

26 September 2022

*To the Independent Board Committee and the Independent Shareholders*

Dear Sirs,

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

**INTRODUCTION**

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the revision of Existing Annual Caps to the Proposed Revised Annual Caps under the Zhongdian IRICO Master Purchase Agreement for the three years ending 31 December 2024, particulars of which are set out in the letter from the Board (the “**Letter from the Board**”) of the circular to the Shareholders dated 26 September 2022 (the “**Circular**”) and in which this letter is reproduced. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as given to them under the definitions section of the Circular.

With reference to the Purchase Agreement Announcement, on 26 October 2021, the Company and Zhongdian IRICO entered into the Zhongdian IRICO Master Purchase Agreement in respect of the purchase of raw materials for solar photovoltaic business, production line facilities and installation services, kinetic operation and maintenance services and medical examination services and others by the Group from Zhongdian IRICO and its associates for the three years ending 31 December 2024. The aforesaid transactions were approved by the then independent Shareholders on 31 December 2021. The Existing Annual Caps are RMB184,902,000, RMB246,156,000 and RMB234,103,000 respectively for each of the three years ending 31 December 2024.

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

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

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

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

We, Octal Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect. We are not connected with the directors, chief executive and substantial shareholders of the Group, Zhongdian IRICO or any of their respective subsidiaries or associates and do not have any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group as at the Latest Practicable Date and therefore is considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholders.

During the last two years, we were engaged as an independent financial adviser to the Company (the "Previous Engagements") in respect of (i) the disposal of the equity interests in three subsidiaries to IRICO Group and an associate company to Zhongdian IRICO and the purchase of the system equipment and related services by IRICO (Hefei) Photovoltaic Co., Ltd. from IRICO Group, details of which were stated in the circular of the Company dated 8 December 2020; and (ii) the renewal of the continuing connected transactions with IRICO Group and Zhongdian IRICO respectively, details of which were stated in the circular of the Company dated 15 December 2021. Under the Previous Engagements, we were required to express our opinion on and give recommendation to the Independent Board Committee and/or the Independent Shareholders in respect of the relevant transactions. Apart from normal professional fees payable to us by the Company in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company or the directors, chief executive and substantial shareholders of the Group or Zhongdian IRICO or any of their respective subsidiaries or associates.



In formulating our opinion, we have relied on the accuracy of the information and representations contained in the Circular and have assumed that all information and representations made or referred to in the Circular were true at the time they were made and continue to be true as at the Latest Practicable Date. We have also relied on our discussion with the management of the Company regarding the Group, including the information and representations contained in the Circular. We have also assumed that all statements of belief, opinion and intention made by the Directors and management of the Company in the Circular were reasonably made after due enquiry. We consider that we have reviewed sufficient information to reach an informed view, to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice, among other things, (i) the Zhongdian IRICO Master Purchase Agreement; (ii) the Purchase Agreement Announcement and the Purchase Agreement Circular; (iii) the development plan of the Group for the three years ending 31 December 2024; (iv) list of potential projects; (v) samples of reference document referred by the Company in determining the Proposed Revised Annual Caps; (vi) the annual report of the Company for the year ended 31 December 2021; (vii) internal control policies governing the connected transactions of the Company; and (viii) other information as set out in the Circular. We have no reason to suspect that any material facts have been omitted or withheld from the information contained or opinions expressed in the Circular nor to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and management of the Company. We have not, however, conducted an independent in-depth investigation into the business and affairs of the Group, Zhongdian IRICO and their respective controlling shareholder(s) and associates nor have we carried out any independent verification of the information supplied.

#### PRINCIPAL FACTORS AND REASONS CONSIDERED

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

##### A. Background information on the parties

###### *The Company and the Group*

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

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

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

Source: 2021 Annual Report

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

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

### *Prospects and industry overview of the Group*

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

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

### *Zhongdian IRICO*

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



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

Reference is made to the Purchase Agreement Circular, among other things, the Zhongdian IRICO Master Agreement entered into between the Company and Zhongdian IRICO, pursuant to which the Group shall purchase raw materials for solar photovoltaic business, production line facilities and installation services, other kinetic operation and maintenance services and medical examination services and others from Zhongdian IRICO and its associates, for a term commenced on 1 January 2022 to 31 December 2024. The transactions contemplated under the Zhongdian IRICO Master Agreement, among others, were approved by the then independent shareholders of the Company on 31 December 2021.

Under the Zhongdian IRICO Master Agreement, the prices of materials of solar photovoltaic business shall be determined in accordance with the following order: (i) the prevailing prices being offered or charged by independent third parties in the ordinary and usual course of business for the sales or purchases of the same or similar type of products in the selling or purchasing places or its nearby regions; or (ii) the prevailing prices being offered or charged by independent third parties in the ordinary and usual course of business for the sales or purchases of the same or similar type of products in the PRC (the “Market Price”). Upon receipt of quotations from Zhongdian IRICO, the designated persons of the Group will ascertain the prices offered or charged by independent third parties, generally by way of obtaining quotations for a comparable volume of same or similar category of products from at least two independent third parties via emails, fax, phone or tenders by publishing tender notice via various media resources (for instance, the local newspapers), and take average of such quotations as the Market Price. The selling price of each category of products will be reviewed by the procurement department of the Group and submitted to the head of such department for approval.

The prices for production line facilities and installation services, kinetic operation and maintenance services and medical examination services shall be determined in accordance with (i) where there is guidelines for prices of equipment installation services, kinetic operation and maintenance services and medical examination services under the Zhongdian IRICO Master Purchase Agreement as prescribed in the notices published by Shaanxi Provincial Price Bureau, Shaanxi Provincial Development and Reform Commission and other relevant regulatory authorities from time to time (the “Government-prescribed Price”), in respect of the procurement of the production line facilities and installation services, kinetic operation and maintenance services and medical examination services, the prices shall be determined based on arm’s length negotiations between the independent third parties with reference to the Government-prescribed Price; or (ii) where there is no Government-prescribed Price, the prices shall be determined based on arm’s length negotiations between the independent third parties with reference to reasonable costs incurred plus reasonable profit of around 5–10% of such reasonable cost (as calculated under the Accounting Standards for Business Enterprises of the PRC and the Directors are of the view that such profit is fair and reasonable). The reasonable costs primarily include raw materials, labour, taxation, management fee, etc. To ensure that prices to be charged by Zhongdian IRICO are no less favourable than those available from independent third parties, the designated persons of the Group will make comparison with relevant prices charged by independent third parties in the same or nearby region or the actual costs incurred. In case there is an adjustment to the prices of production line facilities and installