the shareholder’s approval after the reporting date.

Included in the consolidated statements of financial position as at 31 December 2011, 2012 and 2013, and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Group are the unaudited combined statements of financial position of the Disposal Group as at 31 December 2011, 2012 and 2013, and the unaudited combined statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Disposal Group for each of the year ended 31 December 2011, 2012 and 2013 (“Disposal Group Financial Information”). Equity interests in companies now comprising the Disposal Group held by parties other than the Company’s shareholders are presented as non-controlling interests in equity. All intra-group transactions and balances between different entities/parts of Disposal Group have been eliminated on combination. The unaudited combined financial information of the Disposal Group is prepared by the directors of the Company in accordance with paragraph 14.68(2)(a)(i)(B) of the Main Board Listing Rule.

The Disposal Group Financial Information has been prepared on the historical cost basis. The Disposal Group Financial Information has been prepared using the same accounting policies as those adopted by the Company in the preparation of the consolidated financial statements of the Group for each of the three years ended 31 December 2013.

UNAUDITED COMBINED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME OF THE DISPOSAL GROUP

	Year ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)
Turnover	105,816	169,406	175,031
Cost of sales	(105,921)	(168,492)	(171,716)
Gross (loss) profit	(105)	914	3,315
Other operating income	21,182	14,490	6,007
Selling and distribution costs	(1,709)	(1,521)	(947)
Administrative expenses	(21,670)	(34,237)	(25,626)
Other operating expenses	(2,238)	(1,151)	(417)
Impairment loss recognised in respect of property, plant and equipment	(6,029)	—	(264)
Loss before tax	(10,569)	(21,505)	(17,932)
Income tax expense	(142)	—	—
Loss for the year	(10,711)	(21,505)	(17,932)
Loss for the year attributable to:			
Owners of the Company	(8,275)	(21,190)	(17,560)
Non-controlling interests	(2,436)	(315)	(372)
	(10,711)	(21,505)	(17,932)

UNAUDITED COMBINED STATEMENTS OF FINANCIAL POSITION OF THE DISPOSAL GROUP

	As at 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)
Non-current assets			
Property, plant and equipment	50,616	38,598	33,571
Properties under development	—	56,358	56,387
Investment properties	41,736	6,309	12,649
Leasehold land and land use rights	20,374	3,203	2,982
	<u>112,726</u>	<u>104,468</u>	<u>105,589</u>
Current assets			
Inventories	3,661	3,586	1,869
Trade and bills receivables	27,356	29,756	35,206
Other receivables, deposits and prepayments	2,438	2,444	1,724
Amount due from intermediate holding company	61,400	117,006	66,907
Restricted bank balances	1,510	1,151	34
Bank balances and cash	106,389	88,948	32,925
	<u>202,754</u>	<u>242,891</u>	<u>138,665</u>
Current liabilities			
Trade and bills payables	5,354	8,028	4,948
Other payables and accruals	53,817	84,340	56,401
Amount due to the Remaining Group	31,885	51,940	—
Tax payables	562	562	562
	<u>91,618</u>	<u>144,870</u>	<u>61,911</u>
Net current assets	<u>111,136</u>	<u>98,021</u>	<u>76,754</u>
Total assets less current liabilities	<u><u>223,862</u></u>	<u><u>202,489</u></u>	<u><u>182,343</u></u>

	As at 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)
Capital and reserves			
Share capital	286,143	286,143	286,143
Other reserves	24,487	31,875	31,875
Accumulated losses	(120,745)	(141,935)	(159,495)
Equity attributable to owners of the Company	189,885	176,083	158,523
Non-controlling interests	10,766	4,302	3,930
Total equity	200,651	180,385	162,453
Non-current liability			
Deferred income	23,211	22,104	19,890
	223,862	202,489	182,343

UNAUDITED COMBINED STATEMENTS OF CHANGES IN EQUITY OF THE DISPOSAL GROUP

	Attributable to owners of the Company				Non-	Total
	Share	Other	Accumulated		controlling	equity
	capital	reserves	losses	Total	interests	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2011 (unaudited)	286,143	24,487	(112,470)	198,160	13,202	211,362
Loss for the year	—	—	(8,275)	(8,275)	(2,436)	(10,711)
At 31 December 2011 and 1 January 2012 (unaudited)	286,143	24,487	(120,745)	189,885	10,766	200,651
Loss for the year	—	—	(21,190)	(21,190)	(315)	(21,505)
Acquisition of additional equity interests in a subsidiary	—	7,388	—	7,388	(6,149)	1,239
At 31 December 2012 and 1 January 2013 (unaudited)	286,143	31,875	(141,935)	176,083	4,302	180,385
Loss for the year	—	—	(17,560)	(17,560)	(372)	(17,932)
At 31 December 2013 (unaudited)	286,143	31,875	(159,495)	158,523	3,930	162,453

UNAUDITED COMBINED STATEMENTS OF CASH FLOWS OF THE DISPOSAL GROUP

	Year ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)
OPERATING ACTIVITIES			
Loss before tax	(10,569)	(21,505)	(17,932)
Adjustments for:			
Allowance for doubtful debts of trade and other receivables	1,357	190	41
Allowance for inventories	2,437	180	1,400
Amortisation of deferred income on government grants received	(1,106)	(1,107)	(2,214)
Amortisation of leasehold land and land use rights	730	476	221
Depreciation for property, plant and equipment and investment properties	5,452	3,530	2,537
Gain on disposal of property, plant and equipment	(29)	(2,955)	(39)
Gain on disposal of an associate	(3,235)	—	—
Impairment loss recognised in respect of property, plant and equipment	6,029	—	264
Bank interest income	(1,211)	(2,134)	(2,659)
Reversal of allowance for doubtful debts of trade and other receivables	—	(576)	(187)
Operating cash flows before movements in working capital	(145)	(23,901)	(18,568)
Decrease (increase) in inventories	337	(105)	317
Decrease (increase) in trade and bills receivables, other receivables, deposits and prepayments	864	(2,162)	(4,584)
Increase (decrease) in trade and bills payables, other payables and accruals	38,963	33,197	(31,019)
Increase in deferred income	—	1,739	—
Cash generated from (used in) operations	40,019	8,768	(53,854)
Income tax paid	(56)	—	—

	<b>Year ended 31 December</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)
<b>NET CASH FROM (USED IN)</b>			
OPERATING ACTIVITIES	<u>39,963</u>	<u>8,768</u>	<u>(53,854)</u>
<b>INVESTING ACTIVITIES</b>			
Purchases of property, plant and equipment	(8,300)	(8,518)	(4,220)
Placement of restricted bank balances	(1,510)	—	—
Interest received	1,211	2,134	2,659
Proceeds from disposal of property, plant and equipment	1,392	8,689	145
Repayment from (advance to) intermediate holding company	2,183	(55,606)	50,099
Proceeds from disposal of an associate	4,860	—	—
Purchases of investment properties	—	(1,257)	—
Acquisition of additional equity interests in a subsidiary	—	(500)	—
Withdrawal of restricted bank balances	—	359	1,117
Removal compensation received	—	8,435	—
Increase in properties under development	<u>—</u>	<u>—</u>	<u>(29)</u>
<b>NET CASH (USED IN)</b>			
FROM INVESTING ACTIVITIES	<u>(164)</u>	<u>(46,264)</u>	<u>49,771</u>
<b>FINANCING ACTIVITY</b>			
Advance from (repayment to) the Remaining Group	<u>21,713</u>	<u>20,055</u>	<u>(51,940)</u>
<b>NET CASH FROM (USED IN)</b>			
FINANCING ACTIVITY	<u>21,713</u>	<u>20,055</u>	<u>(51,940)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>61,512</b>	<b>(17,441)</b>	<b>(56,023)</b>
<b>CASH AND CASH EQUIVALENTS AT 1 JANUARY</b>	<u>44,877</u>	<u>106,389</u>	<u>88,948</u>
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER, represented by bank balances and cash</b>	<u><u>106,389</u></u>	<u><u>88,948</u></u>	<u><u>32,925</u></u>



## 2. THE DISPOSAL EVENTS AFTER THE REPORT PERIOD

### B. Disposal B

On 30 May 2014, the Company entered into a disposal agreement with its immediate holding company, IRICO Group Corporation\* (彩虹集團公司) (“**IRICO Group**”), subject to and upon the terms and conditions of this disposal agreement, the Company has conditionally agreed to dispose of the 20% equity interest of its associate, Sichuan Shuanghong at cash considerations of RMB90,950,000 (the “**Disposal B**”).

Upon the completion of the Disposal, the Company will not hold any interest in Sichuan Shuanghong and Sichuan Shuanghong will cease to be an associate of the Company.

The Disposal B has not yet been completed at the date of this report and is subject to, among other things, the shareholders’ approval after the reporting date.

Included in the consolidated statements of profit or loss and other comprehensive income of the Group are the following items attributable to the Sichuan Shuanghong for each of the reporting period:

	Year ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Share of loss of associates	(43,271)	(239,438)	(26,092)
Share of exchange reserve of an associate	(3,667)	3,466	(650)

\* For identification purpose only

Included in the consolidated statements of financial position of the Group is the following items attributable to the Sichuan Shuanghong at the end of each of the reporting period:

	As at 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
<b>Non-current assets</b>			
Interests in associates	275,749	39,777	13,035
<b>Capital and reserves</b>			
Other reserves			
— exchange reserve	(11,887)	(8,421)	(9,071)

Included in the consolidated statements of cash flow of the Group is the following items attributable to the Sichuan Shuanghong for each of the reporting period:

	Year ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
<b>Cash flow from operating activities</b>			
Adjustment for:			
Share of loss of associates	43,271	239,438	26,092

Included in the consolidated statements of changes in equity of the Group is the following items attributable to the Sichuan Shuanghong for each of the reporting period:

	Year ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
<b>Changes in equity for the year</b>			
Loss for the year	(43,271)	(239,438)	(26,092)
<b>Other comprehensive income</b>			
Share of exchange reserve of			
an associate	(3,667)	3,466	(650)

*The following is the text of a report in connection with the Unaudited Pro Forma Financial Information on the Remaining Group received from the independent reporting accountant, SHINEWING (HK) CPA Limited, Certified Public Accountants, Hong Kong for incorporation in this circular.*

**A. ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION**

The Board of Directors  
IRICO Group Electronics Company Limited  
No. 1 Caihong Road  
Xianyang, Shaanxi Province  
The People's Republic of China  
Postal code: 712021

Dear Sirs,

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of IRICO Group Electronics Company Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), set out in Section B of Appendix III to the circular issued by the Company dated 30 June 2014 (the "Circular") in connection with (i) the proposed disposal of 100%, 90% and 75% equity interest in Xi'an IRICO Zixun Co., Ltd\* (西安彩虹資訊有限公司) ("IRICO Zixun"), Kunshan IRICO Industrial Co., Ltd\* (昆山彩虹實業有限公司) ("Kunshan IRICO") and Xi'an Cairui Display Technology Co., Ltd\* (西安彩瑞顯示技術有限公司) ("Cairui Display") (collectively referred to as the "Disposal Group") (the "Disposal A") and (ii) the proposed disposal of 20% equity interest in Sichuan Century Shuanghong Display Device Co., Ltd\* (四川世紀雙虹顯示器件股份有限公司) ("Sichuan Shuanghong") (the "Disposal B") (the Group excluding the Disposal Group and Sichuan Shuanghong hereinafter referred to as the "Remaining Group") (the "Proposed Disposal") (the "Unaudited Pro Forma Financial Information"), assuming (I) only the Disposal A has completed or (II) only the Disposal B has completed or (III) both the Disposal A and the Disposal B have completed simultaneously. The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company (the "Directors") for illustrative purposes only, to provide information about how the Disposal A and the Disposal B might have affected the relevant financial information presented, for inclusion under the scenario (I), (II) and (III) in Appendix III of the Circular. The pro forma financial information consists of the pro forma consolidated statement of financial position as at 31 December 2013, the pro forma consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2013, the pro forma consolidated statement of cash flows for the year ended 31 December 2013, and related notes as set out on pages III-4 to III-39 of the investment circular in connection with the Proposed Disposals issued by the Company.

The basis of preparation of the Unaudited Pro Forma Financial Information under the scenario (I), (II) and (III) is set out in Section B below.

\* For identification purpose only

**Directors' Responsibility for the Pro Forma Financial Information**

The Directors of the Company are responsible for compiling the Unaudited Pro Forma Financial Information under the scenario (I), (II) and (III) in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG7") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

**Reporting Accountant's Responsibilities**

Our responsibility to express an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the Unaudited Pro Forma Financial Information under the scenario (I), (II) and (III) and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information under the scenario (I), (II) and (III) beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountant comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the directors of the Company have compiled the Unaudited Pro Forma Financial Information under the scenario (I), (II) and (III) in accordance with paragraph 29 of Chapter 4 of the Listing Rules and with reference to AG7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of Unaudited Pro Forma Financial Information under scenario (I), (II) and (III) included in an investment circular is solely to illustrate the impact of the Proposed Disposals on unadjusted financial information of the Group as if the proposed disposal had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the proposed disposal at 31 December 2013 would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information under the scenario (I), (II) and (III) has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Unaudited Pro Forma Financial Information under the scenario (I), (II) and (III) provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Opinion**

In our opinion:

- (a) the Unaudited Pro Forma Financial Information under scenario (I), (II) and (III) has been properly compiled by the Directors on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information under scenario (I), (II) and (III) as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

### **SHINEWING (HK) CPA Limited**

*Certified Public Accountants*

**Chong Kwok Shing**

Practising Certified Number: P05139

Hong Kong  
30 June 2014

**B. UNAUDITED PRO FORMA FINANCIAL INFORMATION****Introduction to the unaudited pro forma financial information**

The accompanying unaudited pro forma financial information of IRICO Group Electronics Company Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) excluding Xi’an IRICO Zixun Co., Ltd\* (西安彩虹資訊有限公司) (“IRICO Zixun”), Kunshan IRICO Industrial Co., Ltd\* (昆山彩虹實業有限公司) (“Kunshan IRICO”) and Xi’an Cairui Display Technology Co., Ltd\* (西安彩瑞顯示技術有限公司) (“Cairui Display”) (the “Disposal Group”) (the “Disposal A”) and Sichuan Century Shuanghong Display Device Co., Ltd\* (四川世紀雙虹顯示器件股份有限公司) (“Sichuan Shuanghong”) (the “Disposal B”) (the Group excluding the Disposal Group and Sichaun Shuanghong hereinafter referred to as the “Remaining Group”) has been prepared by the directors of the Company (the “Directors”) to illustrate the effect of the following (i) proposed disposal of the of 100%, 90% and 75% equity interest in IRICO Zixun, Kunshan IRICO and Cairui Display at cash considerations of RMB187,860,000, RMB82,740,000 and RMB30,510,000 respectively and (ii) the proposed disposal of 20% equity interest in Sichuan Shuanghong at cash consideration of RMB90,950,000 (the “Disposal”).

As the Disposal A and Disposal B are separate transactions and not interconditional, they could be completed on stand-alone basis. It is therefore presented in three scenarios as follows:

**Scenario I**

Assuming only the proposed Disposal A has been completed on 31 December 2013. The unaudited pro forma financial information has been prepared as if the Disposal A has been completed on 31 December 2013 for the unaudited pro forma consolidated statement of financial position and on 1 January 2013 for the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and unaudited pro forma consolidated statement of cash flows.

The unaudited pro forma consolidated statement of financial position of the Remaining Group is prepared based on the audited consolidated statement of financial position of the Group as at 31 December 2013 which is extracted from the published annual report of the Group for the year ended 31 December 2013, after making pro forma adjustments relating to the Disposal A.

The unaudited pro forma consolidated statement of profit or loss and other comprehensive income and the unaudited pro forma consolidated statement of cash flows of the Remaining Group are prepared based on the audited consolidated statement of profit or loss and other comprehensive income and the audited consolidated statement of cash flows of the Group for the year ended 31 December 2013 which are extracted from the published annual report of the Group for the year ended 31 December 2013, after making pro forma adjustments relating to the Disposal A.

### **Scenario II**

Assuming only the proposed Disposal B has been completed on 31 December 2013. The unaudited pro forma financial information has been prepared as if the Disposal B has been completed on 31 December 2013 for the unaudited pro forma consolidated statement of financial position and on 1 January 2013 for the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and unaudited pro forma consolidated statement of cash flows.

The unaudited pro forma consolidated statement of financial position of the Remaining Group is prepared based on the audited consolidated statement of financial position of the Group as at 31 December 2013 which is extracted from the published annual report of the Group for the year ended 31 December 2013, after making pro forma adjustments relating to the Disposal B.

The unaudited pro forma consolidated statement of profit or loss and other comprehensive income and the unaudited pro forma consolidated statement of cash flows of the Remaining Group are prepared based on the audited consolidated statement of profit or loss and other comprehensive income and the audited consolidated statement of cash flows of the Group for the year ended 31 December 2013 which are extracted from the published annual report of the Group for the year ended 31 December 2013, after making pro forma adjustments relating to the Disposal B.

### **Scenario III**

Assuming both the proposed Disposal A and Disposal B have been completed on 31 December 2013. The unaudited pro forma financial information has been prepared as if the Disposal A and Disposal B have been completed on 31 December 2013 for the unaudited pro forma consolidated statement of financial position and on 1 January 2013 for the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and unaudited pro forma consolidated statement of cash flows.

The unaudited pro forma consolidated statement of financial position of the Remaining Group is prepared based on the audited consolidated statement of financial position of the Group as at 31 December 2013 which is extracted from the published annual report of the Group for the year ended 31 December 2013, after making pro forma adjustments relating to the Disposal A and Disposal B.

The unaudited pro forma consolidated statement of profit or loss and other comprehensive income and the unaudited pro forma consolidated statement of cash flows of the Remaining Group are prepared based on the audited consolidated statement of profit or loss and other comprehensive income and the audited consolidated statement of cash flows of the Group for the year ended 31 December 2013 which are extracted from the published annual report of the Group for the year ended 31 December 2013, after making pro forma adjustments relating to the Disposal A and Disposal B.

The accompanying unaudited pro forma financial information of the Remaining Group is prepared by the Directors and based on a number of assumptions, estimates, uncertainties and currently available information to provide information of the Remaining Group upon completion of the Disposal A or/and Disposal B after making pro forma adjustments relating to the Disposal A or/and Disposal B. As it is prepared for illustrative purpose only and because of its hypothetical nature, it does not purport to give a true picture of the actual financial position, results and cash flows of the Remaining Group on completion of the Disposal A or/and Disposal B. Furthermore, the accompanying unaudited pro forma financial information of the Remaining Group does not purport to predict the future financial position or results of operations of the Remaining Group after the completion of the Disposal A or/and Disposal B. The unaudited pro forma financial information of the Remaining Group was prepared in accordance with paragraph 29 of Chapter 4 and paragraph 68(2)(a)(i)(B) of Chapter 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The unaudited pro forma financial information of the Remaining Group should be read in conjunction with the historical financial information of the Group included in the published annual report of the Group for the year ended 31 December 2013 and the financial information of the Disposal Group and Sichuan Shuanghong included in Appendix II to the Circular.



## SCENARIO I

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND  
OTHER COMPREHENSIVE INCOME OF THE REMAINING GROUP*For the year ended 31 December 2013*

	<b>The Group</b>	<b>Pro forma adjustments</b>	<b>Pro forma adjustments</b>	<b>The Remaining Group</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Note 1)</i>	<i>(Note 2)</i>	<i>(Note 3)</i>	
Turnover	2,279,758	(175,031)		2,104,727
Cost of sales	<u>(2,214,203)</u>	171,716		<u>(2,042,487)</u>
Gross profit	65,555			62,240
Gain on disposal of available-for-sale investment	221,254			221,254
Other operating income	315,805	(6,007)		309,798
Selling and distribution costs	(84,465)	947		(83,518)
Administrative expenses	(450,912)	25,626		(425,286)
Other operating expenses	(5,927)	417		(5,510)
Finance costs	(227,029)			(227,029)
Impairment loss recognised in respect of property, plant and equipment	(22,628)	264		(22,364)
Share of loss of associates	(26,409)			(26,409)
Gain on disposal of subsidiaries	<u>—</u>		134,408	<u>134,408</u>
Loss before tax	(214,756)			(62,416)
Income tax credit	<u>119</u>			<u>119</u>
Loss for the year	<u>(214,637)</u>			<u>(62,297)</u>

	<b>The Group</b>	<b>Pro forma adjustments</b>	<b>Pro forma adjustments</b>	<b>The Remaining Group</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Note 1)</i>	<i>(Note 2)</i>	<i>(Note 3)</i>	
<b>Other comprehensive expense</b>				
Items that may be reclassified subsequently to profit or loss:				
Exchange differences arising on translation	(19)			(19)
Share of exchange reserve of an associate	<u>(650)</u>			<u>(650)</u>
Other comprehensive expense for the year	<u>(669)</u>			<u>(669)</u>
Total comprehensive expense for the year	<u><u>(215,306)</u></u>			<u><u>(62,966)</u></u>
(Loss) profit for the year attributable to:				
Owners of the Company	(226,352)	17,424	134,408	(74,520)
Non-controlling interests	<u>11,715</u>	508		<u>12,223</u>
	<u><u>(214,637)</u></u>			<u><u>(62,297)</u></u>
Total comprehensive (expense) income attributable to:				
Owners of the Company	(227,021)	17,424	134,408	(75,189)
Non-controlling interests	<u>11,715</u>	508		<u>12,223</u>
	<u><u>(215,306)</u></u>			<u><u>(62,966)</u></u>

# UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE REMAINING GROUP

As at 31 December 2013

	<b>The Group</b>	<b>Pro forma adjustments</b>	<b>Pro forma adjustments</b>	<b>The Remaining Group</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Note 1)</i>	<i>(Note 4)</i>	<i>(Note 5)</i>	
Non-current assets				
Property, plant and equipment	7,753,178	(33,571)		7,719,607
Properties under development	56,387	(56,387)		—
Investment properties	23,273	(12,649)		10,624
Leasehold land and land use rights	276,079	(2,982)		273,097
Intangible assets	277			277
Interests in associates	86,645			86,645
Deposits paid for acquisition of property, plant and equipment	4,648			4,648
	<u>8,200,487</u>			<u>8,094,898</u>
Current assets				
Inventories	259,227	(1,869)		257,358
Trade and bills receivables	637,957	(35,206)		602,751
Other receivables, deposits and prepayments	993,660	(1,724)		991,936
Amount due from intermediate holding company	—	(66,907)	66,907	—
Tax recoverable	4,178			4,178
Restricted bank balances	61,956	(34)		61,922
Bank balances and cash	821,602	(32,925)	299,732	1,088,409
	<u>2,778,580</u>			<u>3,006,554</u>

	<b>The Group</b>	<b>Pro forma adjustments</b>	<b>Pro forma adjustments</b>	<b>The Remaining Group</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Note 1)</i>	<i>(Note 4)</i>	<i>(Note 5)</i>	
Current liabilities				
Trade and bills payables	807,084	(4,948)		802,136
Other payables and accruals	1,229,097	(56,401)		1,172,696
Tax payables	1,125	(562)		563
Amount due to Disposal Group	—		66,907	66,907
Bank and other borrowings				
— due within one year	3,481,450			3,481,450
Termination benefits	191,533			191,533
Obligations under finance leases	34,057			34,057
	<u>5,744,346</u>			<u>5,749,342</u>
Net current liabilities	<u>(2,965,766)</u>			<u>(2,742,788)</u>
Total assets less current liabilities	<u>5,234,721</u>			<u>5,352,110</u>
Capital and reserves				
Share capital	2,232,349			2,232,349
Other reserves	1,339,514	(31,875)		1,307,639
Accumulated losses	<u>(3,592,325)</u>	31,875	151,832	<u>(3,408,618)</u>
Equity attributable to owners				
of the Company	(20,462)			131,370
Non-controlling interests	<u>1,373,587</u>		(14,553)	<u>1,359,034</u>
Total equity	<u>1,353,125</u>			<u>1,490,404</u>

	<b>The Group</b>	<b>Pro forma adjustments</b>	<b>Pro forma adjustments</b>	<b>The Remaining Group</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Note 1)</i>	<i>(Note 4)</i>	<i>(Note 5)</i>	
Non-current liabilities				
Bank and other borrowings				
— due after one year	3,263,300			3,263,300
Deferred income	571,862	(19,890)		551,972
Termination benefits	38,723			38,723
Deferred tax liabilities	7,711			7,711
	<u>3,881,596</u>			<u>3,861,706</u>
	<u>5,234,721</u>			<u>5,352,110</u>

# **UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF CASH FLOWS OF THE REMAINING GROUP**

*For the year ended 31 December 2013*

	<b>The Group</b>	<b>Pro forma</b>	<b>Pro forma</b>	<b>The</b>
	<i>RMB'000</i>	<i>adjustments</i>	<i>adjustments</i>	<i>Remaining</i>
	<i>(Note 1)</i>	<i>(Note 6)</i>	<i>(Note 3, 7)</i>	<i>Group</i>
				<i>RMB'000</i>
<b>OPERATING ACTIVITIES</b>				
Loss before tax	(214,756)	17,932	134,408	(62,416)
Adjustments for:				
Allowance for doubtful debts of trade and other receivables	4,355	(41)		4,314
Allowance for inventories	13,593	(1,400)		12,193
Amortisation of deferred income on government grants received	(37,321)	2,214		(35,107)
Amortisation of leasehold land and land use rights and intangible assets	5,620	(221)		5,399
Cash settle share-based payments expense	645			645
Depreciation for property, plant and equipment and investment properties	125,201	(2,537)		122,664
Gain on disposal of leasehold land and land use rights	(17,025)			(17,025)
Dividend income from available-for-sale investment	(6,109)			(6,109)
Finance costs	227,029			227,029
Gain on disposal of property, plant and equipment	(40,550)	39		(40,511)
Gain on disposal of available-for-sale investment	(221,254)			(221,254)
Impairment loss recognised in respect of property, plant and equipment	22,628	(264)		22,364
Bank interest income	(16,085)	2,659		(13,426)

	<b>The Group</b>	<b>Pro forma adjustments</b>	<b>Pro forma adjustments</b>	<b>The Remaining Group</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Note 1)</i>	<i>(Note 6)</i>	<i>(Note 3, 7)</i>	
Interest income from held-to-maturity investments	(12,025)			(12,025)
Provision for warranty	6,255			6,255
Gain on deregistration of a subsidiary	(1,200)			(1,200)
Reversal of allowance for doubtful debts of trade and other receivables	(6,373)	187		(6,186)
Share of loss of associates	26,409			26,409
Gain on disposal of subsidiaries	—		(134,408)	(134,408)
Operating cash flows before movements in working capital	(140,963)			(122,395)
Decrease in inventories	32,352	(317)		32,035
Decrease in trade and bills receivables, other receivables, deposits and prepayments	309,849	4,584		314,433
Decrease in trade and bills payables, other payables and accruals	(182,123)	31,019		(151,104)
Increase in termination benefits	65,745			65,745
Increase in deferred income	49,352			49,352
Cash generated from operations	134,212			188,066
Income tax paid	(12,746)			(12,746)
NET CASH FROM OPERATING ACTIVITIES	121,466			175,320

	<b>The Group</b>	<b>Pro forma adjustments</b>	<b>Pro forma adjustments</b>	<b>The Remaining Group</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Note 1)</i>	<i>(Note 6)</i>	<i>(Note 3, 7)</i>	
<b>INVESTING ACTIVITIES</b>				
Purchases of property, plant and equipment	(694,152)	4,220		(689,932)
Placement of restricted bank balances	(306,372)			(306,372)
Distribution to non-controlling shareholders upon deregistration of a subsidiary	(70,863)			(70,863)
Repayment from Disposal Group	—	51,940		51,940
Increase in properties under development	(29)	29		—
Dividend income from an associate	200			200
Dividend income received from available-for-sale investment	6,109			6,109
Interest received	28,110	(2,659)		25,451
Proceeds from disposal of prepaid lease payments	33,717			33,717
Proceeds from disposal of property, plant and equipment	356,421	(145)		356,276
Withdrawal of restricted bank balances	310,505	(1,117)		309,388
Proceeds from disposal of available-for-sale investment	245,314			245,314
Withdrawal of held-to-maturity investments	600,000			600,000
Proceeds from disposal of subsidiaries	—		299,732	299,732
<b>NET CASH FROM INVESTING ACTIVITIES</b>	<b>508,960</b>			<b>860,960</b>



	<b>The Group</b>	<b>Pro forma adjustments</b>	<b>Pro forma adjustments</b>	<b>The Remaining Group</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Note 1)</i>	<i>(Note 6)</i>	<i>(Note 3, 7)</i>	
<b>FINANCING ACTIVITIES</b>				
Bank and other borrowings raised	5,853,300			5,853,300
Repayment to Disposal Group	—	(50,099)		(50,099)
Dividends paid to non-controlling interests of subsidiaries	(2,721)			(2,721)
Repayments of obligations under finance leases	(65,463)			(65,463)
Interest expense paid	(147,090)			(147,090)
Repayments of bank and other borrowings	<u>(6,725,569)</u>			<u>(6,725,569)</u>
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<u>(1,087,543)</u>			<u>(1,137,642)</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(457,117)			(101,362)
<b>CASH AND CASH EQUIVALENTS AT 1 JANUARY</b>	1,278,852	(88,948)		1,189,904
<b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES</b>	<u>(133)</u>			<u>(133)</u>
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER, represented by bank balances and cash</b>	<u>821,602</u>			<u>1,088,409</u>

## NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

*Notes:*

- 1) Figures are extracted from the audited consolidated statement of financial position of the Group as at 31 December 2013, and the consolidated statement of profit or loss and other comprehensive income and the consolidated statement of cash flows of the Group for the year ended as set out in the annual report of the Company for the year ended 31 December 2013.
- 2) The adjustment represents the exclusion of the results of the Disposal Group and loss for the year attributable to non-controlling interests of Cairui Display and Kunshan IRICO for the year ended 31 December 2013, as if the Disposal A had taken place on 1 January 2013. The results of the Disposal Group are extracted from the unaudited financial information of the Disposal Group and Sichuan Shuanghong for the year ended 31 December 2013 as set out in Appendix II of this circular.

The loss for the year attributable to owners of the Company amounted to approximately RMB17,560,000 of the Disposal Group, RMB53,000 and RMB83,000 represented the loss for the year attributable to 25% and 10% non-controlling interests of Cairui Display and Kunshan IRICO respectively.

- 3) These adjustments reflect the pro forma gain on the disposal, as if the Disposal A had taken place on 1 January 2013. Pro forma gain on the disposal is calculated as follows:

	<i>RMB'000</i>
Cash consideration	
— IRICO Zixun	187,860
— Kunshan IRICO	82,740
— Cairui Display	30,510
	<hr/>
Total cash consideration	301,110
Less: Estimated direct expenses in relation to the Disposal A ( <i>note i</i> )	(1,378)
	<hr/>
	299,732
Add: non-controlling interests ( <i>note ii</i> )	15,061
Less: net asset value of the Disposal Group as at 1 January 2013	(180,385)
	<hr/>
Estimated pro forma gain on disposal of the Disposal A	134,408
	<hr/> <hr/>

*Note:*

- i. The estimated expenses directly attributable to the Disposal A are mainly legal and professional fees.
  - ii. Non-controlling interests as at 1 January 2013 represented 25% non-controlling interests of Cairui Display, 10% non-controlling interests of Kunshan IRICO and other non-controlling interests of the Disposal Group.
- 4) The adjustment represents the exclusion of the assets and liabilities of the Disposal Group as at 31 December 2013, as if the Disposal A had taken place on 31 December 2013. The assets and liabilities of the Disposal Group are extracted from the unaudited financial information of the Disposal Group and Sichuan Shunaghong for the year ended 31 December 2013 as set out in Appendix II of this circular.

*Note:* The adjustment, RMB31,875,000, reflects the realisation of other reserve on disposal of the Disposal Group assuming Disposal A had been taken place on 31 December 2013, which is a transaction with owners and recognised within the equity attributable to the owners of the Company.

- 5) These adjustments reflect the pro forma gain on the disposal, as if the Disposal A had taken place on 31 December 2013. Pro forma gain on the disposal is calculated as follows:

	<i>RMB'000</i>
Cash consideration	
— IRICO Zixun	187,860
— Kunshan IRICO	82,740
— Cairui Display	30,510
	<hr/>
Total cash consideration	301,110
Less: Estimated direct expenses in relation to the Disposal A ( <i>note i</i> )	(1,378)
	<hr/>
	299,732
Add: non-controlling interests ( <i>note ii</i> )	14,553
Less: net asset value of the Disposal Group	
as at 31 December 2013	(162,453)
	<hr/>
Estimated pro forma gain on disposal of the Disposal A	151,832
	<hr/> <hr/>

*Notes:*

- i. The estimated expenses directly attributable to the Disposal A are mainly legal and professional fees.
  - ii. The pro forma adjustment represents the reclassification balance of amounts due from/to the Disposal Group upon completion of the Disposal A.
  - iii. Non-controlling interests as at 31 December 2013 represented 25% non-controlling interests of Cairui Display, 10% non-controlling interests of Kunshan IRICO and other non-controlling interests of the Disposal Group.
- 6) The adjustment represents the exclusion of the cash flows of the Disposal Group for the year ended 31 December 2013, as if the Disposal A had taken place on 1 January 2013. The cash flows of the Disposal Group are extracted from the unaudited financial information of the Disposal Group and Sichuan Shunghong for the year ended 31 December 2013 as set out in Appendix II of this circular.
- 7) These adjustments represent the cash inflow arising on disposal, as if the Disposal A had taken place on 1 January 2013 and the proceed from the Disposal was received on 1 January 2013.

	<i>RMB'000</i>
Cash consideration	301,110
Less: Estimated direct expenses in relation to the Disposal A	(1,378)
	<hr/>
	299,732
	<hr/> <hr/>

- 8) All the above pro forma adjustments have no continuing effect on the Group's financial statements in subsequent year.

## SCENARIO II

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND  
OTHER COMPREHENSIVE INCOME OF THE REMAINING GROUP*For the year ended 31 December 2013*

	<b>The Group</b>	<b>Pro forma</b>	<b>Pro forma</b>	<b>The</b>
	<b>RMB'000</b>	<b>adjustments</b>	<b>adjustments</b>	<b>Remaining</b>
	<i>(Note 1)</i>	<i>(Note 2)</i>	<i>(Note 3)</i>	<i>Group</i>
				<i>RMB'000</i>
Turnover	2,279,758			2,279,758
Cost of sales	<u>(2,214,203)</u>			<u>(2,214,203)</u>
Gross profit	65,555			65,555
Gain on disposal of available-for-sale investment	221,254			221,254
Other operating income	315,805			315,805
Selling and distribution costs	(84,465)			(84,465)
Administrative expenses	(450,912)			(450,912)
Other operating expenses	(5,927)			(5,927)
Finance costs	(227,029)			(227,029)
Impairment loss recognised in respect of property, plant and equipment	(22,628)			(22,628)
Share of loss of associates	(26,409)	26,092		(317)
Gain on disposal of an associate	<u>—</u>		42,409	<u>42,409</u>
Loss before tax	(214,756)			(146,255)
Income tax credit	<u>119</u>			<u>119</u>
Loss for the year	<u>(214,637)</u>			<u>(146,136)</u>

	<b>The Group</b>	<b>Pro forma adjustments</b>	<b>Pro forma adjustments</b>	<b>The Remaining Group</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Note 1)</i>	<i>(Note 2)</i>	<i>(Note 3)</i>	
<b>Other comprehensive expense</b>				
Items that may be reclassified subsequently to profit or loss:				
Exchange differences arising on translation	(19)			(19)
Share of exchange reserve of an associate	(650)	650		—
Other comprehensive expense for the year	(669)			(19)
Total comprehensive expense for the year	(215,306)			(146,155)
(Loss) profit for the year attributable to:				
Owners of the Company	(226,352)	26,092	42,409	(157,851)
Non-controlling interests	11,715			11,715
	(214,637)			(146,136)
Total comprehensive (expense) income attributable to:				
Owners of the Company	(227,021)	26,742	42,409	(157,870)
Non-controlling interests	11,715			11,715
	(215,306)			(146,155)

# UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE REMAINING GROUP

As at 31 December 2013

	<b>The Group</b>	<b>Pro forma adjustments</b>	<b>Pro forma adjustments</b>	<b>The Remaining Group</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Note 1)</i>	<i>(Note 4)</i>	<i>(Note 5)</i>	
Non-current assets				
Property, plant and equipment	7,753,178			7,753,178
Properties under development	56,387			56,387
Investment properties	23,273			23,273
Leasehold land and land use rights	276,079			276,079
Intangible assets	277			277
Interests in associates	86,645	(13,035)		73,610
Deposits paid for acquisition of property, plant and equipment	4,648			4,648
	<u>8,200,487</u>			<u>8,187,452</u>
Current assets				
Inventories	259,227			259,227
Trade and bills receivables	637,957			637,957
Other receivables, deposits and prepayments	993,660			993,660
Tax recoverable	4,178			4,178
Restricted bank balances	61,956			61,956
Bank balances and cash	821,602		90,607	912,209
	<u>2,778,580</u>			<u>2,869,187</u>

	<b>The Group</b>	<b>Pro forma adjustments</b>	<b>Pro forma adjustments</b>	<b>The Remaining Group</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Note 1)</i>	<i>(Note 4)</i>	<i>(Note 5)</i>	
Current liabilities				
Trade and bills payables	807,084			807,084
Other payables and accruals	1,229,097			1,229,097
Tax payables	1,125			1,125
Bank and other borrowings - due within one year	3,481,450			3,481,450
Termination benefits	191,533			191,533
Obligations under finance leases	34,057			34,057
	<u>5,744,346</u>			<u>5,744,346</u>
Net current liabilities	<u>(2,965,766)</u>			<u>(2,875,159)</u>
Total assets less current liabilities	<u>5,234,721</u>			<u>5,312,293</u>
Capital and reserves				
Share capital	2,232,349			2,232,349
Other reserves	1,339,514		9,071	1,348,585
Accumulated losses	<u>(3,592,325)</u>		68,501	<u>(3,523,824)</u>
Equity attributable to owners of the Company	(20,462)			57,110
Non-controlling interests	<u>1,373,587</u>			<u>1,373,587</u>
Total equity	<u>1,353,125</u>			<u>1,430,697</u>

	<b>The Group</b>	<b>Pro forma adjustments</b>	<b>Pro forma adjustments</b>	<b>The Remaining Group</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Note 1)</i>	<i>(Note 4)</i>	<i>(Note 5)</i>	
Non-current liabilities				
Bank and other				
borrowings - due after one year	3,263,300			3,263,300
Deferred income	571,862			571,862
Termination benefits	38,723			38,723
Deferred tax liabilities	7,711			7,711
	<u>3,881,596</u>			<u>3,881,596</u>
	<u>5,234,721</u>			<u>5,312,293</u>



# **UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF CASH FLOWS OF THE REMAINING GROUP**

*For the year ended 31 December 2013*

	<b>The Group</b>	<b>Pro forma adjustments</b>	<b>Pro forma adjustments</b>	<b>The Remaining Group</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Note 1)</i>	<i>(Note 6)</i>	<i>(Note 3, 7)</i>	
<b>OPERATING ACTIVITIES</b>				
Loss before tax	(214,756)	26,092	42,409	(146,255)
Adjustments for :				
Allowance for doubtful debts				
of trade and other receivables	4,355			4,355
Allowance for inventories	13,593			13,593
Amortisation of deferred income				
on government grants received	(37,321)			(37,321)
Amortisation of leasehold land				
and land use rights and				
intangible assets	5,620			5,620
Cash settle share-based				
payments expense	645			645
Depreciation for property, plant				
and equipment and				
investment properties	125,201			125,201
Gain on disposal of leasehold				
land and land use rights	(17,025)			(17,025)
Dividend income from				
available-for-sale investment	(6,109)			(6,109)
Finance costs	227,029			227,029
Gain on disposal of property,				
plant and equipment	(40,550)			(40,550)
Gain on disposal of				
available-for-sale investment	(221,254)			(221,254)
Impairment loss recognised				
in respect of property, plant				
and equipment	22,628			22,628
Bank interest income	(16,085)			(16,085)

	<b>The Group</b>	<b>Pro forma adjustments</b>	<b>Pro forma adjustments</b>	<b>The Remaining Group</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Note 1)</i>	<i>(Note 6)</i>	<i>(Note 3, 7)</i>	
Interest income from				
held-to-maturity investments	(12,025)			(12,025)
Provision for warranty	6,255			6,255
Gain on deregistration				
of a subsidiary	(1,200)			(1,200)
Reversal of allowance for				
doubtful debts of trade				
and other receivables	(6,373)			(6,373)
Share of loss of associates	26,409	(26,092)		317
Gain on disposal of an associate	—		(42,409)	(42,409)
Operating cash flows before				
movements in working capital	(140,963)			(140,963)
Decrease in inventories	32,352			32,352
Decrease in trade and bills				
receivables, other receivables,				
deposits and prepayments	309,849			309,849
Decrease in trade and				
bills payables, other				
payables and accruals	(182,123)			(182,123)
Increase in termination benefits	65,745			65,745
Increase in deferred income	49,352			49,352
Cash generated from operations	134,212			134,212
Income tax paid	(12,746)			(12,746)
NET CASH FROM				
OPERATING ACTIVITIES	121,466			121,466

	<b>The Group</b>	<b>Pro forma adjustments</b>	<b>Pro forma adjustments</b>	<b>The Remaining Group</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Note 1)</i>	<i>(Note 6)</i>	<i>(Note 3, 7)</i>	
<b>INVESTING ACTIVITIES</b>				
Purchases of property, plant and equipment	(694,152)			(694,152)
Placement of restricted bank balances	(306,372)			(306,372)
Distribution to non-controlling shareholders upon deregistration of a subsidiary	(70,863)			(70,863)
Increase in properties under development	(29)			(29)
Dividend income from an associate	200			200
Dividend income received from available-for-sale investment	6,109			6,109
Interest received	28,110			28,110
Proceeds from disposal of prepaid lease payments	33,717			33,717
Proceeds from disposal of property, plant and equipment	356,421			356,421
Withdrawal of restricted bank balances	310,505			310,505
Proceeds from disposal of available-for-sale investment	245,314			245,314
Withdrawal of held-to-maturity investments	600,000			600,000
Proceeds from disposal of an associate	—		90,607	90,607
<b>NET CASH FROM INVESTING ACTIVITIES</b>	<b>508,960</b>			<b>599,567</b>

	<b>The Group</b>	<b>Pro forma adjustments</b>	<b>Pro forma adjustments</b>	<b>The Remaining Group</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Note 1)</i>	<i>(Note 6)</i>	<i>(Note 3, 7)</i>	
<b>FINANCING ACTIVITIES</b>				
Bank and other borrowings raised	5,853,300			5,853,300
Dividends paid to non-controlling interests of subsidiaries	(2,721)			(2,721)
Repayments of obligations under finance leases	(65,463)			(65,463)
Interest expense paid	(147,090)			(147,090)
Repayments of bank and other borrowings	<u>(6,725,569)</u>			<u>(6,725,569)</u>
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<u>(1,087,543)</u>			<u>(1,087,543)</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(457,117)			(366,510)
<b>CASH AND CASH EQUIVALENTS AT 1 JANUARY</b>	1,278,852			1,278,852
<b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES</b>	<u>(133)</u>			<u>(133)</u>
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER, represented by bank balances and cash</b>	<u>821,602</u>			<u>912,209</u>

## NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

*Notes:*

- 1) Figures are extracted from the audited consolidated statement of financial position of the Group as at 31 December 2013, and the consolidated statement of profit or loss and other comprehensive income and the consolidated statement of cash flows of the Group for the year ended as set out in the annual report of the Company for the year ended 31 December 2013.
- 2) The adjustment represents the exclusion of the share of the results of Sichuan Shuanghong for the year ended 31 December 2013, as if the Disposal B had taken place on 1 January 2013. The share of the results of Sichuan Shuanghong are extracted from the unaudited financial information of the Disposal Group and Sichuan Shuanghong for the year ended 31 December 2013 as set out in Appendix II of this circular.
- 3) These adjustments reflect the pro forma gain on the disposal of Sichuan Shuanghong, as if the Disposal B had taken place on 1 January 2013. Pro forma gain on the disposal is calculated as follows:

	<i>RMB'000</i>
Cash consideration	90,950
Less: Estimated direct expenses in relation to the Disposal B ( <i>note i</i> )	(343)
	<hr/>
	90,607
Less: Interests in an associate as at 1 January 2013	(39,777)
Less: Cumulative share of exchange reserve of an associate reclassified from equity to profit or loss	(8,421)
	<hr/>
Estimated pro forma gain on disposal of the Disposal B	<u>42,409</u>

*Note:*

- i. The estimated expenses directly attributable to the Disposal B are mainly legal and professional fees.
- 4) The adjustment represents the exclusion of the interests in Sichuan Shuanghong as at 31 December 2013, as if the Disposal B had taken place on 31 December 2013. The interests in Sichuan Shuanghong are extracted from the unaudited financial information of the Disposal Group and Sichuan Shuanghong for the year ended 31 December 2013 as set out in Appendix II of this circular.

- 5) These adjustments reflect the pro forma gain on the disposal of Sichuan Shuanghong, as if the Disposal B had taken place on 31 December 2013. Pro forma gain on the disposal is calculated as follows:

	<i>RMB'000</i>
Cash consideration	90,950
Less: Estimated direct expenses in relation to the Disposal B ( <i>note i</i> )	(343)
	<u>90,607</u>
Less: Interests in an associate as at 31 December 2013	(13,035)
Less: Cumulative share of exchange reserve of an associate reclassified from equity to profit or loss	(9,071)
	<u>(9,071)</u>
Estimated pro forma gain on disposal of the Disposal B	<u><u>68,501</u></u>

*Note:*

- i. The estimated expenses directly attributable to the Disposal B are mainly legal and professional fees.
- 6) The adjustment represents the exclusion of the cash flows of Sichuan Shuanghong for the year ended 31 December 2013, as if the Disposal B had taken place on 1 January 2013. The cash flows of Sichuan Shuanghong are extracted from the unaudited financial information of the Disposal Group and Sichuan Shuanghong for the year ended 31 December 2013 as set out in Appendix II of this circular.
- 7) These adjustments represent the cash inflow arising on disposal, as if the Disposal B had taken place on 1 January 2013 and the proceed from the Disposal was received on 1 January 2013.

	<i>RMB'000</i>
Cash consideration	90,950
Less: Estimated direct expenses in relation to the Disposal B	(343)
	<u>90,607</u>

- 8) All the above pro forma adjustments have no continuing effect on the Group's financial statements in subsequent year.

## SCENARIO III

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND  
OTHER COMPREHENSIVE INCOME OF THE REMAINING GROUP*For the year ended 31 December 2013*

	<b>The Group</b>	<b>Pro forma adjustments</b>	<b>Pro forma adjustments</b>	<b>The Remaining Group</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Note 1)</i>	<i>(Note 2)</i>	<i>(Note 3)</i>	
Turnover	2,279,758	(175,031)		2,104,727
Cost of sales	<u>(2,214,203)</u>	171,716		<u>(2,042,487)</u>
Gross profit	65,555			62,240
Gain on disposal of available-for-sale investment	221,254			221,254
Other operating income	315,805	(6,007)		309,798
Selling and distribution costs	(84,465)	947		(83,518)
Administrative expenses	(450,912)	25,626		(425,286)
Other operating expenses	(5,927)	417		(5,510)
Finance costs	(227,029)			(227,029)
Impairment loss recognised in respect of property, plant and equipment	(22,628)	264		(22,364)
Share of loss of associates	(26,409)	26,092		(317)
Gain on disposal of subsidiaries	—		134,408	134,408
Gain on disposal of an associate	<u>—</u>		42,409	<u>42,409</u>
Loss before tax	(214,756)			6,085
Income tax credit	<u>119</u>			<u>119</u>
Loss for the year	<u>(214,637)</u>			<u>6,204</u>

	<b>The Group</b>	<b>Pro forma adjustments</b>	<b>Pro forma adjustments</b>	<b>The Remaining Group</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Note 1)</i>	<i>(Note 2)</i>	<i>(Note 3)</i>	
<b>Other comprehensive expense</b>				
Items that may be reclassified subsequently to profit or loss:				
Exchange differences arising on translation	(19)			(19)
Share of exchange reserve of an associate	(650)	650		—
Other comprehensive expense for the year	(669)			(19)
Total comprehensive expense for the year	<u>(215,306)</u>			<u>6,185</u>
(Loss) profit for the year attributable to:				
Owners of the Company	(226,352)	43,516	176,817	(6,019)
Non-controlling interests	<u>11,715</u>	508		<u>12,223</u>
	<u>(214,637)</u>			<u>6,204</u>
Total comprehensive (expense) income attributable to:				
Owners of the Company	(227,021)	44,166	176,817	(6,038)
Non-controlling interests	<u>11,715</u>	508		<u>12,223</u>
	<u>(215,306)</u>			<u>6,185</u>



# UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE REMAINING GROUP

As at 31 December 2013

	<b>The Group</b>	<b>Pro forma</b>	<b>Pro forma</b>	<b>The</b>
	<i>RMB'000</i>	<i>adjustments</i>	<i>adjustments</i>	<b>Remaining</b>
	<i>(Note 1)</i>	<i>(Note 4)</i>	<i>(Note 5)</i>	<b>Group</b>
				<i>RMB'000</i>
Non-current assets				
Property, plant and equipment	7,753,178	(33,571)		7,719,607
Properties under development	56,387	(56,387)		—
Investment properties	23,273	(12,649)		10,624
Leasehold land and land use rights	276,079	(2,982)		273,097
Intangible assets	277			277
Interests in associates	86,645	(13,035)		73,610
Deposits paid for acquisition of property, plant and equipment	4,648			4,648
	<u>8,200,487</u>			<u>8,081,863</u>
Current assets				
Inventories	259,227	(1,869)		257,358
Trade and bills receivables	637,957	(35,206)		602,751
Other receivables, deposits and prepayments	993,660	(1,724)		991,936
Amount due from intermediate holding company	—	(66,907)	66,907	—
Tax recoverable	4,178			4,178
Restricted bank balances	61,956	(34)		61,922
Bank balances and cash	821,602	(32,925)	390,339	1,179,016
	<u>2,778,580</u>			<u>3,097,161</u>

	<b>The Group</b>	<b>Pro forma</b>	<b>Pro forma</b>	<b>The</b>
	<i>RMB'000</i>	<i>adjustments</i>	<i>adjustments</i>	<i>Remaining</i>
	<i>(Note 1)</i>	<i>(Note 4)</i>	<i>(Note 5)</i>	<i>Group</i>
				<i>RMB'000</i>
Current liabilities				
Trade and bills payables	807,084	(4,948)		802,136
Other payables and accruals	1,229,097	(56,401)		1,172,696
Tax payables	1,125	(562)		563
Amount due to Disposal Group	—		66,907	66,907
Bank and other borrowings - due within one year	3,481,450			3,481,450
Termination benefits	191,533			191,533
Obligations under finance leases	34,057			34,057
	<u>5,744,346</u>			<u>5,749,342</u>
Net current liabilities	<u>(2,965,766)</u>			<u>(2,652,181)</u>
Total assets less current liabilities	<u><u>5,234,721</u></u>			<u><u>5,429,682</u></u>
Capital and reserves				
Share capital	2,232,349			2,232,349
Other reserves	1,339,514	(31,875)	9,071	1,316,710
Accumulated losses	<u>(3,592,325)</u>	31,875	220,333	<u>(3,340,117)</u>
Equity attributable to owners of the Company	(20,462)			208,942
Non-controlling interests	<u>1,373,587</u>		(14,553)	<u>1,359,034</u>
Total equity	<u>1,353,125</u>			<u>1,567,976</u>
Non-current liabilities				
Bank and other borrowings - due after one year	3,263,300			3,263,300
Deferred income	571,862	(19,890)		551,972
Termination benefits	38,723			38,723
Deferred tax liabilities	<u>7,711</u>			<u>7,711</u>
	<u>3,881,596</u>			<u>3,861,706</u>
	<u><u>5,234,721</u></u>			<u><u>5,429,682</u></u>

# **UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF CASH FLOWS OF THE REMAINING GROUP**

*For the year ended 31 December 2013*

	<b>The Group</b>	<b>Pro forma</b>	<b>Pro forma</b>	<b>The</b>
	<i>RMB'000</i>	<i>adjustments</i>	<i>adjustments</i>	<i>Remaining</i>
	<i>(Note 1)</i>	<i>(Note 6)</i>	<i>(Note 3, 7)</i>	<i>Group</i>
				<i>RMB'000</i>
<b>OPERATING ACTIVITIES</b>				
Loss before tax	(214,756)	44,024	176,817	6,085
Adjustments for:				
Allowance for doubtful debts of trade and other receivables	4,355	(41)		4,314
Allowance for inventories	13,593	(1,400)		12,193
Amortisation of deferred income on government grants received	(37,321)	2,214		(35,107)
Amortisation of leasehold land and land use rights and intangible assets	5,620	(221)		5,399
Cash settle share-based payments expense	645			645
Depreciation for property, plant and equipment and investment properties	125,201	(2,537)		122,664
Gain on disposal of leasehold land and land use rights	(17,025)			(17,025)
Dividend income from available-for-sale investment	(6,109)			(6,109)
Finance costs	227,029			227,029
Gain on disposal of property, plant and equipment	(40,550)	39		(40,511)
Gain on disposal of available-for-sale investment	(221,254)			(221,254)
Impairment loss recognised in respect of property, plant and equipment	22,628	(264)		22,364
Bank interest income	(16,085)	2,659		(13,426)
Interest income from held-to-maturity investments	(12,025)			(12,025)
Provision for warranty	6,255			6,255

	<b>The Group</b>	<b>Pro forma</b>	<b>Pro forma</b>	<b>The</b>
	<i>RMB'000</i>	<i>adjustments</i>	<i>adjustments</i>	<b>Remaining</b>
	<i>(Note 1)</i>	<i>(Note 6)</i>	<i>(Note 3, 7)</i>	<b>Group</b>
				<i>RMB'000</i>
Gain on deregistration of a subsidiary	(1,200)			(1,200)
Reversal of allowance for doubtful debts of trade and other receivables	(6,373)	187		(6,186)
Share of loss of associates	26,409	(26,092)		317
Gain on disposal of subsidiaries	—		(134,408)	(134,408)
Gain on disposal of an associate	—		(42,409)	(42,409)
Operating cash flows before movements in working capital	(140,963)			(122,395)
Decrease in inventories	32,352	(317)		32,035
Decrease in trade and bills receivables, other receivables, deposits and prepayments	309,849	4,584		314,433
Decrease in trade and bills payables, other payables and accruals	(182,123)	31,019		(151,104)
Increase in termination benefits	65,745			65,745
Increase in deferred income	49,352			49,352
Cash generated from operations	134,212			188,066
Income tax paid	(12,746)			(12,746)
NET CASH FROM OPERATING ACTIVITIES	121,466			175,320

	<b>The Group</b>	<b>Pro forma</b>	<b>Pro forma</b>	<b>The</b>
	<i>RMB'000</i>	<i>adjustments</i>	<i>adjustments</i>	<i>Remaining</i>
	<i>(Note 1)</i>	<i>(Note 6)</i>	<i>(Note 3, 7)</i>	<i>Group</i>
				<i>RMB'000</i>
<b>INVESTING ACTIVITIES</b>				
Purchases of property, plant and equipment	(694,152)	4,220		(689,932)
Placement of restricted bank balances	(306,372)			(306,372)
Distribution to non-controlling shareholders upon deregistration of a subsidiary	(70,863)			(70,863)
Repayment from Disposal Group	—	51,940		51,940
Increase in properties under development	(29)	29		—
Dividend income from an associate	200			200
Dividend income received from available-for-sale investment	6,109			6,109
Interest received	28,110	(2,659)		25,451
Proceeds from disposal of prepaid lease payments	33,717			33,717
Proceeds from disposal of property, plant and equipment	356,421	(145)		356,276
Withdrawal of restricted bank balances	310,505	(1,117)		309,388
Proceeds from disposal of available-for-sale investment	245,314			245,314
Withdrawal of held-to-maturity investments	600,000			600,000
Proceeds from disposal of subsidiaries	—		299,732	299,732
Proceeds from disposal of an associate	—		90,607	90,607
	<u>508,960</u>			<u>951,567</u>
<b>NET CASH FROM INVESTING ACTIVITIES</b>	<u>508,960</u>			<u>951,567</u>

	<b>The Group</b>	<b>Pro forma</b>	<b>Pro forma</b>	<b>The</b>
	<i>RMB'000</i>	<i>adjustments</i>	<i>adjustments</i>	<i>Remaining</i>
	<i>(Note 1)</i>	<i>(Note 6)</i>	<i>(Note 3, 7)</i>	<i>Group</i>
				<i>RMB'000</i>
<b>FINANCING ACTIVITIES</b>				
Bank and other borrowings raised	5,853,300			5,853,300
Repayment to Disposal Group	—	(50,099)		(50,099)
Dividends paid to non-controlling interests of subsidiaries	(2,721)			(2,721)
Repayments of obligations under finance leases	(65,463)			(65,463)
Interest expense paid	(147,090)			(147,090)
Repayments of bank and other borrowings	<u>(6,725,569)</u>			<u>(6,725,569)</u>
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<u>(1,087,543)</u>			<u>(1,137,642)</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(457,117)			(10,755)
<b>CASH AND CASH EQUIVALENTS AT 1 JANUARY</b>	1,278,852	(88,948)		1,189,904
<b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES</b>	<u>(133)</u>			<u>(133)</u>
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER, represented by bank balances and cash</b>	<u>821,602</u>			<u>1,179,016</u>

## NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

## Notes:

- 1) Figures are extracted from the audited consolidated statement of financial position of the Group as at 31 December 2013, and the consolidated statement of profit or loss and other comprehensive income and the consolidated statement of cash flows of the Group for the year ended as set out in the annual report of the Company for the year ended 31 December 2013.
- 2) The adjustment represents the exclusion of the results of the Disposal Group, share of the results of Sichuan Shuanghong and loss for the year attributable to non-controlling interests of Cairui Display and Kunshan IRICO for the year ended 31 December 2013, as if the Disposal A and Disposal B had taken place on 1 January 2013. The results of the Disposal Group and share of the results of Sichuan Shuanghong are extracted from the unaudited financial information of the Disposal Group and Sichuan Shuanghong for the year ended 31 December 2013 as set out in Appendix II of this circular.

The loss for the year attributable to owners of the Company amounted to approximately RMB17,560,000 of the Disposal Group, RMB53,000 and RMB83,000 represented the loss for the year attributable to 25% and 10% non-controlling interests of Cairui Display and Kunshan IRICO respectively.

- 3) These adjustments reflect the pro forma gain on the Disposal A and Disposal B, as if the Disposal A and Disposal B had taken place on 1 January 2013. Pro forma gain on the Disposal A and Disposal B is calculated as follows:

<b>Disposal A</b>	<i>RMB'000</i>
Cash consideration	
— IRICO Zixun	187,860
— Kunshan IRICO	82,740
— Cairui Display	30,510
	<hr/>
Total cash consideration	301,110
Less: Estimated direct expenses in relation to the Disposal A ( <i>note i</i> )	(1,378)
	<hr/>
	299,732
Add: non-controlling interests ( <i>note ii</i> )	15,061
Less: net asset value of the Disposal Group as at 1 January 2013	(180,385)
	<hr/>
Estimated pro forma gain on disposal of the Disposal A	134,408
	<hr/> <hr/>
<b>Disposal B</b>	<i>RMB'000</i>
Cash consideration	90,950
Less: Estimated direct expenses in relation to the Disposal B ( <i>note i</i> )	(343)
	<hr/>
	90,607
Less: Interests in an associate as at 1 January 2013	(39,777)
Less: Cumulative share of exchange reserve of an associate reclassified from equity to profit or loss	(8,421)
	<hr/>
Estimated pro forma gain on disposal of the Disposal B	42,409
	<hr/> <hr/>

*Note:*

- i. The estimated expenses directly attributable to the Disposal A and Disposal B are mainly legal and professional fees.
  - ii. Non-controlling interests as at 1 January 2013 represented 25% non-controlling interests of Cairui Display, 10% non-controlling interests of Kunshan IRICO and other non-controlling interests of the Disposal Group.
- 4) The adjustment represents the exclusion of the assets and liabilities of the Disposal Group and interest in Sichuan Shuanghong as at 31 December 2013, as if the Disposal A and Disposal B had taken place on 31 December 2013. The assets and liabilities of the Disposal Group and interest in Sichuan Shuanghong are extracted from the unaudited financial information of the Disposal Group and Sichuan Shuanghong for the year ended 31 December 2013 as set out in Appendix II of this circular.

*Note:* The adjustment, RMB31,875,000, reflects the realisation of other reserve on disposal of the Disposal Group assuming Disposal A had been taken place on 31 December 2013, which is a transaction with owners and recognised within the equity attributable to the owners of the Company.

- 5) These adjustments reflect the pro forma gain on the disposal of the Disposal Group and Sichuan Shuanghong, as if the Disposal A and Disposal B had taken place on 31 December 2013. Pro forma gain on the disposals is calculated as follows:

<b>Disposal A and Disposal B</b>	<b>RMB'000</b>
Cash consideration	
— IRICO Zixun	187,860
— Kunshan IRICO	82,740
— Cairui Display	30,510
— Sichuan Shuanghong	90,950
	<hr/>
Total cash consideration	392,060
Less: Estimated direct expenses in relation to the Disposal A ( <i>note i</i> )	(1,378)
Less: Estimated direct expenses in relation to the Disposal B ( <i>note i</i> )	(343)
	<hr/>
	390,339
Add: non-controlling interests ( <i>note iii</i> )	14,553
Less: Cumulative share of exchange reserve of an associate reclassified from equity to profit or loss	(9,071)
Less: net asset value of the Disposal Group as at 31 December 2013	(162,453)
Less: Interests in an associate as at 31 December 2013	(13,035)
	<hr/>
Estimated pro forma gain on disposal of the Disposal A and Disposal B	<hr/> <hr/> 220,333



*Notes:*

- i. The estimated expenses directly attributable to the Disposal A and Disposal B are mainly legal and professional fees.
  - ii. The pro forma adjustment represents the reclassification balance of amounts due from/to the Disposal Group upon completion of the Disposal A.
  - iii. Non-controlling interests as at 31 December 2013 represented 25% non-controlling interests of Cairui Display, 10% non-controlling interests of Kunshan IRICO and other non-controlling interests of the Disposal Group.
- 6) The adjustment represents the exclusion of the cash flows of the Disposal Group and Sichuan Shuanghong for the year ended 31 December 2013, as if the Disposal A and Disposal B had taken place on 1 January 2013. The cash flows of the Disposal Group and Sichuan Shuanghong are extracted from the unaudited financial information of the Disposal Group and Sichuan Shunaghong for the year ended 31 December 2013 as set out in Appendix II of this circular.
- 7) These adjustments represent the cash inflow arising on disposal, as if the Disposal A and Disposal B had taken place on 1 January 2013 and the proceed from the Disposal A and B was received on 1 January 2013.

*RMB'000*

Cash consideration from Disposal A ( <i>note 3</i> )	301,110
Less: Estimated direct expenses in relation to the Disposal A ( <i>note i</i> )	(1,378)
	<u>299,732</u>
Cash consideration from Disposal B ( <i>note 3</i> )	90,950
Less: Estimated direct expenses in relation to the Disposal B ( <i>note i</i> )	(343)
	<u>90,607</u>

*Note:*

- i. The estimated expenses directly attributable to the Disposal A and Disposal B are mainly legal and professional fees.
- 8) All the above pro forma adjustments have no continuing effect on the Group's financial statements in subsequent year.

*The following is an English translation of the summary of the PRC Valuation Report in respect of IRICO Zixun, which is prepared by Beijing Pan-China for the purpose of inclusion in this circular. Such report is prepared in Chinese and the full text of the report in Chinese are available for inspection in accordance with the arrangements set out in section 11 under the Appendix IX of this circular, and this English translation is provided for your reference only. In the event of any inconsistency between the Chinese and English versions, the Chinese version shall prevail.*

*Beijing Pan-China holds the domestic assets appraisal qualification jointly granted by the China Securities Regulatory Commission and the Ministry of Finance of the PRC.*

### **SUMMARY OF VALUATION REPORT**

**Valuation in relation to the Proposed Transfer of the Equity of  
Xi'an IRICO Zixun Co., Ltd.\* (西安彩虹資訊有限公司)  
by IRICO Group Electronics Company Limited  
Tian Xing Ping Bao Zi [2014] No.0314**

- I. Valuation Purpose: as engaged by IRICO Group Electronics Company Limited, Beijing Pan-China Assets Appraisal Co., Ltd. has conducted a valuation on the entire shareholders' equity of Xi'an IRICO Zixun Co., Ltd.\* (hereinafter referred to as "IRICO Zixun") in accordance with generally accepted valuation methods on an objective, independent, scientific and arm's length basis under the PRC laws, regulations and policies on asset valuation.
- II. Valuation Subject: the entire shareholders' equity of IRICO Zixun.
- III. Valuation Scope: the entire assets and liabilities of IRICO Zixun.
- IV. Value Type: the value type for this evaluation is the market value.
- V. Valuation Base Date: 31 December 2013

VI. Assumptions of the Valuation: This valuation is based on certain assumptions, including but not limited to the following conditions: (1) transaction assumption: All assets to be valued are assumed to be in transaction and appraisers estimate the value based on the comparable market including trading conditions of the assets to be valued; (2) open market assumption: This is an assumption about conditions of the market where assets to be traded and effects of such market conditions on assets. An open market means a well-developed competitive market with willing buyers and willing sellers acting reasonably at arms' length, having sufficient opportunities and time to obtain market information and under no compulsion or restrictions to buy or sell; (3) continuous use assumption: the continuous use assumption is a hypothesis made on the conditions of the market where the assets are intended to be entered as well as the status of the assets in such market conditions. It is first assumed that the assets to be appraised are in use, and it is further assumed that the assets that are in use will be used continuously. Under continuous use assumption, no consideration is given to the conversion of the use of the assets or the use of the assets under the best condition. Thus, the valuation results are subject to a restricted scope of applicability; and (4) going concern assumption: It is an assumption made by taking the whole assets of an enterprise as the object of appraisal. In this way, the enterprise operates continually in pursuit of its operation objective under its external environment as the main operating entity. The operator of the enterprise is capable of taking responsibility. The enterprise operates legally and makes appropriate profits to maintain the capability of going concern. All categories of the operating assets of the enterprise can be used continually in terms of current utility, and mode, scale, frequency and environment of use or on the basis of some changes; (5) IRICO Zixun and Shaanxi Taihua Property Development Co., Ltd. (陝西泰華置業發展有限公司) entered into the Land Cooperation and Development Agreement (《土地合作開發合同》). The effective date of the contract is 30 August 2011. The removal and site-clearing shall be completed within 9 months upon the contract becoming effective and the properties shall be delivered after 36 months. The developer changed the plan afterwards and it is expected that the project will be fully completed by the end of April 2016. It is assumed in the valuation that the development of Taihua Jinmao International Project is completed within the construction period as agreed under the contract, and IRICO Zixun can acquire the buildings at the time as agreed under the contract; (6) it is assumed that the area of the commercial office building (single building) finally returned to IRICO Zixun is the same as the floor area in the Area Measurement Record Report of the Pre-sale Property (《房屋預售備案面積測算報告》) dated January 2014 issued by Xi'an Property Measurement Office, i.e. approximately 34,559.83 square meters (including the shops at ground floor of 3,505.00 square meters); (7) it is assumed that IRICO Zixun is finally returned with apartments with area of 10,000 square meters; (8) regarding the car-parking spaces, the underground car-parking spaces in the vertical projection of Party A's Commercial Building belong to Party A. In the event that the number of the underground car-parking spaces is less than 200 hours, Party B shall provide additional car-parking spaces of the project to make the difference up. The additionally-provided car-parking spaces shall be calculated by 50% of the selling price of such car-parking spaces during the opening quotation of Party B. Pursuant to the condition explained by the enterprise, the additional car-parking spaces provided by Party B in this Valuation were 50, and the market price of car parking spaces is currently RMB180,000, while the purchase price is RMB90,000 as stipulated in the contract; (9) It is assumed that the unit cost of the buildings finally returned to IRICO Zixun is implemented in accordance with the unit cost agreed by both parties in advance (commercial office buildings at a cost of RMB7,200/square meter; residential buildings at a cost of RMB5,500/square meter), and before obtaining the "five certificates and permits" and being granted the online filing number<sup>(Note)</sup>, IRICO Zixun shall pay back the balance of the building consideration in monetary capital.

*Note:*

The “five certificate and permits (五證)” are the State-owned Land Use Certificate (《國有土地使用證》), Planning Permit for Construction Land (《建設用地規劃許可證》), Planning Permit for Construction Works (《建設工程規劃許可證》), Construction Work Commencement Permit (《建設工程施工許可證》) and Sale (Pre-sale) Permit for Commodity Housing (《商品房銷售(預售)許可證》).

“Online execution (網簽)” (or “online filing”) means to report to the real estate related departments by both parties after entering into the contract, and the relevant information will be announced on the website. Subsequently, an “online filing number (網簽號)” will be assigned, with which the internet user can search the information online.

- VII. Valuation Method: commissioned assets valuation is conducted in accordance with the nature of the assets, through a consolidated adoption of various valuation methods as follows: (1) the appraised unit in this report is assumed to operate on a going concern basis. The core assets of the appraised unit are physical assets such as buildings, land and equipment. Moreover, in relation to the use of the asset-based approach, there are adequate data and information which serve as the basis and foundation for justifying the selection of the economic and technical parameters involved in the valuation of each of the assets. Accordingly, the use of the asset-based approach in the valuation is justified; (2) IRICO Zixun, the entity being valued in this report, fully suspended its CRT coil matching production since July 2013 and conducted auction to dispose its ancillary equipment specifically used for coil production. After which, the company is mainly engaged in trade and its net profit amounted to RMB-7,558,300, RMB-21,524,800 and RMB-16,522,100 from 2011 to 2013, respectively. In addition, it used the land and attachments as capital contribution to conduct real estate development with developers. At present, the project under development is undergoing the foundation construction progress. As there is uncertainty as to when IRICO Zixun can turn around from loss-making in the trade business and how to operate the real estate after the development, it is not feasible to estimate its revenue, cost, expenses and others. As such, this report did not adopt the income approach; and (3) as the unit being valued is an unlisted company and only a few domestic enterprises that are comparable in terms of size in the industry conducted equity transactions on or around the valuation base date, it is hard to acquire comparable cases that are reliable and accurate. Hence, the market method was not adopted in the valuation.

**(I) The asset-based approach**

## 1. Current assets

Current assets include monetary capital, notes receivable, accounts receivable and other receivables.

- (1) Monetary capital: it includes cash, bank deposits. The valuers check the cash by supervising the counting of cash and make reasonable backward calculation according to the entries of cash journal to calculate the balance of cash as at the reference day and verify the same with the cash journal. After the check and verification, the book value of RMB in cash is taken as the appraisal value; for bank deposits, trial balance is conducted to the bank reconciliation statement on the basis of account-to-account verification, account-to-sheet verification and verification of the bank statement in combination with the reply of letter of confirmation of the banks; after it is verified to be correct, the book value of RMB deposit is recognised as the appraisal value.
- (2) Notes receivable: the valuers first check the general ledger, the breakdowns, the accounting statements and the valuation list. Then, the valuers supervise the accounting of notes in stock, and verify the register of notes receivable. After that, the values have a check of the acceptance and endorsement transfer of notes after the reference data, determine the economic activities involved in the notes to be authentic and the amount thereof to be accurate. Due to the fact that the notes receivables are incurred within a short time with strong cashability, and that the entities issuing notes have good credibility, the book value after verification is recognised as the appraisal value.
- (3) Receivables: including accounts receivable and other receivables. The valuers, through the examination of the accounts, statement and based on the analysis of economic contents and aging, confirm the payments in large amounts by letters, understand the time of occurrence, the reasons for amounts due, and clearing of defaults, the capital, creditability and operation and management of the debtors, and determine the possibility to recover the receivables after specific analysis. The recoverable amount of receivables after a comprehensive analysis based on the individual identification method and aging analysis method is recognised as the appraisal value of the receivables. The appraisal value of the provision for bad debts of receivables is zero according to the relevant requirements of valuation.

## 2. Equipment assets

The electronic equipment used in the ordinary course of business is appraised by the market method for the valuation purpose, in the principle of sustained used and based on the market price, along with combination with the features of the equipment and the information collected; for the equipment to be scrapped, the net earning after its liquidation and realization will be used as the appraisal value in the appraisal. The appraised value of electronic office equipment without recoverable value is nil.

## 3. Construction in progress

The appraised construction in progress is Taihua Jinmao Guoji Project, an international project cooperatively developed by IRICO Zixun and Shaanxi Taihua Property Development Co., Ltd. (陝西泰華置業發展有限公司) (“Shaanxi Taihua”). According to features of the project and information upon field survey, the construction in progress is assessed by hypothetical development method. Assume that the construction in progress shall be fully sold, the formula for calculation is as follows:

$$P = P_c - B$$

$$P_c = \frac{A}{1+r} + \frac{A}{(1+r)^2} + \cdots + \frac{A_{n-1}}{(1+r)^{n-1}} + \frac{A_n}{(1+r)^n}$$

including:

P — Appraised value

B — Cost premium paid

Estimated discounted price

An — Revenue (income-tax-expense for sale)

r — Discount rate

n — Income period

(1) Calculation method of income

Income of the assets subject to valuation refers to the amount of income from sales of property minus relevant taxes and selling expenses.

Income= Sale Income–Sale Expenses–Relevant Taxes

(a) Determination of sales income

As of the valuation base date, the construction in progress has not been completed. Pursuant to the Land Cooperation and Development Agreement and Area Measurement Record Report of the Pre-sale Property provided by the enterprise and the above assumptions, Shaanxi Taihua returns 34,559.83 square meters of commercial office building (including the shops at ground floor of 3,505.00 square meters ) to IRICO Zixun an apartment with an area of approximately 10,000.00 square meters and 200 parking spaces. Pursuant to the relevant information provided by IRICO Zixun, after the completion of the construction, IRICO Zixun will dispose of all the commercial office buildings, apartments and parking spaces received.

Shaanxi Taihua will be entrusted for sales upon the completion of the construction in progress in April 2016. The sales will end in 2018. The selling price will be determined by market approach. To adopt the market comparison method in determining the selling price of the commercial office building is to adjust and determine the market price of the appraised property through comprehensive analysis of a number of reference value from comparison and adjustment of the transaction price of the references by comparing the appraised property with the same or similar properties sold recently in a market with similar supply and demand conditions and finding out the differences in various factors and aspects affecting the value of the real estate between the appraised subject and each reference,

The selling price of the commercial office building calculated by market method is RMB12,300.00 per square meter, the selling price of the shops at ground floor is RMB23,000.00 per square meter, and the selling price of the apartment is RMB7,500.00 per square meter and the selling price of the parking space is RMB180,000.00 per lot.

Selling income=Area of commercial office building×selling price+apartment area×selling price+number of parking spaces×selling price

(b) Sales expenses

According to the relevant real estates listing companies data obtained from the data base maintained by Wind Information Co., Ltd (上海萬得信息技術股份有限公司), a service provider of financial data, information and software in the PRC, sales expenses of real estate companies account for approximately 2% of sales income.

(c) Relevant taxes

Types of taxes of IRICO Zixun's sales income mainly include business tax, urban construction tax, extra charges of education, water funds, stamp duty, income tax and increment tax on land value.

(2) Supplemental payment of consideration

IRICO Zixun's property acquisition cost of RMB308,330,800 has surpassed the initial capital contribution RMB142,428,900. After calculation, IRICO Zixun shall make the supplemental payment of RMB165,901,900, being RMB308,330,800 - RMB142,428,900.

Property acquisition cost= $34,559.83 \times 7200 + 10,000.00 \times 5500 + 50.00 \times 90000$   
=RMB308,330,800

(3) Confirmation of income period

Income period refers to the period required for the sale of assets subject to valuation. According to relevant information provided by IRICO Zixun, all the property of IRICO Zixun have been entrusted to Shaanxi Taihua Property Development Co., Ltd. for sale. Thus, as confirmed through the communications with IRICO Zixun and Shaanxi Taihua, the commercial portion at basement shall be fully sold within the year, office buildings will be fully sold in 3 years and the apartment and parking space will be fully sold in 2 years.



(4) Determination of the discount rate

Discount rate refers to the ratio for discounting or converting the future income to present value. Discount rate refers to the yield of the assets under certain condition, represents the level of risk and revenue on assets. The valuers determine the discount rate of assets subject to valuation by risk accumulation method.

Risk accumulation method refers to the discount rate of assets subject to valuation by summing up the risk-free yield rate plus risk yield rate. Risk-free yield rate usually select the yield rate of state-owned bonds that will be due after more than 10 years since its valuation base date as the risk-free yield rate and risk premium rate, mainly considering the market risks of the assets subject to valuation, the risks of corporate operation, industry risks and other risks.

The risk premium rate mainly includes industry risk coefficient, market risk coefficient and business operation risk coefficient. This valuation is based on the evaluated conditions to choose indexes, each index ranges from 0% to 5%, and later all coefficients are added up to determine the risk premium rate.

The appraised value of the construction in progress calculated based on the above is RMB158.66 million. The calculation is listed below:

*Unit: RMB'000*

No.	Items	2013	2014	2015	2016	2017	2018
1.	Sales revenue		—	—	300,653.50	234,738.50	38,197.40
	Business tax				15,032.70	11,736.90	1909.9
	Urban construction tax				1052.3	821.6	133.7
	Extra charges of education				451	352.1	57.3
	Water funds				240.5	187.8	30.6
	Stamp duty				150.3	117.4	19.1
	Increment tax on land value				0	0	113,859.90
	Sales expenses				6013.1	4694.8	763.9
	Supplemental payment of consideration				165,901.90	0	0
	Income tax				48,419.00	0	0
2.	Cash flow				63,392.80	216,827.90	-78,576.90
3.	Discount period	—	1	2	3	4	5
4.	Discount rate				7.50%	7.50%	7.50%
5.	Discount coefficient				0.805	0.7488	0.6966
6.	Net cash				51,030.00	162,360.00	-54,730.00
7.	Appraised value	158,660.00					

(5) Other non-current assets

Other non-current assets are prepaid corporate income tax.

As to other non-current assets, duty-paid proofs, tax filling forms and other materials are collected, related accounting documents are randomly checked, the authenticity of transactions, contents of business, and business amount are verified and the number on the account, sheets and statements are matched. Since the above prepaid corporate income tax can be deducted afterwards, the verified carrying value is used as the appraised value.

## (6) Liabilities

The appraisal value is determined by the liability items and amounts actually assumed by the entity appraised on the reference day after verifying the actual debtors and amount of liabilities of all liabilities upon the realization of the appraisal purposes.

## VIII. Basis of Valuation:

Basis of valuation mainly includes:

**1. Major laws and regulations**

- 1). *The Company Law of the People's Republic of China* (as amended at the 18th meeting of the Standing Committee of the 10th session of National People's Congress on 27 October 2005);
- 2). *Law of the People's Republic of China on the State-Owned Assets of Enterprises* (President 2008 Order No. 5) (《中華人民共和國企業國有資產法》(主席令2008年第5號));
- 3). *Administrative Measures for State-Owned Assets Assessment* (State Council Order No.91, 1991) (《國有資產評估管理辦法》(國務院第91號令, 1991年));
- 4). *Detailed Rules for the Implementation of the Administrative Measures for State-Owned Assets Assessment* (Guo Zi Ban Fa [1992] No.36) (《國有資產評估管理辦法實施細則》(國資辦發[1992]第36號));
- 5). *Interim Measures for the Supervision and Administration of State-Owned Assets of the Enterprises* (State Council Order No.378, 2003) (《企業國有資產監督管理暫行條例》(國務院第378號令, 2003年));
- 6). *Interim Measures for the Administration of Assessment of State-owned Assets of Enterprises* (SASAC Order No. 12, 2005) (《企業國有資產評估管理暫行辦法》(國資委第12號, 2005年));
- 7). *Notice on Strengthening Evaluation and Management of State-Owned Assets in Enterprises* (SASAC Property [2006] No.274) (《關於加強企業國有資產評估管理工作有關問題的通知》(國資委產權 [2006]274號));

- 8). *Land Administration Law of the People's Republic of China* (as amended at the 11th meeting of the Standing Committee of the 10th session of National People's Congress on 28 August 2004);
- 9). *Urban Real Estate Administration Law of the People's Republic of China* (PRC President Order No.72, as amended at the 29th meeting of the Standing Committee of the 10th session of National People's Congress on 30 August 2007);
- 10). *Notice on Issue of Opinions of Ministry of Land and Resource in Relation to Enhancement of Land Assets Management for Promotion of Reform and Development of State-owned Enterprises* issued by Ministry of Land and Resource (Guo Tu Zi Fa [1999] No.433) (《國土資源部《關於印發〈國土資源部關於加強土地資產管理促進國有企業改革和發展的若干意見〉的通知》(國土資發[1999]433號));
- 11). *City Planning Law of the People's Republic of China* (PRC President Order No. 23);
- 12). *Interim Regulations of the People's Republic of China Concerning the Assignment and Transfer of the Right to the Use of the State-owned Land in the Urban Areas* (PRC State Council Order No. 55) (《中華人民共和國城鎮國有土地使用權出讓和轉讓暫行條例》(中華人民共和國國務院令第55號));
- 13). *Implementation Regulations for the Law of Land Administration of the People's Republic of China* (State Council Order No. 256, 27 December 1998) (《中華人民共和國土地管理法實施條例》(1998年12月27日國務院令第256號));
- 14). *Assets Appraisal Standards — Basic Standards* (Cai Qi (2004) No. 20) issued by Ministry of Finance;
- 15). *Assets Valuation Ethics Code — Basic Principles* (Cai Qi (2004) No. 20) issued by Ministry of Finance;
- 16). *Assets Valuation Ethics Code — Independence*;

- 17). *Assets Appraisal Standards — Valuation Report* (as amended in 2011);
- 18). *Assets Appraisal Standards — Valuation Process* (Zhong Ping Xie [2007] No. 189);
- 19). *Assets Appraisal Standards — Enterprise Value*;
- 20). Other relevant laws and standards.

## **2. Basis of economic activities**

Resolutions passed at the Working Meeting of the Management of IRICO Group Electronics Company Limited\* (Electronics Working Meeting [2014] No.25 *Notification on the Resolutions Passed at the Working Meeting of the Management*).

## **3. Basis of important contracts, agreements and title documents**

- 1). Land Cooperation and Development Agreement (《土地合作開發合同》) entered into by IRICO Zixun (Party A) and Shaanxi Taihua Property Development Co., Ltd. (陝西泰華置業發展有限公司) (Party B) on 30 November 2011;
- 2). Financial materials including the contracts and invoices for main equipments purchase and relevant agreements and contracts.

## IX. Valuation Conclusion:

As at the valuation base date, the appraisal value of the entire shareholders' equity of Xi'an IRICO Zixun Co., Ltd\* within the scope of valuation was RMB187,863,620. The summary of the appraisal results is set out as follows:

**Summary of appraisal results of total shareholders' equity of  
Xi'an IRICO Zixun Co., Ltd\***

*Unit: RMB'000*

Items	Book value (note 1) A	Appraised value B	Increase/ decrease (note 2) C = B-A	Appreciation rate % (note 2) D = C/A×100%
1. Current assets	69,976.14	69,976.14	—	—
2. Non-current assets	57,426.03	159,698.93	102,272.90	178.10
3. Including: Available-for-sale financial assets	—	—	—	—
4. Held-to-maturity investments	—	—	—	—
5. Long-term receivables	—	—	—	—
6. Long-term equity investments	—	—	—	—
7. Investment properties	—	—	—	—
8. Fixed assets	1.16	0.80	-0.36	-31.23
9. Construction in progress	56,386.74	158,660.00	102,273.26	181.38
10. Construction materials	—	—	—	—
11. Disposal of fixed assets	—	—	—	—
12. Biological assets for production	—	—	—	—
13. Fuel assets	—	—	—	—
14. Intangible assets	—	—	—	—
15. Development expenses	—	—	—	—
16. Goodwill	—	—	—	—
17. Long-term deferred expenses	—	—	—	—
18. Deferred income tax assets	—	—	—	—
19. Other non-current assets	1,038.13	1,038.13	—	—
<b>20. Total assets</b>	<b>127,402.17</b>	<b>229,675.07</b>	<b>102,272.90</b>	<b>80.28</b>
21. Current liabilities:	41,811.45	41,811.45	—	—
22. Non-current assets	—	—	—	—
<b>23. Total liabilities</b>	<b>41,811.45</b>	<b>41,811.45</b>	<b>—</b>	<b>—</b>
<b>24. Net assets (Owners' equity)</b>	<b>85,590.72</b>	<b>187,863.62</b>	<b>102,272.90</b>	<b>119.49</b>

*Remarks:*

1. The carrying values set out above were extracted from the audited balance sheet prepared in accordance with the PRC GAAP, which were audited carrying values of the parent company provided by the auditor of the Company.
2. The appraised value of net assets increased by RMB102,272,900, representing an increase of 119.49%, mainly due to the following reasons:

- (1) The reason of increase in appraised value of construction in progress is as follows:

IRICO Zixun and Shaanxi Taihua Property Development Co., Ltd. (陝西泰華置業發展有限公司) jointly developed Taihua Jinmao Guoji Project based on the land, and the buildings and fixtures thereon as at the end of 2012. The book value of the project was RMB56,386,740. According to the valuation report (Valuation Report on the Value of Certain Assets Involved in the Real Estate Commercial Development Project of Xi'an IRICO Zixun Co., Ltd\* (《西安彩虹資訊有限公司不動產商業開發項目涉及的部分資產價值評估報告》) (the "2011 Valuation Report"), Xi Zheng Heng Ping Bao Zi [2011] No. 139) as appraised and filed by Xi'an Zhengheng Assets Valuation Company Limited (西安正衡資產評估有限責任公司) by income method in 2011, the appraised value of the above assets was RMB142,428,900. Upon negotiation, IRICO Zixun used the appraised value of the assets of RMB142,428,900 for capital contribution to jointly develop the project with Shaanxi Taihua Property Development Co., Ltd. (陝西泰華置業發展有限公司). In appraising the value of the construction in progress, we did not use the appraised value from the 2011 Valuation Report. The valuation adopted the assumed development method, based on the assumption that the disposal of the property in the future would bring more gains, therefore the appraised value increased. Please refer to the paragraphs headed "VII. Valuation Method — (I) The asset-based approach — 3. Construction in progress" of this summary for details of our valuation of the construction in progress,

- (2) The reason of increase and decrease in appraised value of fixed assets-equipment is as follows:

The decrease in appraised value of electronic equipments is due to the rapid upgrading and replacement of electronic equipment market and its low market value.

X. Special Remarks:

Beijing Pan-China has paid sufficient attention to and disclosed the property rights and the gross floor area of the properties to be acquired in the future, and conducted the valuation based on the assumptions of the completeness of property rights and the accuracy of the gross floor area, the related taxes of future application for the Property Ownership Certificate are not taken into consideration in the valuation.

In case of any discrepancies in English version and Chinese version of the valuation report, the Chinese version shall prevail.

Pursuant to the *Interim Measures for the Administration of Assessment of State-owned Assets of Enterprises* (SASAC Order No. 12, 2005), this assets valuation report shall be valid for one year from 31 December 2013 (i.e., the valuation base date) to 30 December 2014. A re-valuation by intermediaries is required for valuation subsequent to 30 December 2014.

Prior to being used in this economic activity, the valuation report shall be reviewed and approved by regulatory authority of the state-owned assets.

The right of interpretation of this valuation report lies with Beijing Pan-China Assets Appraisal Co., Ltd. Any other party is not entitled to interpret this report unless otherwise explicitly stipulated and specified by laws and regulations of the State.

**Beijing Pan-China Assets Appraisal Co., Ltd.**

*Certified Appraiser:* **Wang Xingjie, Shi Yingmin**

16 April 2014

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*The following is an English translation of the summary of the PRC Valuation Report in respect of Kunshan IRICO, which is prepared by Beijing Pan-China for the purpose of inclusion in this circular. Such report is prepared in Chinese and the full text of the report in Chinese are available for inspection in accordance with the arrangements set out in section 11 under the Appendix IX of this circular, and this English translation is provided for your reference only. In the event of any inconsistency between the Chinese and English versions, the Chinese version shall prevail.*

*Beijing Pan-China holds the domestic assets appraisal qualification jointly granted by the China Securities Regulatory Commission and the Ministry of Finance of the PRC.*

### **SUMMARY OF VALUATION REPORT**

**Valuation in relation to the Proposed Transfer of the Equity of  
Kunshan IRICO Industrial Co., Ltd.\* ( 昆山彩虹實業有限公司 ) by  
IRICO Group Electronics Company Limited  
Tian Xing Ping Bao Zi (2014) No.0357**

- I. Valuation Purpose: as engaged by IRICO Group Electronics Company Limited, Beijing Pan-China Assets Appraisal Co., Ltd. has conducted a valuation on the entire shareholders' equity of Kunshan IRICO Industrial Co., Ltd.\* (hereinafter referred to as "Kunshan IRICO") in accordance with generally accepted valuation methods on an objective, independent, impartial and scientific basis under the PRC laws, regulations and policies on asset valuation.
- II. Valuation Subject: the entire shareholders' equity of Kunshan IRICO.
- III. Valuation Scope: the entire assets and liabilities of Kunshan IRICO.
- IV. Value Type: the value type for this evaluation is the market value.
- V. Valuation base date: 31 December 2013

- VI. Assumptions of the valuation: This valuation is based on certain assumptions, including but not limited to the following conditions: (1) transaction assumption: all assets to be valued are assumed to be in transaction and appraisers estimate the value of the assets to be valued according to transaction conditions such as the simulated market; (2) open market assumption: this is an assumption about market conditions and effects of such market conditions on assets. An open market means a well-developed competitive market with willing buyers and willing sellers acting voluntarily and rationally at arms' length, having sufficient opportunities and time to obtain market information and under no compulsion or restrictions to buy or sell; (3) continuous use assumption: the continuous use assumption is a hypothesis made on the conditions of the market where the assets are intended to be entered as well as the status of the assets in such market conditions. It is first assumed that the assets to be appraised are in use, and it is further assumed that the assets that are in use will be used continuously. Under continuous use assumption, no consideration is given to the conversion of the use of the assets or the use of the assets under the best condition. Thus, the valuation results are subject to a restricted scope of applicability; and (4) going concern assumption: it is an assumption made by taking the whole assets of an enterprise as the object of appraisal. In this way, the enterprise operates continually in pursuit of its operation objective under its external environment as the main operating entity. The operator of the enterprise is capable of taking responsibility. The enterprise operates legally and makes appropriate profits to maintain the capability of going concern. All categories of the operating assets of the enterprise can be used continually in terms of current utility, and mode, scale, frequency and environment of use or on the basis of some changes.
- VII. Valuation Method: commissioned assets valuation is conducted in accordance with the nature of the assets, through a consolidated adoption of various valuation methods as follows: (1) the appraised unit in this report is assumed to operate on a going concern basis. The core assets of the appraised unit are physical assets such as buildings, land and equipment. Moreover, in relation to the use of the asset-based approach, there are adequate data and information which serve as the basis and foundation for justifying the selection of the economic and technical parameters involved in the valuation of each of the assets. Accordingly, the use of the asset-based approach in the valuation is justified; (2) as the non-operating income of Kunshan IRICO, a unit being valued, are relocation compensations recognized by installment, it will not generate any profits for the future production and operation. From the year of 2010 to 2013, the net profit (after deducting any non-operating incomes) amounted to RMB-1,630,500, RMB1,076,800, RMB503,600 and RMB350,100 respectively while the cash flow from operating activities in 2013 was RMB-50,381,500. Given the relatively small amount of operating profit from Kunshan IRICO, the severe competition in the markets of rubber products and blue films at the moment and the gradual decline in gross profit, this report did not adopt the income approach; and (3) as the unit being valued is an unlisted company and only a few domestic enterprises that are comparable in terms of size in the industry conducted equity transactions on or around the valuation base date, it is hard to acquire comparable cases that are reliable and accurate. Hence, the market method was not adopted in the valuation.

**(I) The asset-based approach****1. Current assets**

Current assets include monetary capital, notes receivable, accounts receivable, prepayments, other receivables and inventories.

- (1) Monetary capital: it includes cash, bank deposits and other cash and bank balances. The valuers check the cash by supervising the counting of cash and make reasonable backward calculation according to the entries of cash journal to calculate the balance of cash as at the reference day and verify the same with the cash journal. After the check and verification, the book value of RMB in cash is taken as the appraisal value; for bank deposits, trial balance is conducted to the bank reconciliation statement on the basis of account-to-account verification, account-to-sheet verification and verification of the bank statement in combination with the reply of letter of confirmation of the banks; after it is verified to be correct, the book value of RMB deposit is recognised as the appraisal value. For other currency fund, the valuers review the relevant book record and verify the statement and issue a verification letter for the balance at the end of period. The valuers review the bank account statements and bank balance reconciliation statement, and confirm that there are no unusual circumstances as for items not included in the statements according to the reply of letter of the banks; after it is verified to be correct, the book value of RMB deposit is recognised as the appraisal value.
- (2) Notes receivable: notes receivable are all bank acceptance. During our verification, we check whether the breakdowns are consistent with the balances on general ledger, statements, and the valuation list. We supervise the notes in stock, review and check whether the book amount of notes, occurrence date, business contents, and coupon rate are consistent with the accounting records, and check the acceptance and endorsement transfer of notes after the valuation base date pursuant to the valuation breakdown. The verified notes receivable shall be authentic, and with accurate amounts and without earnings before interest. The verified book value shall be the appraised value of the notes receivable.

- (3) Receivables: including accounts receivable and other receivables. The valuers, through the examination of the accounts, statement and based on the analysis of economic contents and aging, confirm the payments in large amounts by letters, understand the time of occurrence, the reasons for amounts due, and clearing of defaults, the capital, creditability and operation and management of the debtors, and determine the possibility to recover the receivables after specific analysis. The recoverable amount of receivables after a comprehensive analysis based on the individual identification method and aging analysis method is recognised as the appraisal value of the receivables. The appraisal value of the provision for bad debts of receivables is zero according to the relevant requirements of valuation.
- (4) Prepayments: the valuers verify the entries of the accounts; examine the original voucher and business contacts and verify the authenticity of transactions, aging, details and amounts of activities. For the prepayments with short account age and being able to be realised within short period of term, the verified book value is taken as the appraisal value.

In the valuation, the appraised value is determined at the remaining balance netting of the assessed risk of loss from the book value.

- (5) Inventory: valuers check the inventory declaration sheet against the breakdown, general account and accounting statement and review the relevant accounting records and original vouchers to confirm the existence and ownership of the inventory. We check and verify the internal control system of inventories, incoming, outgoing and retention accounting system for inventories and regular counts system. Through checking the recent in and out records of inventories, we understand the circulation of inventories and make special investigation into the inventories which may be obsolete, deteriorated, defective or useless. After verification, we confirm that the internal control system of the enterprise is strict and sound, that the receipt and shipment of inventory and the bills and account books are complete and clear. Valuers made a sample check on the inventories. Samples selected for sample check represent more than 40% of the total inventory, with carrying amount representing more than 60%. We have made a sample check on the in-and-out record of the inventories from the valuation base date to the stock take date, etc., and we confirm the in-and-out volume of inventories from the valuation base date to the stock take date and backward calculated the actual amount of the inventories at the valuation base date.

- 1) Raw materials: valuers understand that the circulation of the raw materials of the enterprise is fast, and the purchase dates of most raw materials within the valuation scope are close to the valuation base date, and the carrying amount are basically consistent with the market price. Valuers determine the value of the valuation with the actual cost in purchase based on the confirmation of the consistency between accounts and that between accounts and statements.
- 2) Finished goods: for finished goods on common sales, we determine the appraisal value after deducting selling expenses, all taxes and certain amount of net profit after tax from the sales price (tax excluded). The sales expense is considered from the average sales expenses ratio in recent years. Relevant taxes are subject to the actual taxation of the enterprise, including the sales tax and surcharges and the income tax. The after-tax net profit in proper amount is determined as 50% of the after-tax profit.

2. Long term equity investment

Valuers verify the ratio of the entrusted valuation investment in equity of the investee is controlling long-term equity investment.

Kunshan Caihong Yingguang Electronics Co., Ltd. (昆山彩虹櫻光電子有限公司) starts the liquidation procedures since November 2012. Pursuant to the reception form of the allocated assets of Kunshan Caihong Yingguang Electronics Co., Ltd. (昆山彩虹櫻光電子有限公司), the allocation of inventories and fixed assets is finished and all taxes have been paid. This valuation is conducted based on the assets and liabilities which Kunshan IRICO can acquire.

The controlling long-term investment is valued in asset-based valuation approach.

3. Investment properties

We use market approach in valuation pursuant to the purpose of this valuation in the principle of making use of the current situation based on market price and in connection of the features of the houses and collection of data.

Based on the actual situation of the valuation target, with reference to the market information of the area of the valuation target and from the same or similar supply and demand circle, three comparable real estate transaction cases with the same or similar use in the same area were selected. Then, the appraised value of the real estate was obtained based on the analysis of the influencing factors of real estate prices and after making modifications according to the market comparable transactions, transaction dates, district factors and individual factors.

4. Building properties

The buildings and constructs are appraised at replacement cost method.

Buildings for production with no deals are appraised and estimated at cost method based on the principle that the property and lands are appraised respectively. The cost method is a method, in which the appraisal value of the property appraised is determined by the investment required for replacement of similar property (hereinafter referred to as the “replacement price”) based on the market condition at the time point of valuation and the structural features of the property appraised multiplied by the newness rate of buildings and constructions subject to a comprehensive valuation.

The appraisal value = full replacement price × comprehensive newness rate

Full replacement price = construction and installation cost + upfront fees and other expenses + capital cost

Comprehensive newness rate = theoretical newness rate × weight + surveyed newness rate × weight

## (1) Determination of full replacement price

## 1) Estimate of construction and installation cost

Based on the specific situation of the buildings and construction appraised, the valuers systematically classify the buildings in the scope of the valuation by the type of structure, function and geographical distribution and group the buildings with similar or same structure. Then, the valuers select typical projects in all the structures and collect the budget/settlement statement, as-built drawing; spot check and verify the project quantities; and calculate the construction and installation cost in accordance with the Charging Standard on Construction and Decoration Projects in Jiangsu Province (江蘇省建築與裝飾工程計價表) (2004), Charging Standard on Installation Project in Jiangsu Province (江蘇省安裝工程計價表) (2004) and Charging Standard on Municipal Engineering Projects in Jiangsu Province (江蘇省市政工程計價表) (2004), Budget Norm of Jiangsu Province for Construction Projects (江蘇省建設工程費用定額) (2009) and Cost Information on Engineering in Suzhou (蘇州市工程造價信息) (March 2014). The construction and installation cost of other buildings with the same structure is calculated at the discrimination factor adjustment method in comparison with the typical projects. Factors affecting the construction and installation cost include the number of floors, the height between floors, the appearance, the planar form, depth, the standard width of rooms, the materials of walls, the decoration standards, equipment and facilities and construction difficulties, etc. the comprehensive adjustment factor is obtained by comparing the valuation subject with the typical projects. The construction and installation cost of the subject to be appraised is the construction and installation cost of the typical project multiplied by the comprehensive adjustment factor.

The replacement price of small-sized buildings and construction is estimated with the local unilateral cost of buildings with similar structure as at the reference day subject to discrimination factor adjustment.

## 2) Upfront fees and other expenses

Upfront fees and other expenses which include, inter alia, management fee of construction unit, survey and design fee and cost of supervision of engineering construction are charged according to the provisions of local governments and industry standards.

## 3) Capital cost

According to the scale of construction and original information, the construction period is determined by the norm of construction period of the country. In the circumstance of normal construction period and that the capital is evenly invested over the construction period, the capital cost is calculated based on the interest rate of loans for capital construction as at the reference day.

Capital cost = (construction and installation cost + upfront fees and other expenses)  $\times$  construction period  $\times$  interest rate  $\times$  1/2

Full replacement price = construction and installation cost + upfront fees and other expenses + capital cost

## (2) Determination of comprehensive newness rate

The comprehensive newness rate of buildings and constructions is determined by the combination of theoretical newness rate and surveyed newness rate.

## 1) Calculation of theoretical newness rate

Theoretical newness rate = (the economic service life - the serviced life) / the economic service life  $\times 100\%$



## 2) Determination of surveyed newness rate

First, the appraisal intact value of major factors determining the newness rate of buildings and constructions are determined by structure (bases, walls, bearing and roofing), decoration (grounds, internal and external decoration, doors and windows, ceilings), equipment and facilities (water and sanitation, heating, power and lighting) with reference to the standards for rating of damage condition of houses of the Ministry of Construction in combination with the actual situation of onsite survey, and then the surveyed newness rate is determined according to the weights

Surveyed newness rate = score value of structural parts  $\times$  weight + decoration parts  $\times$  weight + score value of installation part  $\times$  weight

## 3) Comprehensive newness rate

The weight for theoretical newness rate is 0.4 while the weight for the surveyed newness rate is 0.6.

Comprehensive newness rate = theoretical newness rate  $\times$  0.4 + surveyed newness rate  $\times$  0.6

## (3) Calculation of appraisal value

Appraisal value = full replacement price  $\times$  comprehensive newness rate

## 5. Equipment

The equipment is appraised at the cost method with the equipment, which can be used for normal production and operation according to the valuation purpose and the principle of sustained used and based on the market price in combination with the features of the equipment and the information collected; for the equipment to be scrapped, the net earning after its liquidation and realization will be used as the appraisal value in the appraisal.

## (1) Cost method

Appraisal value = full replacement price  $\times$  newness rate

## 1) Determination of full replacement price

## ① Machinery equipment

For domestic equipment, the full replacement price is mainly determined with reference to the existing market price of equipment of the same type or model in the domestic market, as well as a consideration of the freight and miscellaneous charges, installation and debugging charges, the basic fees, the other expenses and the capital cost.

Full replacement price = Purchase price of equipment + freight and miscellaneous charges + installation and debugging expense + basic expenses + other expenses + capital cost

## A. Purchase price

The purchase fee is determined by making quotations to manufacturers, trading markets, trading companies or with reference to price data such as 2014 Quotation Manual of Electromechanical Products as well as the contract price of similar equipment. The purchase price of equipment is the selling price exclusive of tax.

## B. Freight and miscellaneous charges

The charge is calculated on the basis of the purchase fee and by different rates depending on the distance between the manufacturer and the location of the equipment, the weight, shape and size of the equipment.

## C. Installation and debugging charges

The charge is calculated on the basis of the purchase price and by different rates depending on the features, weights and difficulty in installation of the equipment.

For small equipment and equipment with no need of installation, the charge is not considered.

## D. Basic expenses

The basic expenses is calculated by different rates depending on the features of the equipment on the basis of the purchase price and with reference to the Methods for Preparation of Estimates of Construction Projects and Indexes for Estimates issued by the Ministry of Machinery Industry.

## E. Other expenses

The other expenses include the administrative expenses, the expenses for feasibility report and valuation, design fee, engineering supervision fee, etc. It is calculated according to the other fee standard of the construction projects in combination with the features of the equipment on the basis of the sum of the purchase price, the freight and miscellaneous charges, basic expenses and installation and debugging charges.

## F. Capital cost

The capital cost is calculated evenly over the construction period according to the reasonable period of the project and based on the loan interest rate applicable on the reference day.

Capital cost = (purchase fee + freight and miscellaneous charges + installation and debugging charges + basic charges + other expenses)  $\times$  loan interest rate  $\times$  construction period  $\times$  1/2

## ② Vehicles

The full replacement price of vehicles is made up of the purchase price, the purchase tax and other expenses (such as the vehicle validation fee, license fee and handling fee).

Procurement price: the procurement price is determined by reference to the market prices of similar vehicles in latest transactions at the place where the vehicle is located and other costs are determined by reasonable charging standards set by local vehicle administration.

Vehicle purchase tax: vehicle purchase tax is 10% of the sales price exclusive of value added tax.

Other fees: they usually include vehicle validation fee, license fee and handling fee.

③ Electronic equipment

For the equipment, the same model of which is available for sale in the market, it is deemed to be purchased in the same city. The traders will cover the transportation and drop-in installation and debugging for the products purchased. There is usually no expense other than the purchase price. Therefore, the purchase price is the full replacement price.

We determine the market price of the electronic equipment as at the valuation base date pursuant to recent market price materials such as local market information and Huicong Trade (慧聪商情), etc.

Full replacement price = purchase price

2) Determination of comprehensive newness rate

① Machinery equipment

Newness rate = technically assessed newness rate × weight + service life newness rate × weight

## A. Technically assessed newness rate

The technically assessed newness rate is mainly determined according to the actual situation of the equipment. The components of the equipment are scored one by one according to the on-site survey of the technical status, work environment and maintenance of the equipment to determine the technically assessed newness rate.

## B. Service life newness rate

Service life newness rate is determined by the economic service life and the serviced life.

Service life newness rate = (the economic service life - the serviced life) / the economic service life × 100%

## C. Weight

For equipment with large size or complicated structure, the newness rate is determined with a combination of the service life method and survey method. The weight for the service life method is 0.4 while that for the survey method is 0.6.

For equipment with light and simple structure and normal use, the newness rate is determined at service life method based on the time of use in combination of the maintenance.

## ② Vehicles

Pursuant to the current standard for mandatory vehicles scrappage, the depreciation rate was determined by the mileage driven by the vehicle. Then, the integrated rate was determined by combining the above with the depreciation rate obtained through technical evaluation by on-site surveying.

③ Electronic equipment

The depreciation rate was mainly determined by useful life approach based on the duration of use and maintenance condition.

3) Determination of the appraisal value

The appraisal value = full replacement price × newness rate

6. Intangible assets

Intangible assets include land use rights.

(1) Land use rights

Complying with the valuation principles and based on the actual situation of the parcel of land to be valued and information provided by the entity to be appraised and relevant information collected by the evaluators through site survey and investigation, market approach and the modified benchmark land price coefficient method were adopted respectively in the valuation. After comprehensive analysis and comparison, the valuation results by market approach was chosen as the ultimate results of the valuation.

1) Modified benchmark land price coefficient method

The modified benchmark land price coefficient method is to utilise the appraisal results such as the benchmark land price in urban and town areas and the benchmark land price coefficient to compare the regional factors with individual factor indexes in the statement of correction coefficients of benchmark land prices with respect to the extent of impact of the land parcel to be appraised on regional and individual factors to obtain the correction coefficient, which is then corrected. Finally, the appraisal date and service life of the land parcel to be appraised are corrected by the benchmark date of appraisal of the land price and the service life to obtain the price of the land parcel on the appraisal date.

Price of land parcel = applicable benchmark land price × K1 × K2 × K3 × K4 × (1 + ΣK)

In which: K1: Date modification coefficient

K2: Year modification coefficient

K3: Development status modification coefficient

K4: Plot ratio modification coefficient

$\Sigma K$ : sum of modification coefficients of all factors affecting the land price

*Note:*

The above-mentioned coefficients are the modified coefficients calculated by Beijing Pan-China based on the comparison between the lands to be evaluated and the benchmark land prices with respect to the time of the relevant land prices, the remaining years of use, the development status, the plot ratio and other factors.

The benchmark land prices were promulgated by the provincial governments in the PRC.

The modified benchmark land price coefficient method is a method for reference only. Considering that the appraised value under the market approach is better in line with the market, the appraised value under the market approach was adopted as the final conclusion of this valuation.

## 2) Market approach

Market approach is an appraisal by comparing the appraised object with the similar land transaction near the time of appraisal and making appropriate correction to the transaction price of such similar land transaction, thus estimating the objective and reasonable price or value of the appraised object.

Price of benchmark land = Comparable transaction price  $\times$  Transaction modification coefficient  $\times$  Date modification coefficient  $\times$  District factor modification coefficient  $\times$  Individual factor modification coefficient

Appraisal value = (Comparable transaction A + Comparable transaction B + Comparable transaction C)/3

## 7. Liabilities

The appraisal value is determined by the liability items and amounts actually assumed by the entity appraised on the valuation base date after verifying the actual debtors and amount of liabilities of all liabilities as of the valuation base date.

## VIII. Basis of Valuation:

Basis of valuation mainly includes:

### 1. Major laws and regulations

- 1). *The Company Law of the People's Republic of China* (as amended at the 18th meeting of the Standing Committee of the 10th session of National People's Congress on 27 October 2005);
- 2). *Law of the People's Republic of China on the State-Owned Assets of Enterprises* (President 2008 Order No. 5) (《中華人民共和國企業國有資產法》(主席令2008年第5號));
- 3). *Administrative Measures for State-Owned Assets Assessment* (State Council Order No. 91, 1991) (《國有資產評估管理辦法》(國務院第91號令, 1991年));
- 4). *Detailed Rules for the Implementation of the Administrative Measures for State-Owned Assets Assessment* (Guo Zi Ban Fa [1992] No. 36) (《國有資產評估管理辦法實施細則》(國資辦發[1992]第36號));
- 5). *Interim Measures for the Supervision and Administration of State-Owned Assets of the Enterprises* (State Council Order No. 378, 2003) (《企業國有資產監督管理暫行條例》(國務院第378號令, 2003年));
- 6). *Interim Measures for the Administration of Assessment of State-owned Assets of Enterprises* (SASAC Order No. 12, 2005) (《企業國有資產評估管理暫行辦法》(國資委第12號, 2005年));
- 7). *Notice on Strengthening Evaluation and Management of State-Owned Assets in Enterprises* (SASAC Property [2006] No. 274) (《關於加強企業國有資產評估管理工作有關問題的通知》(國資委產權[2006]274號));



- 8). *Land Administration Law of the People's Republic of China* (as amended at the 11th meeting of the Standing Committee of the 10th session of National People's Congress on 28 August 2004);
- 9). *Urban Real Estate Administration Law of the People's Republic of China* (People's Republic of China President Order No.72, as amended at the 29th meeting of the Standing Committee of the 10th session of National People's Congress on 30 August 2007);
- 10). *Notice on Issue of Opinions of Ministry of Land and Resource in Relation to Enhancement of Land Assets Management for Promotion of Reform and Development of State-owned Enterprises* issued by Ministry of Land and Resource (Guo Tu Zi Fa [1999] No.433) (國土資源部《關於印發〈國土資源部關於加強土地資產管理促進國有企業改革和發展的若干意見〉的通知》(國土資發[1999]433號));
- 11). *City Planning Law of the People's Republic of China* (PRC President Order No. 23);
- 12). *Interim Regulations of the People's Republic of China Concerning the Assignment and Transfer of the Right to the Use of the State-owned Land in the Urban Areas* (PRC State Council Order No. 55) (《中華人民共和國城鎮國有土地使用權出讓和轉讓暫行條例》(中華人民共和國國務院令第55號));
- 13). *Implementation Regulations for the Law of Land Administration of the People's Republic of China* (State Council Order No. 256, 27 December 1998) (《中華人民共和國土地管理法實施條例》(1998年12月27日國務院令第256號));
- 14). *Assets Appraisal Standards — Basic Standards* (Cai Qi (2004) No. 20) issued by Ministry of Finance;
- 15). *Assets Valuation Ethics Code — Basic Principles* (Cai Qi (2004) No. 20) issued by Ministry of Finance;

- 16). *Assets Valuation Ethics Code — Independence*;
- 17). *Assets Appraisal Standards — Valuation Report* (as amended in 2011);
- 18). *Assets Appraisal Standards — Valuation Process* (Zhong Ping Xie [2007] No. 189);
- 19). *Assets Appraisal Standards — Machinery and Equipment* (Zhong Ping Xie [2007] No. 189);
- 20). *Assets Appraisal Standards — Real Estate* (Zhong Ping Xie [2007] No. 189);
- 21). *Assets Appraisal Standards — Enterprise Value*;
- 22). Other relevant laws and standards.

**2. Basis of economic activities**

Resolutions Passed at the Working Meeting of the Management of IRICO Group Electronics Company Limited\*(Electronics Working Meeting [2014] No.25 “Notification on the Resolutions Passed at the Working Meeting of the Management”).

**3. Basis of important contracts, agreements and equity documents**

- 1). Property ownership certificate and land use right certificate etc.;
- 2). Financial Materials including the contracts and invoices for main equipments purchase and relevant agreements and contracts.

## IX. Valuation Conclusion

As at the valuation base date, the appraisal value of the entire shareholders' equity of Kunshan IRICO Industrial Co., Ltd\* within the scope of valuation was RMB91,932,500. The summary of the appraisal results is set out as follows:

**Summary of appraisal results of total shareholders' equity of  
Kunshan IRICO Industrial Co., Ltd\***

*Unit: RMB'000*

		Book value	Appraised value	Increase/ decrease	Appreciation rate %
	Items	(note 1)		(note 2)	(note 2)
		A	B	C = B-A	D = C/A×100%
1.	Current assets	36,193.85	36,219.72	25.87	0.07
2.	Non-current assets	52,455.54	65,647.28	13,191.74	25.15
3.	Including: Available-for-sale financial assets	—	—	—	
4.	Held-to-maturity investments	—	—	—	
5.	Long-term receivables	—	—	—	
6.	Long-term equity investments	24,388.07	26,232.60	1,844.53	7.56
7.	Investment properties	772.94	1,552.60	779.66	100.87
8.	Fixed assets	21,325.38	24,662.08	3,336.70	15.65
9.	Construction in progress	—	—	—	
10.	Construction materials	—	—	—	
11.	Disposal of fixed assets	—	—	—	
12.	Biological assets for production	—	—	—	
13.	Fuel assets	—	—	—	
14.	Intangible assets	5,969.15	13,200.00	7,230.85	121.14
15.	Development expenses	—	—	—	
16.	Goodwill	—	—	—	
17.	Long-term deferred expenses	—	—	—	
18.	Deferred income tax assets	—	—	—	
19.	Other non-current assets	—	—	—	
20.	<b>Total assets</b>	<b>88,649.39</b>	<b>101,867.00</b>	<b>13,217.62</b>	<b>14.91</b>
21.	Current liabilities	5,791.94	4,961.88	-830.05	-14.33
22.	Non-current liabilities	19,890.50	4,972.62	-14,917.87	-75.00
23.	<b>Total liabilities</b>	<b>25,682.43</b>	<b>9,934.50</b>	<b>-15,747.93</b>	<b>-61.32</b>
24.	<b>Net assets (Owners' equity)</b>	<b>62,966.95</b>	<b>91,932.50</b>	<b>28,965.54</b>	<b>46.00</b>

*Remarks:*

1. The carrying values set out above were extracted from the audited balance sheet prepared in accordance with the PRC GAAP, which were audited carrying values of the parent company provided by the auditor of the Company. The carrying value in Appendix II is consolidated data. In this valuation, considering the difficulty to exclude minority interest, we carry out valuation for the parent company and its subsidiaries respectively and take the assets and liabilities (net assets) that can be obtained by Kunshan IRICO as the appraised value of the long-term equity investment.
2. The appraised value of net asset increased by RMB28,965,540, representing an increase of 46%, mainly due to the following reasons:

- (1) The reason of increase in appraised value of long-term equity was as follows:

Kunshan IRICO Yingguang Electronics Co., Ltd. (昆山彩虹櫻光電子有限公司) (hereinafter as “**IRICO Yingguang**”), the controlled subsidiary held as to 86% by Kunshan IRICO, was appraised using the asset-based approach. IRICO Yingguang started the liquidation in November 2012, and the liquidation was not completed as at 31 December 2013. However, shareholders have signed the form confirming the assets allocation in respect of certain assets and liabilities. According to the form, it is confirmed that the value of assets entitled is RMB2,692,700, the unallocated assets and liabilities are allocated based on the shareholding ( $\text{RMB}27,371,900 \times 86\%$ ), while the appraised value of long-term investment is  $\text{RMB}2,692,700 + \text{RMB}27,371,900 \times 86\% = \text{RMB}26,232,600$ .

The value of long-term equity investment increased by RMB1,844,530, representing an appreciation rate of 7.56%, attributable to the fact that the appraised value of assets of IRICO Yingguang attributable to Kunshan IRICO is higher than the carrying value of long-term investment, resulting in the increase in appraised value.

- (2) The reason of increase in appraised value of properties held for investment was as follows:

The value of the investment properties increased by RMB779,660, representing an appreciation rate of 100.87%, mainly attributable to the fact that the market value of the building had increased since 1999 when it was acquired, which led to the appreciation in valuation.

- (3) The reasons for the increase in the appraised value of the fixed assets-buildings were as follows:

The appraised value of the fixed assets-buildings increased by RMB3,205,340, representing an appreciation rate of 16.01%, attributable to the fact that the labor cost and prices of the construction materials that were included in the replacement cost of buildings had increased to a different extent. In addition, for buildings, the accounting depreciation period was generally shorter than its economic life. These two factors led to an appreciation in valuation.

- (4) The reasons for the increase in appraised value of intangible assets-land use rights were as follows:

The value of intangible assets-land use rights increased by RMB7,230,850, representing an appreciation rate of 121.14%, attributable to the fact that the land was acquired in 2007 at a low cost, while the price of the local property market on the Valuation Base Date surged rather significantly, leading to a more significant increase in the land price, thus resulting in the appreciation of the value of the land.

- (5) The reason for the increase in appraised value of fixed assets-equipments was as follows:

The appraised value of the fixed assets-equipments increased by RMB131,360, representing an appreciation rate of 10.07%, attributable to the fact that the increase in appraised value was due to the fact that most of the equipment was acquired in early period, for which depreciation was provided adequately and its accounting depreciation period was shorter than the economic service life of equipment, leading to the increase in appraised value.

- (6) The reasons for the increase in appraised value of liability were as follows:

Other current liabilities and other non-current liabilities represented the relocation compensation received by Kunshan IRICO. In May 2007, Kunshan IRICO and the Management Committee of Economic Development Area of Kunshan, Jiangsu entered into Relocation Compensation Contract of Kunshan IRICO Industry Co., Ltd. (《昆山彩虹實業有限公司搬遷補償合同》) the Management Committee of Economic Development Area of Kunshan, Jiangsu agreed to pay relocation compensation of RMB30,500,000 to Kunshan IRICO in three installments. Such compensation was included in other non-current liabilities by Kunshan IRICO and was amortized over 25 years for income recognition. Taking account into the income tax of 25% that is payable during income recognition, the estimated income tax to be paid in the future (i.e. RMB5,249,310) was taken as the assessed value of such liabilities.

#### X. Special Remarks

In case of any discrepancies in English version and Chinese version of the valuation report, the Chinese version shall prevail.

Pursuant to the “Interim Measures for the Administration of Assessment of State-owned Assets of Enterprises” (SASAC Order No. 12, 2005), this assets valuation report shall be valid for a year from 31 December 2013 (i.e., the valuation base date) to 30 December 2014. A re-valuation by intermediaries is required for valuation subsequent to 30 December 2014.

Prior to its application to this economic activity, the valuation report shall be reviewed and approved by regulatory authority of the state-owned assets.

The right of interpretation of this valuation report lies with Pan-China Assets Appraisal Co., Ltd. Any other party is not entitled to interpret this report unless otherwise explicitly stipulated and specified by laws and regulations of the State.

**Beijing Pan-China Assets Appraisal Co., Ltd.**  
**Certified Appraiser: Wang Xingjie, Shi Yingmin**

16 April 2014

Contact method for Beijing Pan-China:

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*The following is an English translation of the summary of the PRC Valuation Report in respect of Cairui Display, which is prepared by Beijing Pan-China for the purpose of inclusion in this circular. Such report is prepared in Chinese and the full text of the report in Chinese are available for inspection in accordance with the arrangements set out in section 11 under the Appendix IX of this circular, and this English translation is provided for your reference only. In the event of any inconsistency between the Chinese and English versions, the Chinese version shall prevail.*

*Beijing Pan-China holds the domestic assets appraisal qualification jointly granted by the China Securities Regulatory Commission and the Ministry of Finance of the PRC.*

### **SUMMARY OF VALUATION REPORT**

**Valuation in relation to the Proposed Transfer of the Equity of  
Xi'an Cairui Display Technology Co., Ltd.\* (西安彩瑞顯示技術有限公司) by  
IRICO Group Electronics Company Limited  
Tian Xing Ping Bao Zi (2014) No.0228**

- I. Valuation Purpose: as engaged by IRICO Group Electronics Company Limited, Beijing Pan-China Assets Appraisal Co., Ltd. has conducted a valuation on the entire shareholders' equity of Xi'an Cairui Display Technology Co., Ltd.\* (hereinafter referred to as "Cairui Display") in accordance with generally accepted valuation methods on an objective, independent, impartial and scientific basis under the PRC laws, regulations and policies on asset valuation.
- II. Valuation Subject: the entire shareholders' equity of Cairui Display.
- III. Valuation Scope: the entire assets and liabilities of Cairui Display.
- IV. Value Type: the value type for this evaluation is the market value.
- V. Valuation Base Date: 31 December 2013

- VI. Assumptions of the Valuation: This valuation is based on certain assumptions, including but not limited to the following conditions: (1) transaction assumption: all assets to be valued are assumed to be in transaction and appraisers estimate the value of the assets to be valued in a simulated market according to transaction conditions; (2) open market assumption: This is an assumption about market conditions and effects of such market conditions on assets. An open market means a well-developed competitive market with willing buyers and willing sellers acting voluntary and rationally at arms' length, having sufficient opportunities and time to obtain market information and under no compulsion or restrictions to buy or sell; (3) continuous use assumption: the continuous use assumption is a hypothesis made on the conditions of the market where the assets are intended to be entered as well as the status of the assets in such market conditions. It is first assumed that the assets to be appraised are in use, and it is further assumed that the assets that are in use will be used continuously. Under continuous use assumption, no consideration is given to the conversion of the use of the assets or the use of the assets under the best condition. Thus, the valuation results are subject to a restricted scope of applicability; and (4) going concern assumption: Due to the recession of CRT display industry, Cairui Display has suffered years of loss as its principal operating business declined year on year. As at 31 December 2013, Cairui Display's accumulated undistributed profit was RMB-74,176,800. The management of Cairui Display resolved at the administrative meeting that in the year of 2013 and thereafter, Cairui Display would be gradually transformed into a company that provides lease and services of property for other companies in Xi'an Export Processing Zone, and IRICO Group Electronics Company Limited\*, its controlling shareholder, has promised to provide financial support for the sustainable operation of Cairui Display. Considering the above conditions, the valuation is based on the assumption of going concern.
- VII. Valuation Method: commissioned assets valuation is conducted in accordance with the nature of the assets, through a consolidated adoption of various valuation methods as follows: (1) the appraised unit in this report is assumed to operate on a going concern basis. The core assets of the appraised unit are physical assets such as buildings, land and equipment. Moreover, in relation to the use of the asset-based approach, there are adequate data and information which serve as the basis and foundation for justifying the selection of the economic and technical parameters involved in the valuation of each of the assets. Accordingly, the use of the asset-based approach in the valuation is justified; (2) IRICO Display Technology, the entity being valued in this report, was engaged in the deep-processing of color picture tube from 2004 to the end of November 2007. During the period, there were more than 200 employees. Due to the impact brought by the LCD Flat Panel TV and the global financial crisis, sales in the market of CRT color television seriously shrank. Cairui Display ceased all the production at the end of

November 2007 and sold all its production equipments to Xi'an Caihui Display Technology Co., Ltd.. All employees of Cairui Display were transferred to Xi'an Caihui Display Technology Co., Ltd.. Since then, IRICO Display Technology has no staffing nor production activities with lease of plants as its only business left, and has been managed by relevant personnel from IRICO Group Electronics Company Limited\*. In light of the above conditions, it is not feasible to predict the revenue, cost and expenses of Cairui Display, therefore the income approach cannot be adopted to appraise its value; and (3) as the unit being valued is an unlisted company and only a few domestic enterprises that are comparable in terms of size in the industry conducted equity transactions on or around the valuation base date, it is hard to acquire comparable cases that are reliable and accurate. Hence, the market method was not adopted in the valuation.

**(I) The asset-based approach**

1. Current assets

Current assets include monetary capital, accounts receivable, prepayments and other receivables.

- (1) Monetary capital: it includes cash, bank deposits. The valuers check the cash by supervising the counting of cash and make reasonable backward calculation according to the entries of cash journal to calculate the balance of cash as at the reference day and verify the same with the cash journal. After the check and verification, the book value of RMB in cash is taken as the appraisal value; for bank deposits, trial balance is conducted to the bank reconciliation statement on the basis of account-to-account verification, account-to-sheet verification and verification of the bank statement in combination with the reply of letter of confirmation of the banks; after it is verified to be correct, the book value of RMB deposit is recognised as the appraisal value. For other currency fund, the valuers review the relevant book record and verify the statement and issue a verification letter for the balance at the end of period. The valuers review the bank account statements and bank balance reconciliation statement, and confirm that there are no unusual circumstances as for items not included in the statements according to the reply of letter of the banks; after it is verified to be correct, the book value of RMB deposit is recognised as the appraisal value.



- (2) Receivables: including accounts receivable and other receivables. The valuers, through the examination of the accounts, statement and based on the analysis of economic contents and aging, confirm the payments in large amounts by letters, understand the time of occurrence, the reasons for amounts due, and clearing of defaults, the capital, creditability and operation and management of the debtors, and determine the possibility to recover the receivables after specific analysis. The recoverable amount of receivables after a comprehensive analysis based on the individual identification method and aging analysis method is recognised as the appraisal value of the receivables. The appraisal value of the provision for bad debts of receivables is zero according to the relevant requirements of valuation.
- (3) Prepayments: the valuers verify the entries of the accounts; examine the original voucher and business contacts and verify the authenticity of transactions, aging, details and amounts of activities. For the prepayments with short account age and being able to be realised within short period of term, the verified book value is taken as the appraisal value.

In the valuation, the appraised value is determined at the remaining balance netting of the assessed risk of loss from the book value.

2. Investment properties

As the rental periods for the overall lease of investment properties ranges from 2 to 5 years (a relatively short term); while only certain area of the plants was subject to long-term rental period, which can hardly be clearly distinguished in the structure from the unleased part, the valuation of investment properties adopted the same valuation method as that for building properties under the fixed assets, i.e. the replacement cost method, instead of the market method.

3. Building properties

The buildings and constructs are appraised at replacement cost method.

Buildings for production with no deals are appraised and estimated at cost method based on the principle that the property and lands are appraised respectively. The cost method is a method, in which the appraisal value of the property appraised is determined by the investment required for replacement of similar property (hereinafter referred to as the “replacement price”) based on the market condition at the time point of valuation and the structural features of the property appraised multiplied by the newness rate of buildings and constructions subject to a comprehensive valuation.

The appraisal value = full replacement price  $\times$  comprehensive newness rate

Full replacement price = construction and installation cost + upfront fees and other expenses + capital cost

Comprehensive newness rate = theoretical newness rate  $\times$  weight + surveyed newness rate  $\times$  weight

(1) Determination of full replacement price

1) Estimate of construction and installation cost

Based on the specific situation of the buildings and construction appraised, the valuers systematically classify the buildings in the scope of the valuation by the type of structure, function and geographical distribution and group the buildings with similar or same structure. Then, the valuers select typical projects in all the structures and collect the budget/settlement statement, as-built drawing; spot check and verify the project quantities; and calculate the construction and installation cost in accordance with the Rules on Measurement and Pricing of Construction Projects of Shaanxi Province, the Rates of Bill of Quantities for Construction Projects of Shaanxi Province, the Price List of Projects in relation to Buildings, Decoration, Installation, Civil Engineering and Landscape of Shaanxi Province and the Price List for per Machine-team Price of Construction Projects of Shaanxi Province issued in 2009 and by reference to, inter alia, the Consumption Norm for Construction and Decoration Projects of Shaanxi Province issued in 2004, the Consumption Norm for Installation Projects of Shaanxi Province and the Information on Engineering Cost Management in Shaanxi (material information price) (bimonthly publication - Issue No. 6). The construction and installation cost of other buildings with the same structure is calculated at the discrimination factor adjustment method in comparison with the typical projects. Factors affecting the construction and installation cost include the number of floors, the height between floors, the appearance, the planar form, depth, the standard width of rooms, the materials of walls, the decoration standards, equipment and facilities and construction difficulties, etc. the comprehensive adjustment factor is obtained by comparing the valuation subject with the typical projects. The construction and installation cost of the subject to be appraised is the construction and installation cost of the typical project multiplied by the comprehensive adjustment factor. The replacement price of small-sized buildings and construction is estimated with the local unilateral cost of buildings with similar structure as at the reference day subject to discrimination factor adjustment.

## 2) Upfront fees and other expenses

Upfront fees and other expenses which include, inter alia, management fee of construction unit, survey and design fee and cost of supervision of engineering construction are charged according to the provisions of local governments and industry standards.

## 3) Capital cost

According to the scale of construction and original information, the construction period is determined by the norm of construction period of the country. In the circumstance of normal construction period and that the capital is evenly invested over the construction period, the capital cost is calculated based on the interest rate of loans for capital construction as at the reference day.

Capital cost = (construction and installation cost + upfront fees and other expenses) × construction period × interest rate × 1/2

Full replacement price = construction and installation cost + upfront fees and other expenses + capital cost

## (2) Determination of comprehensive newness rate

The comprehensive newness rate of buildings and constructions is determined by the combination of theoretical newness rate and surveyed newness rate.

## 1) Calculation of theoretical newness rate

Theoretical newness rate = (the economic service life - the serviced life) / the economic service life × 100%

## 2) Determination of surveyed newness rate

First, the appraisal intact value of major factors determining the newness rate of buildings and constructions are determined by structure (bases, walls, bearing and roofing), decoration (grounds, internal and external decoration, doors and windows, ceilings), equipment and facilities (water and sanitation, heating, power and lighting) with reference to the standards for rating of damage condition of houses of the Ministry of Construction in combination with the actual situation of onsite survey, and then the surveyed newness rate is determined according to the weights.

Surveyed newness rate = score value of structural parts × weight +  
decoration parts × weight + score value of installation part × weight

3) Comprehensive newness rate

The weight for theoretical newness rate is 0.4 while the weight for the surveyed newness rate is 0.6.

Comprehensive newness rate = theoretical newness rate × 0.4+  
surveyed newness rate × 0.6

(3) Calculation of appraisal value

4. Equipment

The equipment is appraised at the cost method with the equipment, which can be used for normal production and operation according to the valuation purpose and the principle of sustained used and based on the market price in combination with the features of the equipment and the information collected; for the equipment to be scrapped, the net earning after its liquidation and realization will be used as the appraisal value in the appraisal.

(1) Replacement cost method

Appraisal value = full replacement price × comprehensive newness rate

1) Determination of full replacement price

① Machinery equipment

For domestic equipment, the full replacement price is mainly determined with reference to the existing market price of equipment of the same type or model in the domestic market, as well as a consideration of the freight and miscellaneous charges, installation and debugging charges, the basic fees, the other expenses and the capital cost.

Full replacement price = Purchase price of equipment + freight and miscellaneous charges + installation and debugging expense + basic expenses + other expenses + capital cost

A. Purchase price

The purchase fee is determined by making quotations to manufacturers, trading markets, trading companies or with reference to price data such as 2014 Quotation Manual of Electromechanical Products as well as the contract price of similar equipment. The purchase price of equipment is the selling price exclusive of tax.

B. Freight and miscellaneous charges

The charge is calculated on the basis of the purchase fee and by different rates depending on the distance between the manufacturer and the location of the equipment, the weight, shape and size of the equipment.

C. Installation and debugging charges

The charge is calculated on the basis of the purchase price and by different rates depending on the features, weights and difficulty in installation of the equipment.

For small equipment and equipment with no need of installation, the charge is not considered.

D. Basic expenses

The basic expenses is calculated by different rates depending on the features of the equipment on the basis of the purchase price and with reference to the Methods for Preparation of Estimates of Construction Projects and Indexes for Estimates issued by the Ministry of Machinery Industry.

E. Other expenses

The other expenses include the administrative expenses, the expenses for feasibility report and valuation, design fee, engineering supervision fee, etc. It is calculated according to the other fee standard of the construction projects in combination with the features of the equipment on the basis of the sum of the purchase price, the freight and miscellaneous charges, basic expenses and installation and debugging charges.

## F. Capital cost

The capital cost is calculated evenly over the construction period according to the reasonable period of the project and based on the loan interest rate applicable on the reference day.

Capital cost = (purchase fee + freight and miscellaneous charges + installation and debugging charges + basic charges + other expenses) × loan interest rate × construction period × 1/2

Full replacement price = purchase price

## 2) Determination of comprehensive newness rate

## ① Machinery equipment

Comprehensive newness rate = technically assessed newness rate × weight + service life newness rate × weight

## A. Technically assessed newness rate

The technically assessed newness rate is mainly determined according to the actual situation of the equipment. The components of the equipment are scored one by one according to the on-site survey of the technical status, work environment and maintenance of the equipment to determine the technically assessed newness rate.

## B. Service life newness rate

Service life newness rate is determined by the economic service life and the serviced life.

Service life newness rate = (the economic service life - the serviced life) / the economic service life × 100%

## C. Weight

For equipment with large size or complicated structure, the newness rate is determined with a combination of the service life method and survey method. The weight for the service life method is 0.4 while that for the survey method is 0.6.

For equipment with light and simple structure and normal use, the newness rate is determined at service life method based on the time of use in combination of the maintenance.

## 3) Determination of the appraisal value

The appraisal value = full replacement price × comprehensive newness rate

## 5. Intangible assets

Intangible assets include land use rights and other intangible assets.

## (1) Land use rights

Complying with the valuation principles and based on the actual situation of the parcel to be valued and information provided by the entity to be appraised and relevant information collected by the evaluators through site survey and investigation, market approach and the modified benchmark land price coefficient method were adopted respectively in the valuation. After comprehensive analysis and comparison, the valuation results by market approach was chosen as the ultimate results of the valuation.

## 1) Market approach

Market approach is an appraisal by comparing the appraised object with the similar land transaction near the time of appraisal and making appropriate correction to the transaction price of such similar land transaction, thus estimating the objective and reasonable price or value of the appraised object.

Price of benchmark land = Comparable transaction price × Transaction modification coefficient × Date modification coefficient × District factor modification coefficient × Individual factor modification coefficient

Appraisal value = (Comparable transaction A + Comparable transaction B + Comparable transaction C)/3

2) Modified benchmark land price coefficient method

The modified benchmark land price coefficient method is to utilise the appraisal results such as the benchmark land price in urban and town areas and the benchmark land price coefficient to compare the regional factors with individual factor indexes in the statement of correction coefficients of benchmark land prices with respect to the extent of impact of the land parcel to be appraised on regional and individual factors to obtain the correction coefficient, which is then corrected. Finally, the appraisal date and service life of the land parcel to be appraised are corrected by the benchmark date of appraisal of the land price and the service life to obtain the price of the land parcel on the appraisal date.

Price of land parcel = applicable benchmark land price  $\times$  K1  $\times$  K2  $\times$  K3  $\times$  K4  $\times$  (1 +  $\Sigma$ K)

In which: K1: Date modification coefficient

K2: Year modification coefficient

K3: Development status modification coefficient

K4: Plot ratio modification coefficient

$\Sigma$ K: sum of modification coefficients of all factors affecting the land price

*Note:*

The above-mentioned coefficients are the modified coefficients calculated by Beijing Pan-China based on the comparison between the lands to be evaluated and the benchmark land prices with respect to the time of the relevant land prices, the remaining years of use, the development status, the plot ratio and other factors.

The benchmark land prices were standards for land premiums promulgated by the provincial governments in the PRC;



The modified benchmark land price method is a method for reference only. Considering that the result under the market approach is better in line with the market, the appraised value under market approach was adopted as the final conclusion of this valuation.

(2) Other intangible assets

Other intangible assets represent standard version of Kingdee financial software.

For management software purchased and will continue to be used in the future by the company, the valuator reviewed the project contracts, technical agreements and invoices of the software, and made price inquiry to the distributors and the market to learn about the software development upgrade, the valuation price was presented at the market value.

6. Liabilities

The appraisal value is determined by the liability items and amounts actually assumed by the entity appraised on the reference day after verifying the actual debtors and amount of liabilities of all liabilities upon the realization of the appraisal purposes.

VIII. Basis of Valuation:

Basis of valuation mainly includes:

**1. Major laws and regulations**

- 1). *The Company Law of the People's Republic of China* (as amended at the 18th meeting of the Standing Committee of the 10th session of National People's Congress on 27 October 2005);
- 2). *Law of the People's Republic of China on the State-Owned Assets of Enterprises* (President 2008 Order No. 5) (《中華人民共和國企業國有資產法》(主席令2008年第5號));
- 3). *Administrative Measures for State-Owned Assets Assessment* (State Council Order No.91, 1991) (《國有資產評估管理辦法》(國務院第91號令, 1991年));
- 4). *Detailed Rules for the Implementation of the Administrative Measures for State-Owned Assets Assessment* (Guo Zi Ban Fa [1992] No.36) (《國有資產評估管理辦法實施細則》(國資辦發[1992]第36號));

- 5). *Interim Measures for the Supervision and Administration of State-Owned Assets of the Enterprises* (State Council Order No.378, 2003) (《企業國有資產監督管理暫行條例》(國務院第378號令, 2003年));
- 6). *Interim Measures for the Administration of Assessment of State-owned Assets of Enterprises* (SASAC Order No. 12, 2005) (《企業國有資產評估管理暫行辦法》(國資委第12號, 2005年));
- 7). *Notice on Strengthening Evaluation and Management of State-Owned Assets in Enterprises* (SASAC Property [2006] No.274) (《關於加強企業國有資產評估管理工作有關問題的通知》(國資委產權 [2006]274號));
- 8). *Land Administration Law of the People's Republic of China* (as amended at the 11th meeting of the Standing Committee of the 10th session of National People's Congress on 28 August 2004);
- 9). *Urban Real Estate Administration Law of the People's Republic of China* (People's Republic of China President Order No.72, as amended at the 29th meeting of the Standing Committee of the 10th session of National People's Congress on 30 August 2007);
- 10). *Notice on Issue of Opinions of Ministry of Land and Resource in Relation to Enhancement of Land Assets Management for Promotion of Reform and Development of State-owned Enterprises* issued by Ministry of Land and Resource (Guo Tu Zi Fa [1999] No.433) (國土資源部《關於印發〈國土資源部關於加強土地資產管理促進國有企業改革和發展的若干意見〉的通知》(國土資發[1999]433號));
- 11). *City Planning Law of the People's Republic of China* (PRC President Order No. 23);
- 12). *Interim Regulations of the People's Republic of China Concerning the Assignment and Transfer of the Right to the Use of the State-owned Land in the Urban Areas* (PRC State Council Order No. 55) (《中華人民共和國城鎮國有土地使用權出讓和轉讓暫行條例》(中華人民共和國國務院令第55號));
- 13). *Implementation Regulations for the Law of Land Administration of the People's Republic of China* (State Council Order No. 256, 27 December 1998) (《中華人民共和國土地管理法實施條例》(1998年12月27日國務院令第256號));
- 14). *Assets Appraisal Standards — Basic Standards* (Cai Qi (2004) No. 20) issued by Ministry of Finance;
- 15). *Assets Valuation Ethics Code — Basic Principles* (Cai Qi (2004) No. 20) issued by Ministry of Finance;

- 16). *Assets Valuation Ethics Code — Independence*;
- 17). *Assets Appraisal Standards — Valuation Report* (as amended in 2011);
- 18). *Assets Appraisal Standards — Valuation Process* (Zhong Ping Xie [2007] No. 189);
- 19). *Asset Appraisal Standards-Machinery and Equipment* (Zhong Ping Xie [2007] No. 189)
- 20). *Asset Appraisal Standards — Property* (Zhong Ping Xie [2007] No. 189)
- 21). *Assets Appraisal Standards — Enterprise Value*;
- 22). Other relevant laws and standards.

**2. Basis of economic activities**

Resolutions Passed at the Working Meeting of the Management of IRICO Group Electronics Company Limited\* (Electronics Working Meeting [2014] No.25 “Notification on the Resolutions Passed at the Working Meeting of the Management”).

**3. Basis of important contracts, agreements and equity documents**

- 1). Property ownership certificate and land use right certificate, etc.;
- 2). Financial Materials including the contracts and invoices for main equipments purchase and relevant agreements and contracts;

## IX. Valuation Conclusion

As at the valuation base date, the appraisal value of the entire shareholders' equity of Xi'an Cairui Display Technology Co., Ltd. within the scope of valuation was RMB40,678,630. The summary of the appraisal results is set out as follows:

**Summary of appraisal results of total shareholders' equity of  
Xi'an Cairui Display Technology Co., Ltd.**

*Unit: RMB'000*

	Items	Book value (note 1) A	Appraised value B	Increase/ decrease (note 2) C = B-A	Appreciation rate % (note 2) D = C/A×100%
1.	Current assets	1,503.19	1,500.91	-2.28	-0.15
2.	Non-current assets	32,365.92	50,846.20	18,480.28	57.10
3.	Including: Available-for-sale financial assets	—	—	—	
4.	Held-to-maturity investments	—	—	—	
5.	Long-term receivables	—	—	—	
6.	Long-term equity investments	—	—	—	
7.	Investment properties	12,098.26	17,301.20	5,202.94	43.01
8.	Fixed assets	15,420.38	15,191.90	-228.48	-1.48
9.	Construction in progress	—	—	—	
10.	Construction materials	—	—	—	
11.	Disposal of fixed assets	—	—	—	
12.	Biological assets for production	—	—	—	
13.	Fuel assets	—	—	—	
14.	Intangible assets	4,847.27	18,353.10	13,505.83	278.63
15.	Development expenses	—	—	—	
16.	Goodwill	—	—	—	
17.	Long-term deferred expenses	—	—	—	
18.	Deferred income tax assets	—	—	—	
19.	Other non-current assets	—	—	—	
20.	<b>Total assets</b>	<b>33,869.11</b>	<b>52,347.11</b>	<b>18,478.01</b>	<b>54.56</b>
21.	Current liabilities	11,668.49	11,668.49	—	—
22.	Non-current liabilities	—	—	—	
23.	<b>Total liabilities</b>	<b>11,668.49</b>	<b>11,668.49</b>	<b>—</b>	<b>—</b>
24.	<b>Net assets (Owners' equity)</b>	<b>22,200.62</b>	<b>40,678.63</b>	<b>18,478.01</b>	<b>83.23</b>

*Remarks:*

1. The carrying values set out above were extracted from the audited balance sheet prepared in accordance with the PRC GAAP, which were audited carrying values of the parent company provided by the auditor of the Company.
2. The appraised value of the net asset increased by RMB18,478,010, representing an increase of 83.23%, mainly due to the following reasons:

- (1) The reasons for the increase in the appraised value of investment properties and the decrease in appraised value of fixed assets-buildings are as follows:

- (a) Housing project costs consist of labor costs, material costs and machinery costs, so the increase in labor costs and material costs, etc., will result in the increase in the consideration to be paid for the construction of houses, which means replacement costs, which is the original valuation result. Besides, as the depreciation period in accounting of housing buildings are generally shorter than its economic life in valuation, there is appreciation of net appraised value in fixed assets - building.
- (b) As some of buildings of Cairui Display was leased out while the other were idle. For the leased properties should be regarded as “investment properties”; while the idle properties should be regarded as “fixed assets- buildings”. Regarding the sum of the appraised value of the “investment properties” and the “fixed assets-building”, the appraised value increased.

However, the enterprise made inaccurate partition in the carrying value when making allocation to and inclusion of leased properties into the “investment properties” (i.e. more partition of the carrying value was allocated to “investment properties” and less partition of the carrying value was allocated to “fixed assets- buildings”), which resulted in appreciation of the former and depreciation of the latter.

- (c) As the rental periods for the overall lease of investment properties ranges from two to five years (a relatively short term); while only part of the plants was subject to long-term rental period, which can hardly clearly distinguish from the unleased part, the valuation of “investment properties” adopted the same valuation method as that for fixed- buildings, i.e. the cost method, instead of the market method.

- (2) The reasons for the increase in appraised value of intangible assets-land use rights are as follows:

The value of intangible assets-land use rights increased by RMB13,505,830. The increase in its appraised value was mainly attributable to a low cost on the acquisition of the land in October 2004 and a significant growth in the real estate market after nearly 10 years, leading to a substantial increase in land cost, thus the value of the land increased.

- (3) The reasons for the decrease in appraised value of fixed assets-equipments are as follows:

The appraised value of fixed assets-equipments decreased by RMB42,000, representing a depreciation rate of 49.88%, attributable to the fact that most equipments were to be scrapped. As for those equipments to be scrapped, net gain from the disposal of which was treated as appraised value, resulting in a decrease in the appraised value of the equipments.

X. Special Remarks:

Beijing Pan-China has paid sufficient attention to and disclosed the property rights and the gross floor area of the properties without property ownership certificates, and conducted the valuation based on the assumption of the completeness of property rights and the accuracy of the gross floor area, the related taxes of future application for the Property Ownership Certificate are not taken into consideration in the valuation.

In case of any discrepancies in English version and Chinese version of the valuation report, the Chinese version shall prevail.

Pursuant to the “Interim Measures for the Administration of Assessment of State-owned Assets of Enterprises” (SASAC Order No. 12, 2005), this assets valuation report shall be valid for a year from 31 December 2013 (i.e., the valuation base date) to 30 December 2014. A re-valuation by intermediaries is required for valuation subsequent to 30 December 2014.

Prior to the use of it in this economic activity, the valuation report shall be reviewed and approved by regulatory authority of the state-owned assets.

The right of interpretation of this valuation report lies with Pan-China Assets Appraisal Co., Ltd. Any other party is not entitled to interpret this report unless otherwise explicitly stipulated and specified by laws and regulations of the State.

**Beijing Pan-China Assets Appraisal Co., Ltd.**

*Certified Appraiser: Wang Xingjie, Shi Yingmin*

16 April 2014

Contact method for Beijing Pan-China:

Address: 23F, Yuetan Building, No.2, Yuetan North Street, Xicheng District, Beijing, 100045

Telephone number: (8610)6808 3855

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*The following is an English translation of the summary of the PRC Valuation Report in respect of Sichuan Shuanghong, which is prepared by Beijing Pan-China for the purpose of inclusion in this circular. Such report is prepared in Chinese and the full text of the report in Chinese are available for inspection in accordance with the arrangements set out in section 11 under the Appendix IX of this circular, and this English translation is provided for your reference only. In the event of any inconsistency between the Chinese and English versions, the Chinese version shall prevail.*

*Beijing Pan-China holds the domestic assets appraisal qualification jointly granted by the China Securities Regulatory Commission and the Ministry of Finance of the PRC.*

### **SUMMARY OF VALUATION REPORT**

**Valuation in relation to the Proposed Transfer of the Equity of  
Sichuan Century Shuanghong Display Device Co., Ltd.\* by  
IRICO Group Electronics Company Limited  
Tian Xing Ping Bao Zi (2014) No.0441**

- I. Valuation Purpose: as engaged by IRICO Group Electronics Company Limited, Beijing Pan-China Assets Appraisal Co., Ltd. has conducted a valuation on the entire shareholders' equity of Sichuan Century Shuanghong Display Device Co., Ltd.\* (hereinafter referred to as "Sichuan Shuanghong") in accordance with generally accepted valuation methods on an objective, independent, impartial and scientific basis under the PRC laws, regulations and policies on asset valuation.
- II. Valuation Subject: the entire shareholders' equity of Sichuan Shuanghong.
- III. Valuation Scope: the entire assets and liabilities of Sichuan Shuanghong.
- IV. Value Type: the value type for this evaluation is the market value.
- V. Valuation Base Date: 31 December 2013

- VI. Assumptions of the Valuation: This valuation is based on certain assumptions, including but not limited to the following conditions: (1) transaction assumption: all assets to be valued are assumed to be in transaction and appraisers estimate the value of the assets to be valued according to transaction conditions such as the simulated market; (2) open market assumption: This is an assumption about market conditions and effects of such market conditions on assets. An open market means a well-developed competitive market with willing buyers and willing sellers acting voluntarily and rationally at arms' length, having sufficient opportunities and time to obtain market information and under no compulsion or restrictions to buy or sell; (3) continuous use assumption: the continuous use assumption is a hypothesis made on the conditions of the market where the assets are intended to be entered as well as the status of the assets in such market conditions. It is first assumed that the assets to be appraised are in use, and it is further assumed that the assets that are in use will be used continuously. Under continuous use assumption, no consideration is given to the conversion of the use of the assets or the use of the assets under the best condition. Thus, the valuation results are subject to a restricted scope of applicability; and (4) going concern assumption: It is an assumption made by taking the whole assets of an enterprise as the object of appraisal. In this way, the enterprise operates continually in pursuit of its operation objective under its external environment as the main operating entity. The operator of the enterprise is capable of taking responsibility. The enterprise operates legally and makes appropriate profits to maintain the capability of going concern.
- VII. Valuation Method: commissioned assets valuation is conducted in accordance with the nature of the assets, through a consolidated adoption of various valuation methods as follows: (1) the appraised unit in this report is assumed to operate on a going concern basis. The core assets of the appraised unit are physical assets such as equipment. Moreover, in relation to the use of the asset-based approach, there are adequate data and information which serve as the basis and foundation for justifying the selection of the economic and technical parameters involved in the valuation of each of the assets. Accordingly, the use of the asset-based approach in the valuation is justified; (2) Sichuan Shuanghong, the entity being valued in this report, holds 75% of the equity of Sterope Investments B.V. and 27.11% of the equity of Sichuan COC Display Devices Co., Ltd. ("COC Company"). In addition, Sterope Investments B.V. holds 100% equity of ORION CO., LTD. ("ORION CO"). Sichuan Shuanghong is not practically involved in the production and operating business, but is only entrusted to engage in the development of relevant subjects and projects of PDP. Beijing PDP R&D Center ("BPC"), a subordinate research and development institute of Sichuan Shuanghong, provides research and development services, and COC Company is the major entrustor. Since 2014, Sichuan Shuanghong transferred some research and development equipment to COC Company, as well as some research and



development staff. Accordingly, Sichuan Shuanghong will no longer be engaged in production and operation businesses, but only own the income from investment in its holding subsidiary, COC Company and its controlling subsidiary, Sterope Investments B.V. and all of the income of the controlling subsidiary Sterope Investments B.V. was derived from its wholly-owned subsidiary ORION CO. Considering the fact that Sichuan Shuanghong does not have any other production and operation business other than managing its subsidiary, the valuation of the parent company Sichuan Shuanghong did not adopt the income method; (3) as the unit being valued is an unlisted company and only few domestic enterprises that are comparable in terms of size in the industry conducted equity transactions on or around the valuation base date, it is hard to acquire comparable cases that are reliable and accurate. Hence, the market method was not adopted in the valuation.

**(I) The asset-based approach**

1. Current assets

Current assets include monetary capital, accounts receivable, other receivables, etc.

- (1) Monetary capital: it represents cash and bank deposits. The valuers check the cash by supervising the counting of cash and make reasonable backward calculation according to the entries of cash journal to calculate the balance of cash as at the reference day and verify the same with the cash journal. After the check and verification, the book value of RMB in cash is taken as the appraisal value; for bank deposits, trial balance is conducted to the bank reconciliation statement on the basis of account-to-account verification, account-to-sheet verification and verification of the bank statement in combination with the reply of letter of confirmation of the banks; after it is verified to be correct, the book value of bank deposit denominated in RMB is recognised as the appraisal value.
- (2) Receivables: including accounts receivable and other receivables. The valuers, through the examination of the accounts, statement and based on the analysis of economic contents and aging, confirm the payments in large amounts by letters, understand the time of occurrence, the reasons for amounts due, and clearing of defaults, the capital, creditability and operation and management of the debtors, and determine the possibility to recover the receivables after specific analysis. The recoverable amount of receivables after a comprehensive analysis based on the individual identification method and aging analysis method is recognised as the appraisal value of the receivables. The appraisal value of the provision for bad debts of receivables is zero according to the relevant requirements of valuation.

## 2. Equipment assets

The equipment is appraised at the replacement cost method with the equipment, which can be used for normal production and operation according to the valuation purpose and the principle of sustained used and based on the market price in combination with the features of the equipment and the information collected; for equipment for long-term use, the second-hand market of which is active with no market price of similar branch new equipment available in the market, the market approach is adopted for valuation; for the equipment to be scrapped, the net realizable value will be used as the appraisal value in the appraisal; for the electronic office equipment without any recoverable value, the appraisal value is nil.

### (1) Replacement cost method

Appraisal value = full replacement price × comprehensive newness rate

#### ① Determination of full replacement price

##### General equipment

The full replacement price is mainly determined with reference to the existing market price of equipment of the same type or model in the domestic market, as well as a consideration of the freight and miscellaneous charges, installation and debugging charges, the basic fees, the other expenses and the capital cost.

Full replacement price = Purchase price of equipment + freight and miscellaneous charges + installation and debugging expense + basic expenses + other expenses + capital cost

##### A. Purchase price

The purchase fee is determined by making quotations to manufacturers, trading markets, trading companies or with reference to price data such as 2013 Quotation Manual of Electromechanical Products as well as the contract price of similar equipment. The purchase price of equipment is the selling price inclusive of tax.

For the purchase fee of imported equipment, priority shall be given to alternative principle where the adjusted purchase fee of domestic equipment is generally adopted on the economic basis to the extent that specification, model performance indicators are identical or similar. For those without any alternative, the purchase fee of such imported equipment will be determined mainly based on review and verification of relevant information including the original import contract and the latest quotation overseas with reference to the changes in interest rate of the manufacturing countries and the CPI adjustment as well as a consideration of the overseas transportation and insurance fees of such equipment, foreign trade expenses, bank fees, inspection fees, customs taxes, VAT, etc. The calculation of domestic freight and miscellaneous charges, installation and debugging charges, basic fees, the other expenses and capital cost is based on the same method adopted for domestic equipment.

B. Freight and miscellaneous charges

The charge is calculated on the basis of the purchase fee and by different rates depending on the distance between the manufacturer and the location of the equipment, the weight, shape and size of the equipment.

C. Installation and debugging charges

The charge is calculated on the basis of the purchase price and by different rates depending on the features, weights and difficulty in installation of the equipment.

For small equipment and equipment with no need of installation, the charge is not considered.

D. Basic expenses

The basic expenses is calculated by different rates depending on the features of the equipment on the basis of the purchase price and with reference to the Methods for Preparation of Estimates of Construction Projects and Indexes for Estimates issued by the Ministry of Machinery Industry.

## E. Other expenses

The other expenses include the administrative expenses, engineering supervision fee, etc. It is calculated according to the other fee standard of the construction projects in combination with the features of the equipment on the basis of the sum of the purchase price, the freight and miscellaneous charges, basic expenses and installation and debugging charges.

## F. Capital cost

The capital cost is calculated evenly over the construction period according to the reasonable period of the project and based on the loan interest rate applicable on the valuation base date.

Capital cost = (purchase fee + freight and miscellaneous charges + installation and debugging charges + basic charges + other expenses)  $\times$  loan interest rate  $\times$  construction period  $\times 1/2$

## Electronic equipment

For the equipment, the same model of which is available for sale in the market, it is deemed to be purchased in the same city. The traders will cover the transportation and drop-in installation and debugging for the products purchased. There is usually no expense other than the purchase price.

Full replacement price = purchase price

## ② Determination of comprehensive newness rate

## Machinery equipment

Newness rate = technically assessed newness rate  $\times$  weight + service life newness rate  $\times$  weight

## A. Technically assessed newness rate

The technically assessed newness rate is mainly determined according to the actual situation of the equipment. The components of the equipment are scored one by one according to the on-site survey of the technical status, work environment and maintenance of the equipment to determine the technically assessed newness rate.

B. Service life newness rate

Service life newness rate is determined by the economic service life and the serviced life.

Service life newness rate = (the economic service life - the serviced life) / the economic service life × 100%

C. Weight

For equipment with large size or complicated structure, the newness rate is determined with a combination of the service life method and survey method. The weight for the service life method is 0.4 while that for the survey method is 0.6.

For equipment with light and simple structure and normal use, the newness rate is determined at service life method based on the time of use in combination of the maintenance.

Electronic equipment

The newness rate is determined at service life method based on the time of use in combination of the maintenance.

③ Determination of the appraisal value

The appraisal value = full replacement price × comprehensive newness rate

3. Development expenses

Development expenses are the cost expenses incurred in Phase II of the High Luminous Efficiency Technology Development Project developed by Sichuan Shuanghong with the entrustment of Sichuan COC Display Devices Co., Ltd. The project has not been completed as at the valuation base date. The cost approach was used to evaluate the research and development expenses.

The valuers checked the general ledger, the breakdowns, the accounting statements, development agreement and the valuation list. Then, the valuers conducted the valuation on the basis of clear check of the accounts, full knowledge of the situation and collection of the information needed in the valuation.

After verification, the development expenses of Sichuan Shuanghong represent the research and development expenses of auxiliary project under development which were carried out based on the actual requirement of client. The valuers determined the appraisal value at the actual amount by verifying the forming process of assets and reviewing the expense statement of relevant development provided by the Company.

In accordance with the general accounting standards, in order to conduct accounting for the expenses incurred in process of research and development of intangible assets, enterprises should set an item of “research and development expenses”, which falls into the category of expenses and records the actual research and development expenses incurred for debit side and the amount converted into intangible assets and administrative expenses for credit side. The credit balance reflects the expenses in the on-going research and development project of enterprise that satisfy capitalization conditions.

All the research and development expenses are the costs of the research and development of plasma technology project conducted by Sichuan Shuanghong under the commission jointly made by COC Company and Fenghua Advanced Technology Holding Co., Ltd. (廣東風華高新科技股份有限公司). The evaluators evaluated the research and development expenses at the costs actually incurred and the provision for impairment was valued to be nil in accordance with the valuation requirements, resulting in an increase in appraised value.

#### 4. Liabilities

The appraisal value is determined by the liability items and amounts actually assumed by the appraised entity after verifying the actual debtors and amount of liabilities of all liabilities.

### VIII. Basis of Valuation:

#### **Basis of valuation mainly includes:**

##### **1. Major laws and regulations**

- 1). *The Company Law of the People's Republic of China* (as amended at the 18th meeting of the Standing Committee of the 10th session of National People's Congress on 27 October 2005);

- 2). *Law of the People's Republic of China on the State-Owned Assets of Enterprises* (President 2008 Order No. 5) (《中華人民共和國企業國有資產法》(主席令2008年第5號));
- 3). *Administrative Measures for State-Owned Assets Assessment* (State Council Order No.91, 1991) (《國有資產評估管理辦法》(國務院第91號令, 1991年));
- 4). *Detailed Rules for the Implementation of the Administrative Measures for State-Owned Assets Assessment* (Guo Zi Ban Fa [1992] No. 36) (《國有資產評估管理辦法實施細則》(國資辦發[1992]第36號));
- 5). *Interim Measures for the Supervision and Administration of State-Owned Assets of the Enterprises* (State Council Order No. 378, 2003) (《企業國有資產監督管理暫行條例》(國務院第378號令, 2003年));
- 6). *Interim Measures for the Administration of Assessment of State-owned Assets of Enterprises* (SASAC Order No. 12, 2005) (《企業國有資產評估管理暫行辦法》(國資委第12號, 2005年));
- 7). *Notice on Strengthening Evaluation and Management of State-Owned Assets in Enterprises* (SASAC Property [2006] No. 274) (《關於加強企業國有資產評估管理工作有關問題的通知》(國資委產權 [2006]274號));
- 8). *Land Administration Law of the People's Republic of China* (as amended at the 11th meeting of the Standing Committee of the 10th session of National People's Congress on 28 August 2004);
- 9). *Urban Real Estate Administration Law of the People's Republic of China* (PRC President Order No. 72, as amended at the 29th meeting of the Standing Committee of the 10th session of National People's Congress on 30 August 2007);
- 10). *Notice on Issue of Opinions of Ministry of Land and Resources in Relation to Enhancement of Land Assets Management for Promotion of Reform and Development of State-owned Enterprises* issued by Ministry of Land and Resources (Guo Tu Zi Fa [1999] No. 433) (國土資源部《關於印發〈國土資源部關於加強土地資產管理促進國有企業改革和發展的若干意見〉的通知》(國土資發[1999]433號));
- 11). *City Planning Law of the People's Republic of China* (PRC President Order No. 23);

- 12). *Interim Regulations of the People's Republic of China Concerning the Assignment and Transfer of the Right to the Use of the State-owned Land in the Urban Areas* (PRC State Council Order No. 55) (《中華人民共和國城鎮國有土地使用權出讓和轉讓暫行條例》(中華人民共和國國務院令第55號));
- 13). *Implementation Regulations for the Law of Land Administration of the People's Republic of China* (State Council Order No. 256, 27 December 1998) (《中華人民共和國土地管理法實施條例》(1998年12月27日國務院令第256號));
- 14). *Assets Appraisal Standards — Basic Standards* (Cai Qi (2004) No. 20) issued by Ministry of Finance;
- 15). *Assets Valuation Ethics Code — Basic Principles* (Cai Qi (2004) No. 20) issued by Ministry of Finance;
- 16). *Assets Valuation Ethics Code — Independence*;
- 17). *Assets Appraisal Standards — Valuation Report* (as amended in 2011);
- 18). *Assets Appraisal Standards — Valuation Process* (Zhong Ping Xie [2007] No. 189);
- 19). *Assets Appraisal Standards — Machinery and Equipment* (Zhong Ping Xie [2007] No. 189);
- 20). *Assets Appraisal Standards — Real Estate* (Zhong Ping Xie [2007] No. 189);
- 21). *Assets Appraisal Standards — Enterprise Value*;
- 22). Other relevant laws and standards.

## 2. Basis of economic activities

Resolutions Passed at the Working Meeting of the Management of IRICO Group Electronics Company Limited\*(Electronics Working Meeting [2013] No.121 “Notification on the Resolutions Passed at the Working Meeting of the Management”).

## 3. Basis of important contracts, agreements and equity documents

- 1). Joint Venture Contract, Equity Purchase Agreement and etc.;
- 2). Financial Materials including the contracts and invoices for main equipments purchase and relevant agreements and contracts.



## IX. Valuation Conclusion

As at the valuation base date, the appraisal value of the entire shareholders' equity of Sichuan Century Shuanghong Display Device Co., Ltd. within the scope of valuation was RMB454,765,420. The summary of the appraisal results is set out as follows:

**Summary of appraisal results of total shareholders' equity of  
Sichuan Century Shuanghong Display Device Co., Ltd.**

*Unit: RMB'000*

Items	Book value	Appraised	Increase/ decrease	Appreciation rate %
	(note 1)	value	(note 2)	(note 2)
	A	B	C = B-A	D = C/A×100%
1. Current assets	40,732.99	40,732.99	—	—
2. Non-current assets	956,552.94	417,470.86	-539,082.08	-56.36
3. Including: Available-for-sale financial assets	—	—	—	—
4. Held-to-maturity investments	—	—	—	—
5. Long-term receivables	—	—	—	—
6. Long-term equity investments	910,791.75	356,273.03	-554,518.72	-60.88
7. Investment properties	—	—	—	—
8. Fixed assets	15,761.08	30,086.80	14,325.72	90.89
9. Construction in progress	—	—	—	—
10. Construction materials	—	—	—	—
11. Disposal of fixed assets	—	—	—	—
12. Biological assets for production	—	—	—	—
13. Fuel assets	—	—	—	—
14. Intangible assets	—	—	—	—
15. Development expenses	30,000.11	31,111.03	1,110.92	3.70
16. Goodwill	—	—	—	—
17. Long-term deferred expenses	—	—	—	—
18. Deferred income tax assets	—	—	—	—
19. Other non-current assets	—	—	—	—
<b>20. Total assets</b>	<b>997,285.92</b>	<b>458,203.85</b>	<b>-539,082.08</b>	<b>-54.05</b>
21. Current liabilities	424.02	424.02	—	—
22. Non-current liabilities	3,014.41	3,014.41	—	—
<b>23. Total liabilities</b>	<b>3,438.42</b>	<b>3,438.42</b>	<b>—</b>	<b>—</b>
<b>24. Net assets (Owners' equity)</b>	<b>993,847.50</b>	<b>454,765.42</b>	<b>-539,082.08</b>	<b>-54.24</b>

*Remarks:*

1. The carrying values set out above were extracted from the audited balance sheet prepared in accordance with the PRC GAAP, which were audited carrying value of the parent company provided by the auditor of the Company. The carry value set out in the Appendix II was on a consolidated basis. Given that it is difficult to exclude the minority interest, we carry out valuation for the parent company and its subsidiaries respectively during this appraisal, in which the appraised value of long-term equity investment was determined by multiplying the appraised value of the net assets of subsidiaries by their respective portion of shareholdings.
2. The appraised value of net asset decreased by RMB539,082,080, representing a decrease of 54.24%, The increase/decrease in value was attributable to the following:
  - (1) The value of long-term equity interest decreased by RMB554,518,720, representing a depreciation rate of 60.88%, attributable to:
    - 1) Sichuan Shuanghong holds the 27.11% equity interests of COC Company, without the controlling interests. The value of the long-term investment in this valuation was determined by the carrying value of its net assets as at the base date multiplying the equity ratio held by the shareholder, i.e. the appraised value of the net assets of COC Company was RMB447,678,100 which was equal to its carrying net assets, thus the appraised value of the long-term investment was  $\text{RMB}447,678,100 \times 27.11\%$  which equals to RMB121,365,530. After the investment increase in COC Company by its large shareholder, Changhong Group, the equity ratio of Sichuan Shuanghong in COC Company decreased and Sichuan Shuanghong became a non-controlling shareholder from a controlling shareholder, but its investment costs remained unchanged. The above situation made Sichuan Shuanghong to adjust the accounting policies of COC Company, i.e. from the Cost Approach to equity method. The operating loss in COC Company led to the decrease of carrying value of the investment of Sichuan Shuanghong in COC Company. COC Company originally adopted the cost method for auditing but adopted the equity method when Sichuan Shuanghong's shareholding in COC Company decreased. Due to the adjustment of accounting policies, the carrying cost of Sichuan Shuanghong for COC Company was relatively higher, leading to depreciation in appraised value;
    - 2) The appraised value of Sterope Investments B.V. is RMB313,210,000, which adopted asset-based method. Therefore, the appraised value of the long-term equity investment of Sichuan Shuanghong in Sterope Investments B.V. is  $\text{RMB}313,210,000 \times 75\%$ , which equals to RMB234,907,500. The depreciation in the value of the investment in subsidiary Sterope Investments B.V. was mainly attributable to the following when Sichuan Shuanghong acquired the equity interest of Sterope Investments B.V. in 2006, Sichuan Shuanghong, given that Orion Co, the wholly owned subsidiary of Sterope Investments B.V. in Korea, recorded satisfactory earnings, adding the fact that this Korean company was the most outstanding PDP (plasma display panel) company in the globe at that time, considered PDP (plasma display panel) the main trend, thus acquired the equity interests of Sterope Investments B.V. at a high premium price of RMB780 million. As plasma television display technology has been continuously caught up with and taken over by liquid crystal display technology, the competitiveness of plasma televisions decreased gradually and the market share thereof shrunk year on year. The earnings of Orion Co deteriorated continuously and the company recorded significant loss. As a result, the appraised value of Orion Co decreased and the appraised value of Sichuan Shuanghong decreased more significantly.

- (2) The value of fixed assets-equipments increased by RMB14,325,720, representing an appreciation rate of 90.89%, attributable to the following:
- 1) the newness rate of machinery and equipments were higher as they were constantly under maintenance when in use. In addition, as the accounting depreciation lives were shorter than the useful lives of the equipments, the appraised value increased;
  - 2) the market value of electronic equipments were relatively lower due to quick upgrades in the market, leading to the depreciation in the original appraised value of the electronic equipments but the appraised net value increased as the economic lives of such equipments were longer than the financial depreciation lives.

X. Special Remarks:

In case of any discrepancies in English version and Chinese version of the valuation report, the Chinese version shall prevail.

Pursuant to the “Interim Measures for the Administration of Assessment of State-owned Assets of Enterprises” (SASAC Order No. 12, 2005), this assets valuation report shall be valid for a year from 31 December 2013 (i.e., the valuation base date) to 30 December 2014. A re-valuation by intermediaries is required for valuation subsequent to 30 December 2014.

Prior to use of the valuation report in this economic activity, it shall be reviewed and approved by regulatory authority of the state-owned assets.

The right of interpretation of this valuation report lies with Pan-China Assets Appraisal Co., Ltd. Any other party is not entitled to interpret this report unless otherwise explicitly stipulated and specified by laws and regulations of the State.

**Beijing Pan-China Assets Appraisal Co., Ltd.**  
*Certified Appraiser: Wang Xingjie, Shi Yingmin*  
16 April 2014

Contact method for Beijing Pan-China:

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*The following is the text of a letter and valuation certificates, prepared for the purpose of incorporation in this circular received from Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent valuer and consultant, in connection with its valuation as at 31 March 2014 of the property interests to be disposed by the Disposal Group.*



Jones Lang LaSalle Corporate Appraisal and Advisory Limited  
6/F Three Pacific Place 1 Queen's Road East Hong Kong  
tel +852 2846 5000 fax +852 2169 6001  
Licence No: C-030171

30 June 2014

The Board of Directors  
IRICO Group Electronics Company Limited  
No. 1 Caihong Road  
Xianyang City, Shaanxi Province  
The People's Republic of China

Dear Sirs,

Jones Lang LaSalle Corporate Appraisal and Advisory Limited (“**Jones Lang LaSalle**” or “**we**”) is instructed by IRICO Group Electronics Company Limited (the “**Company**”) to provide valuation service on the properties in which Xi'an IRICO Zixun Co., Ltd., Kunshan IRICO Industrial Co., Ltd. and Xi'an Cairui Display Technology Co., Ltd. (three subsidiaries of the Company, hereinafter together referred to as the “**Disposal Group**”) have interests is the PRC for disclosure purpose. We confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion on the capital values of the property interests as at 31 March 2014 (the “**valuation date**”).

Our valuation is carried out on a market value basis. Market value is defined as “the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion”.

Due to the nature of the buildings and structures of the property in Group I and the particular location in which it is situated, there are unlikely to be relevant market comparable sales and rents readily available, the relevant property interest has been valued by the Cost Approach with reference to its depreciated replacement cost.

Depreciated replacement cost is defined as “the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimization.” It is based on an estimate of the market value for the existing use of the land, plus the current cost of replacement of the improvements, less deduction for physical deterioration and all relevant forms of obsolescence and optimization. Modern equivalent asset refers to “an asset which has a similar function and equivalent productive capacity to the asset being valued, but of a current design and constructed or made using current materials and techniques”. In arriving at the value of the land portion, reference has been made to the sales evidence as available in the locality. The depreciated replacement cost of the property interest is subject to adequate potential profitability of the concerned business. In our valuation, it applies to the whole of the complex or development as a unique interest, and no piecemeal transaction of the complex or development is assumed.

For the properties in Group II, considering these properties have been leased to various third parties and similar properties sales are limited in the market, we have valued the property interests by income approach by taking into account the rental income of the properties derived from the existing lease and achievable in existing market with due allowance for the reversionary income potential of the lease, which have been then capitalized to determine the market value at an appropriate capitalization rate.

As there are comparable sales evidence available in the market, we have valued the property interest in Group III by the comparison method assuming sale of the property in its exiting state with the benefit of immediate vacant possession and by making reference to comparable sales transactions as available in the relevant market. This approach rests on the wide acceptance of the market transactions as the best indicator and pre-supposes that evidence of relevant transactions in the market place can be extrapolated to similar properties, subject to allowances for variable factors.

Our valuation has been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the value of the property interests.

No allowance has been made in our report for any charge, mortgage or amount owing on any of the property interests valued nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

In valuing the property interests, we have complied with all requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; the RICS Valuation — Professional Standards published by the Royal Institution of Chartered Surveyors; the HKIS Valuation Standards published by the Hong Kong Institute of Surveyors; and the International Valuation Standards published by the International Valuation Standards Council.

We have relied to a very considerable extent on the information given by the Disposal Group, and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have been shown copies of various title documents including the State-owned Land Use Rights Certificates and Building Ownership Certificates relating to the property interests and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing title to the property interests in the PRC and any material encumbrance that might be attached to the property interests or any tenancy amendment. We have relied considerably on the advice given by the Company's PRC legal advisers — Shaanxi Weimin Law Firm, concerning the validity of the property interests in the PRC.

We have no reason to doubt the truth and accuracy of the information provided to us by the Disposal Group. We have also sought confirmation from the Disposal Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive at an informed view, and we have no reason to suspect that any material information has been withheld.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the properties but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, we have not carried out investigation to determine the suitability of the ground conditions and services for any development thereon. Our valuation has been prepared on the assumption that these aspects are satisfactory. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defect. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defect. No tests were carried out on any of the services.

The site inspection was carried out on 14 and 15 April 2014 by Mr. Peter Cao and Ms. Ivy Zheng. Mr. Peter Cao is a qualified China Real Estate Appraiser who has 13 years of property valuation experience in the PRC, and Ms. Ivy Zheng has more than 6 years' experience in the valuation of properties in the PRC.

All monetary figures stated in this report are in Renminbi (RMB).

Our valuation is summarized below and the valuation certificates are attached.

Yours faithfully,  
for and on behalf of  
**Jones Lang LaSalle Corporate Appraisal and Advisory Limited**  
**Eddie T. W. Yiu**  
*MRICS MHKIS RPS (GP)*  
*Director*

*Note:*

Eddie T. W. Yiu is a Chartered Surveyor who has 20 years' experience in the valuation of properties in Hong Kong and the PRC as well as relevant experience in the Asia-Pacific region.

## SUMMARY OF VALUES

## Group I — Property interest held and occupied by the Disposal Group in the PRC

No.	Property	Capital value in existing state as at 31 March 2014 <i>RMB</i>	Interest attributable to the Disposal Group	Capital value attributable to the Disposal Group as at 31 March 2014 <i>RMB</i>
1.	A parcel of land, 7 buildings and various ancillary structures No. 36 Xihu Road Kunshan City Jiangsu Province The PRC	35,858,000	90%	32,272,000
	Sub-total:	<u>35,858,000</u>		<u>32,272,000</u>

## Group II — Property interests held for investment by the Disposal Group in the PRC

No.	Property	Capital value in existing state as at 31 March 2014 <i>RMB</i>	Interest attributable to the Disposal Group	Capital value attributable to the Disposal Group as at 31 March 2014 <i>RMB</i>
2.	A parcel of land, 5 buildings and various ancillary structures located at Export Processing Zone Xi'an City Shaanxi Province The PRC	28,941,000	75%	21,706,000
3.	A 2-storey street shop No. 236 Tongfeng Road West Kunshan City Jiangsu Province The PRC	1,412,000	90%	1,271,000
	Sub-total:	<u>30,353,000</u>		<u>22,977,000</u>



**Group III — Property interest under development to be returned to the Disposal Group upon completion in the PRC**

No.	Property	Capital value	Interest	Capital value
		in existing state	attributable to	attributable to
		as at	the Disposal	the Disposal
		31 March 2014	Group	Group as at
		<i>RMB</i>		<i>RMB</i>
4.	A commercial building, various apartment units and 200 underground car parking spaces No. 16 Fenghui Nan Road Hi-tech Industries Development Zone Xi'an City Shaanxi Province The PRC	No commercial value	100%	No commercial value
	Sub-total:	Nil		Nil
	Grand total:	66,211,000		55,249,000

## VALUATION CERTIFICATE

## Group I - Property interest held and occupied by the Disposal Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2014 RMB
1.	A parcel of land, 7 buildings and various ancillary structures No. 36 Xihu Road Kunshan City Jiangsu Province The PRC	<p>The property comprises a parcel of land with a site area of approximately 40,000 sq.m. and 7 buildings and various ancillary structures erected thereon which were completed in 2009.</p> <p>The buildings have a total gross floor area of approximately 13,875.44 sq.m.</p> <p>The buildings mainly include manufactory buildings, a guest room and ancillary buildings.</p> <p>The structures mainly include boundary fences, sheds and roads.</p> <p>The land use rights of the property have been granted for a term expiring on 7 March 2057 for industrial use.</p>	<p>The property is currently occupied by the Disposal Group for production purpose, except for a portion of the property with a gross floor area of approximately 900 sq.m. which is leased to a tenant for production use (refer to note 3).</p>	<p>35,858,000</p> <p>90% interest attributable to the Disposal Group: RMB32,272,000</p>

*Notes:*

1. Pursuant to a Stated-owned Land Use Rights Certificate - Kun Guo Yong (2009) Di No. 120090109004 (昆國用(2009)第120090109004號), the land use rights of a parcel of land with a site area of approximately 40,000 sq.m. have been granted to Kunshan IRICO Industrial Co., Ltd. (“**Kunshan IRICO**”, a 90% interest owned subsidiary of the Company) for a term expiring on 7 March 2057 for industrial use.
2. Pursuant to 7 Building Ownership Certificates - Kun Fang Quan Zheng Kai Fa Qu Zi Di Nos. 301122093 and 301122096 to 301122101, 7 buildings with a total gross floor area of 13,875.44 sq.m. are owned by Kunshan IRICO.
3. Pursuant to a Tenancy Agreement dated 25 February 2010, entered into between Kunshan Haoshijie Import and Export Trade Company Limited (昆山好飾界進出口貿易有限公司, “**the Lessee**”) and Kunshan IRICO, a portion of the property with a gross floor area of approximately 900 sq.m. was leased to the Lessee for a term of 1 year commencing from 1 February 2014 and expiring on 31 January 2015 at an annual rent of RMB108,000, exclusive of management fees, for production use.
4. We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal advisers, which contains, inter alia, the following:
  - a. Kunshan IRICO has legally obtained the Land Use Rights Certificate and Building Ownership Certificates of the property and is entitled to legally use, transfer, lease and mortgage the property; and
  - b. the property is not subject to mortgage or any other encumbrances.
5. The property contributes a significant portion of revenue to the Disposal Group, we are of the view that the property is the material property held by the Disposal Group:

## Details of the material property

- |  |   |  |
|--|---|--|
| (a) General description of location of the property  | : | The property is located at no. 36 Xihu Road in the Photoelectric Industrial Park of Kunshan Development Zone, which is located at the north-east of Kunshan City. It is near the Dongcheng Avenue and Shanghai Nanjing Expressway, which connects the Kunshan Development Zone to the downtown of Kunshan, Shanghai and Nanjing. |
| (b) Details of encumbrances, liens, pledges, mortgages against the property                  | : | The property is not subject to any mortgage or pledges.  |
| (c) Environmental Issue  | : | No environmental impact assessment has been carried out.   |
| (d) Details of investigations, notices, pending litigation, breaches of law or title defects | : | Nil  |
| (e) Future plans for construction, renovation, improvement or development of the property    | : | As advised by the Company, there is no plan for new major development in the next 12 months from the date of this document.  |

## VALUATION CERTIFICATE

## Group II - Property interests held for investment by the Disposal Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2014 RMB
2.	A parcel of land, 5 buildings and various ancillary structures located at Export Processing Zone Xi'an City Shaanxi Province The PRC	<p>The property comprises a parcel of land with a site area of approximately 37,455.30 sq.m. and 5 buildings and various ancillary structures erected thereon which were completed in various stages between 2005 and 2013.</p> <p>The buildings have a total gross floor area of approximately 17,834.82 sq.m.</p> <p>The buildings include 4 manufactory buildings and a research &amp; development building.</p> <p>The structures are mainly roads.</p> <p>The land use rights of the property have been granted for a term expiring in October 2054 for industrial use.</p>	<p>A portion of the property is currently leased to various tenants for production and office purposes (refer to note 4), whilst the remaining portions with a total gross floor area of approximately 7,575.21 sq.m. are vacant.</p>	<p>28,941,000</p> <p>75% interest attributable to the Disposal Group:</p> <p>RMB21,706,000</p>

*Notes:*

1. Pursuant to a Stated-owned Land Use Rights Certificate - Xi Jing Guo Yong (2004 Chu) Zi Di No. 36 (西經國用(2004出)字第36號), the land use rights of a parcel of land with a site area of approximately 37,455.30 sq.m. have been granted to Xi'an Cairui Display Technology Co., Ltd. ("Cairui Display", a 75% interest owned subsidiary of the Company) for a term of 50 years expiring in October 2054 for industrial use.
2. Pursuant to 3 Building Ownership Certificates - Xi'an Shi Fang Quan Zheng Jing Ji Ji Shu Kai Fa Qu Zi Di Nos. 1100118021-1-1, 1100118021-1-2 and 1100118021-1-3 (西安市房權證經濟技術開發區第1100118021-1-1號, 1100118021-1-2號和1100118021-1-3號), 3 buildings of the property with a total gross floor area of approximately 9,914.82 sq.m. are owned by Cairui Display.
3. As advised by the Company, the Building Ownership Certificates of the remaining 2 manufactory buildings with a total gross floor area of approximately 7,920 sq.m. are currently under application.
4. Pursuant to 5 Tenancy Agreements, portions of the property with a total gross floor area of approximately 10,259.61 sq.m. were leased to 4 tenants for various terms with the expiry dates between 14 December 2014 and 30 September 2019 at a total current annual rental of RMB1,923,481, exclusive of management fees, for office and production uses.
5. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:
  - a. Cairui Display has legally obtained the Land Use Rights Certificate and Building Ownership Certificates of the 3 buildings mentioned in note 2 and is entitled to legally use, transfer, lease and mortgage the 3 buildings;
  - b. there will be no material legal impediment for Cairui Display to obtain the Building Ownership Certificates of the 2 buildings mentioned in note 3; and
  - c. the property is not subject to mortgage or any other encumbrances.
6. In the valuation of this property, we have relied on the aforesaid legal opinion and attributed no commercial value to the 2 buildings mentioned in note 3 which are in lack of any relevant title certificates. However, for reference purposes, we are of the opinion that the capital value of them as at the valuation date would be RMB21,445,000 assuming all relevant title documents had been obtained and the buildings could be freely transferred.

7. Our valuation has been made on the following basis and analysis:
- a. we have considered the actual rents in the existing tenancy agreements and also compared with similar developments which are located in the similar areas as the subject property. We adopted the market rent when calculating (1) the reversionary rental income after the expiry of the existing leases for occupied area, and (2) the rental income of vacant area;
  - b. the unit rent of these comparables range from RMB0.5 to RMB0.6 per sq.m. per day and we have assumed a market rent of RMB0.58 per sq.m. per day for the subject property; and
  - c. based on our research on the market, the stabilised market yield ranged from 6% to 7% as at the valuation date. Considering the location, and other characteristics of the property, we have applied a market yield of 6.5% for the property as the capitalization rate in the valuation.
8. The property contributes a significant portion of revenue to the Disposal Group, we are of the view that the property is the material property held by the Disposal Group:

Details of the material property

- |     |  |   |  |
|-----|--|---|--|
| (a) | General description of location of the property  | : | The property is located at Fengcheng 12 Road in the Xi'an Export Processing Zone of Shaanxi Province. It is near the Xi'an Highway, which is of the main road of Xi'an. It takes approximately 15 minutes' driving distance to the Xi'an Xianyang International Airport, and is about 40 kilometres away from the Railway Freight Station. |
| (b) | Details of encumbrances, liens, pledges, mortgages against the property                  | : | The property is not subject to any mortgage or pledges.  |
| (c) | Environmental Issue  | : | No environmental impact assessment has been carried out.   |
| (d) | Details of investigations, notices, pending litigation, breaches of law or title defects | : | The Disposal Group has not obtained the title certificates to 2 buildings of the property (see notes 3, 5(b) and 6).   |
| (e) | Future plans for construction, renovation, improvement or development of the property    | : | As advised by the Company, there is no plan for new major development in the next 12 months from the date of this document.  |

## VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2014 RMB
3.	A 2-storey street shop No. 236 Tongfeng Road West Kunshan City Jiangsu Province The PRC	<p>The property comprises a 2-storey street shop of a composite commercial/residential building completed in about 2004.</p> <p>The property has a gross floor area of approximately 154.47 sq.m.</p> <p>The land use rights of the property were granted for a term expiring on 21 July 2032 for commercial use.</p>	The property is currently leased to a tenant for retail use (refer to note 3).	<p>1,412,000</p> <p>90% interest attributable to the Disposal Group:</p> <p>RMB1,271,000</p>

*Notes:*

1. Pursuant to a State-owned Land Use Rights Certificate - Kun Guo Yong (2004) Di No. Z01928, the land use rights of the property with an apportioned site area of approximately 31.3 sq.m. were granted to Kunshan IRICO Industrial Co., Ltd. (“**Kunshan IRICO**”, a 90% interest owned subsidiary of the Company) for a term expiring on 21 July 2032 for commercial use.
2. Pursuant to a Building Ownership Certificate - Kun Fang Quan Zheng Kai Fa Qu Zi Di No. 301006649, the property with a gross floor area of approximately 154.47 sq.m. is owned by Kunshan IRICO.
3. Pursuant to a Tenancy Agreement dated 25 February 2010, entered into between Liu Hongmei (劉洪妹, “**the Lessee**”, an independent third party) and Kunshan IRICO, the property was leased to the Lessee for a term of a year commencing from 1 April 2014 and expiring on 31 March 2015 at an annual rent of RMB82,000, exclusive of management fees, for retail use.
4. We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal advisers, which contains, inter alia, the following:
  - a. Kunshan IRICO has legally obtained the Land Use Rights Certificate and Building Ownership Certificate of the property and is entitled to legally use, transfer, lease and mortgage the property; and
  - b. the property is not subject to mortgage or any other encumbrances.
5. Our valuation has been made on the following basis and analysis:
  - a. we have considered the actual rent in the existing tenancy agreement and also compared with similar developments which are located in the similar areas as the subject property. We adopted the market rent in considering the reversionary rental income after the expiry of the existing lease;
  - b. the unit rent of these comparables range from RMB2 to RMB2.2 per sq.m. per day and we have assumed a market rent of RMB2.1 per sq.m. per day for the subject property; and
  - c. based on our research on the market, the stabilised market yield ranged from 4% to 5% as at the valuation date. Considering the location and other characteristics of the property, we have applied a market yield of 4% for the property as the capitalization rate in the valuation.



## VALUATION CERTIFICATE

**Group III - Property interest under development to be returned to the Disposal Group upon completion in the PRC**

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2014 RMB
4.	A commercial building, various apartment units and 200 underground car parking spaces No. 16 Fenghui Nan Road Hi-tech Industries Development Zone Xi'an City Shaanxi Province The PRC	<p>The property comprises a 30-storey commercial building (levels 1 to 3 are for retail use while levels 4 to 30 are for office use), various apartment units and 200 underground car parking spaces in a large commercial development known as Taihua Jinmao Guoji, which is currently under construction.</p> <p>The site area of Taihua Jinmao Guoji is approximately 41,736.7 sq.m.</p>	The property is currently under construction.	No commercial value

As advised by the Company, the property is scheduled to be completed in April 2016. Upon completion, the property will have a total gross floor area ("GFA") of approximately 44,559.83 sq.m. plus 200 lots car parking, the details of which are listed as below:

Usage	Gross Floor Area (sq.m.)
Commercial building	34,559.83
Apartment units	10,000.00
<b>Total:</b>	<b><u>44,559.83</u></b>

The land use rights of the property have been granted for a term of 50 years expiring on 25 June 2053 for commercial use.

## Notes:

- Pursuant to a Cooperation and Development Agreement and 4 supplemental agreements, entered into between Xi'an IRICO Zixun Co., Ltd. (“**IRICO Zixun**”, a wholly-owned subsidiary of the Company) and Shaanxi Taihua Property Development Co., Ltd. (陝西泰華置業發展有限公司, the “**developer**”), the land use rights of a parcel of industrial land with a site area of approximately 41,736.728 sq.m. and the original buildings and structures erected thereon (which had been demolished) were used as capital injection invested by IRICO Zixun to a real estate project developed by the developer at a consideration of RMB142,428,900. In return, IRICO Zixun will obtain certain property interest of the real estate project upon its completion at a price either of the audited cost or the stipulated price, whichever is lower, the details of which are set out as below:

Usage	GFA <sup>note 2</sup> (sq.m.)	Unit Stipulated Price
The Commercial Building	31,560	RMB7,200 per sq.m.
Apartment Units	10,000	RMB5,500 per sq.m.
Car Parking Spaces (200 lots)		RMB90,000 per lot

Pursuant to the agreements, the price difference between the amount of capital injection and stipulated price/audited cost will be paid by IRICO Zixun in cash or through reselling portions of the property to the developer.

- Pursuant to the agreements mentioned in note 1, the GFA of the property will be subject to the final official area measurement. According to the Area Measurement Record Report of the Pre-sale Property dated January 2014 《房屋預售備案面積測算報告》, the GFA of the commercial building has been increased from 31,560 sq.m. to 34,559.83 sq.m. which has been adopted in our valuation.
- Pursuant to a Stated-owned Land Use Rights Certificate - Xi Gao Ke Ji Guo Yong (2013) Di No. 34075 (西高科技國用(2013)第34075號), the land use rights of a parcel of land with a site area of approximately 41,736.70 sq.m. have been granted to the developer for a term expiring on 25 June 2053 for commercial and office uses.
- Pursuant to a Construction Work Planning Permit - Gao Xin Gui Jian Zi Di No. 2014-008, in favour of the developer, Taihua Jinmao Guoji with a total gross floor area of approximately 375,875.89 sq.m., including the property, has been approved for construction.
- Pursuant to 2 Construction Work Commencement Permits - Gao Xin Jian Nos. 2014-009 and 2014-010 in favour of the developer, permission by the relevant local authority was given to commence the construction of Taihua Jinmao Guoji with a total gross floor area of approximately 148,911.18 sq.m., including the property.
- Pursuant to a Pre-sales Permit - Shi Fang Yu Shou Zi Di No. 2014034 in favour of the developer, the developer is entitled to sell Taihua Jinmao Guoji with a total gross floor area of approximately 374,729 sq.m., including the property.
- As advised by the Company, the developer would take full charge of the development of the project (including the property) and afford for the construction cost. Except for the original capital injection mentioned in note 1, IRICO Zixun did not pay more up to the valuation date.
- As at the valuation date, the property has not been assigned to the Disposal Group and thus the title of the property has not been vested in the Disposal Group. Therefore, we have attributed no commercial value to the property. However, for reference purpose, we are of the opinion that the capital value of the property as if completed as at the valuation date would be RMB560,000,000 on condition that the relevant title certificates have been obtained by the Disposal Group and the Disposal Group is entitled to freely transfer, lease, mortgage or otherwise dispose of the property.

9. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:
- a. The cooperation and development agreements mentioned in note 1 are legal and valid; and
  - b. There will be no material legal impediment for IRICO Zixun to obtain the property.
10. The property will contribute a significant portion of revenue to the Disposal Group, we are of the view that the property is the material property to the Disposal Group:

Details of the material property

- |  |   |  |
|--|---|--|
| (a) General description of location of the property  | : | The property is located at no.16 Fenghui Nan Road in Xi'an Hi-tech Industries Development Zone which is located at the south of Xi'an City. It is about 7 kilometres away from the centre of Xi'an City. It is about 11 kilometres away from the Railway Station and about 35 kilometres away from the Xi'an Xianyang International Airport. |
| (b) Details of encumbrances, liens, pledges, mortgages against the property                  | : | As advised by the Company, the property is not subject to any mortgage or pledges.   |
| (c) Environmental Issue  | : | As advised by the Company, no environmental impact assessment has been carried out.  |
| (d) Details of investigations, notices, pending litigation, breaches of law or title defects | : | Nil  |
| (e) Future plans for construction, renovation, improvement or development of the property    | : | As advised by the Company, the property has not been assigned to IRICO Zixun, therefore, IRICO Zixun has no plan for any new major development in the next 12 months from the date of this document.   |

**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) Share Appreciation Rights Plan of Directors, Supervisors and Senior Management**

Pursuant to the share appreciation rights plan of the Company (details of which were set out in the Company's prospectus dated 8 December 2004), as at the Latest Practicable Date, the following Directors, supervisors and senior management members were granted share appreciation rights by the Company as follows:

Name	Number of Share Appreciation Rights (Shares)	Note
Guo Mengquan	400,000	Director
Zhang Junhua	530,000	Director
Tang Haobo	200,000	Supervisor
Zou Changfu	300,000	Senior Management
Ma Jianchao	200,000	Senior Management
Chu Xiaohang	200,000	Senior Management

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

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, supervisors, chief executives or senior management members of the Company and their respective associates had any interest or short position in the shares, underlying shares and/or debentures (as the case may be) of the Company and/or any of its associated corporations (within the meaning of Part XV of the SFO) which was 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), or which was otherwise required to be entered in the register of interests required to be kept by the Company pursuant to section 352 of the SFO, or which was 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. Guo Mengquan, Mr. Zhang Junhua, Mr. Si Yuncong, Mr. Huang Mingyan and Mr. Jiang Ahe act as the Directors of the Company. Mr. Guo Mengquan concurrently acts as the managing director of IRICO Group, Mr. Zhang Junhua, Mr. Si Yuncong and Mr. Huang Mingyan concurrently act as the deputy general managers of IRICO Group, and Mr. Jiang Ahe concurrently acts as the deputy chief accountant and the manager of the assets finance department of IRICO Group. Mr. Zhu Yiming acts as the Supervisor and Chairman of the Supervisory Committee of the Company, and he concurrently acts as the director, the executive deputy general manager and the chief accountant of IRICO Group.

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

**3. COMPANY SECRETARY**

Mr. Chu Xiaohang, aged 44, is the company secretary of the Company. He is responsible for the securities management, legal matters and investor relations of the Company. Mr. Chu joined the Group in July 1991. Mr. Chu obtained a master's degree and is a senior engineer, he graduated from Northwest University with a bachelor's degree in computer science and obtained a master's degree in project management from the Graduate School of Chinese Academy of Sciences. He worked at IRICO Glass Factory and served as a senior project management engineer in the strategic planning department of IRICO Group and head of the office of the board of directors of the Company. He acted as our joint company secretary of the Company from November 2009 to November 2012. On 20 November 2012, he was appointed as the sole company secretary of the Company.

**4. COMPETING INTERESTS**

As at the Latest Practicable Date, none of the Directors or, so far as is known to them, any of their respective 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 if each of them were a controlling shareholder).

**5. 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 2013 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

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

**6. NO MATERIAL ADVERSE CHANGE**

As at 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 2013 (being the date to which the latest published audited accounts of the Group have been made up).

**7. CONSENT AND QUALIFICATION OF EXPERT**

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

<b>Name</b>	<b>Qualification</b>
Beijing Pan-China	An independent valuer qualified in the PRC
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
Jones Lang LaSalle	An independent professional property valuer
Shaanxi Weimin Law Firm	A qualified PRC law firm

- (b) As at the Latest Practicable Date, the above experts 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) Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of their reports and reference to their names in the form and context in which they appear.

## 8. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors or supervisors of the Company 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)).

## 9. MATERIAL CONTRACTS

The particulars of all material contracts (not being contracts entered into in the ordinary course of business) entered into by any member of the Group within the two years immediately preceding the issue of this circular are set out as follows:

- (a) On 24 December 2013, the A Share Company entered into an equity transfer agreement in relation to the disposal of 5.01% equity interests in Western Trust Co., Ltd\* (西部信託有限公司) at a consideration of approximately RMB245,314,000 with IRICO Group.

On 24 December 2013, the A Share Company entered into an asset transfer agreement in relation to the disposal of the industrial properties and supporting facilities on the west side of 1st Caihong Road, Qindu district, Xianyang at a consideration of approximately RMB214,533,400 with Xianyang IRICO.

On 11 April 2014, the A Share Company entered into an equity transfer agreement in relation to the disposal of 51% equity interests in IRICO (Foshan) Plat Panel Display Co., Ltd\* (彩虹(佛山)平板顯示有限公司) at a consideration of RMB1 with IRICO Group.

The Previous Disposals are for the purpose of adjusting the industrial structure of the A Share Company and focusing on developing and strengthening the principal business so as to reduce the loss. For details, please refer to the announcements of the Company dated 31 July 2013, 22 August 2013, 23 August 2013, 24 December 2013 and 17 April 2014 and the circular of the Company dated 26 September 2013.

As at the Latest Practicable Date and save as disclosed above, the Directors were not aware of any material contract (not being contracts entered into in the ordinary course of business) having been entered into by any member of the Group within the two years immediately preceding the issue of this circular.



## 10. LITIGATIONS

As at the Latest Practicable Date and save as disclosed below, no member of the Group is engaged in any litigation or claims of material importance and, so far as the Directors are aware, no litigation or claims of material importance is pending or threatened against the Group.

**Claims by Fanshawe College against the Company and the A Share Company** — The Company and the A Share Company received a statement of claim from the Ontario Superior Court of Justice Canada in respect of a litigation brought by the Fanshawe College of Applied Arts and Technology (“Fanshawe College”) in August 2009 and July 2009 respectively. The plaintiff accused various global CRT manufacturing enterprises, including the Company and A Share Company, of a conspiracy to sustain, control and stabilise the price of CRT since 1 January 1998, and a collusion to manipulate the market and to enter into agreements raising the price of CRT to an unreasonable level. As at the Latest Practicable Date, the claim amount has not been determined by the plaintiff. The Company’s preliminary assessment is that the claim will not pose any negative impact on the normal business operation of the Group.

**Claims by Curtis Saunders against the Company and the A Share Company** — In January 2010, IRICO Group, the Company and the A Share Company received a statement of class action from Vancouver Registry of the Supreme Court of British Columbia, Canada. Curtis Saunders, the plaintiff, accused over 50 global CRT manufacturing enterprises, including IRICO Group, the Company and A Share Company, of a conspiracy or a collusion to enter into agreements raising the price of CRT to an unreasonable level and lifting the profits from selling CRT products from 1 January 1995 to 1 January 2008. As at the Latest Practicable Date, the claim amount has not been determined by the plaintiff. The Company’s preliminary assessment is that the claim will not pose any negative impact on the normal business operation of the Group.

**Claims by American Crago Company against the A Share Company** — In January 2008, the A Share Company, a subsidiary of the Company, received a statement of class action from the U.S. District Court, Northern District of California in respect of a class action being brought by American Crago Company on behalf of itself and other companies for the similar issue. The plaintiff accused various CRT manufacturing enterprises, including A Share Company, of a conspiracy to control the market which was in violation of antitrust law. As at the Latest Practicable Date, the claim amount has not been determined by the plaintiff. The Company and the A Share Company’s preliminary assessment is that the claim will not pose any negative impact on the normal business operation of the Group.

Save as previously disclosed by the Company, there has been no material progress of the above pending litigations up to the Latest Practicable Date.

**11. DOCUMENTS FOR INSPECTION**

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

- (a) the articles of association of the Company
- (b) the letter from the Independent Board Committee, the text of which is set out in this circular;
- (c) the letter from Octal Capital, the text of which is set out in this circular;
- (d) the written consents referred to in section 7 of this Appendix IX above;
- (e) the annual reports of the Group for each of the two years ended 31 December 2012 and 31 December 2013;
- (f) the property valuation reports referred to in this circular, the text of which is set out in Appendix VIII of this circular;
- (g) the material contracts referred to in section 9 of this Appendix IX;
- (h) the IRICO ZiXun Disposal Agreement;
- (i) the Kunshan IRICO Disposal Agreement;
- (j) the Cairui Display Disposal Agreement;
- (k) the Sichuan Shuanghong Disposal Agreement;
- (l) the Land Cooperation and Development Agreement;
- (m) the PRC Valuation Reports in respect of each of IRICO Zixun, Kunshan IRICO, Cairui Display and Sichuan Shuanghong; and
- (n) a copy of each circular issued pursuant to the requirements set out in Chapter 14 and/or 14A which has been issued since the date of the latest published audited accounts of the Company.



彩虹集團電子股份有限公司  
**IRICO GROUP ELECTRONICS COMPANY LIMITED\***  
*(A joint stock company incorporated in the People's Republic of China with limited liability)*

(Stock Code: 0438)

**NOTICE OF THE 2014  
FIRST EXTRAORDINARY GENERAL MEETING**

**NOTICE IS HEREBY GIVEN** that the 2014 first extraordinary general meeting (“EGM”) of IRICO Group Electronics Company Limited (the “**Company**”) will be held at 10:00 a.m. on Tuesday, 19 August 2014 at the conference room of the Company at No. 1 Caihong Road, Xianyang, Shaanxi Province, the People's Republic of China (the “**PRC**”) for the purposes of considering the following matters.

Unless otherwise indicated, capitalized terms used in this notice shall have the same meanings as defined in the circular of the Company dated 30 June 2014.

**ORDINARY RESOLUTIONS**

1. “**THAT:** the Company is hereby authorised to dispose the IRICO Zixun Interest, the Kunshan IRICO Interest and the Cairui Display Interest to Xianyang IRICO, in accordance with major terms and conditions as set out in the Circular; and any one of the Director or his prox(ies) be and are hereby authorised to proceed with and complete the IRICO Zixun Disposal, the Kunshan IRICO Disposal and the Cairui Display Disposal and to exercise all the powers of the Company and to do all things and acts and execute and deliver all agreements and documents, as may be necessary, desirable or expedient to carry out or to give effect to any or all transactions in connection with the IRICO Zixun Disposal, the Kunshan IRICO Disposal and the Cairui Display Disposal and, where necessary, affix the common seal of the Company on such documents.”
2. “**THAT:** the Company is hereby authorised to dispose the Sichuan Shuanghong Interest to IRICO Group, in accordance with major terms and conditions as set out in the Circular; and any one of the Director or his prox(ies) be and are hereby authorised to proceed with and complete the Sichuan Shuanghong Disposal, and to exercise all the powers of the Company and to do all things and acts and execute and deliver all agreements and documents, as may be necessary, desirable or expedient to carry out or to give effect to any or all transactions in connection with the Sichuan Shuanghong Disposal and, where necessary, affix the common seal of the Company on such documents.”

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## NOTICE OF THE EGM

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By order of the Board

**Chu Xiaohang**

*Company Secretary*

Shaanxi Province, the PRC

30 June 2014

*As at the date of this announcement, the Board consists of Mr. Guo Mengquan and Mr. Zhang Junhua as executive Directors, Mr. Si Yuncong, Mr. Huang Mingyan and Mr. Jiang Ahe as non-executive Directors, and Mr. Xu Xinzong, Mr. Feng Bing, Mr. Wang Jialu and Mr. Wang Zhicheng as independent non-executive Directors.*

*Notes:*

- (i) H Shareholders of the Company whose names appear on the Company's register of members at the close of business on Friday, 18 July 2014 are eligible to attend the EGM after completing the registration procedures for attending the EGM, and are entitled to appoint one or more proxies, to attend and vote on his behalf at the EGM according to the articles of association of the Company. A proxy need not be a Shareholder of the Company.
- (ii) The appointment of the proxy by completing the enclosed "Proxy Form for the 2014 First Extraordinary General Meeting to be held on 19 August 2014" (the "**Proxy Form**") must be in writing by hand of the appointer or his attorney duly authorized in writing. If the Proxy Form is signed by the attorney or any other person authorized by the appointer, the power of attorney or other authority must be notarised. If the appointer is a corporation, the Proxy Form shall be executed under seal or shall be executed by its director or a duly authorised person. In respect of the Company's H Shareholders, the notarised power of attorney or other authority together with the Proxy Form must be delivered to Hong Kong Registrars Limited no less than 24 hours prior to the time designated for convening the EGM or 24 hours before the time designated for taking the poll. The address of Hong Kong Registrars Limited is as follows: Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (iii) Shareholder or proxy attending the EGM should produce his/her identity certificate.
- (iv) The H share register of the Company will be closed from Saturday, 19 July 2014 to Tuesday, 19 August 2014 (both days inclusive), during which no transfer of the Company's H shares will be effected. H Shareholders of the Company intending to attend the EGM are required to lodge their respective instrument(s) of transfer and the relevant share certificate(s) to the Company's H share registrar, Hong Kong Registrars Limited by 4:30 p.m. on Friday, 18 July 2014.
- (v) Shareholder who intends to attend the EGM should complete the reply slip for attending the meeting and return it to the Company on or before Tuesday, 29 July 2014. The address of the Company is as follows: No. 1 Caihong Road, Xianyang, Shaanxi Province, the PRC. Reply slip can be delivered to the Company in person, by post or by facsimile. The facsimile no. is (86) 29 3333 3852.
- (vi) Voting at the EGM will be taken by poll.
- (vii) The EGM is expected to last for half a day. Shareholders (in person or by proxy) attending the EGM are responsible for their own transportation and accommodation expenses.

\* *For identification purpose only*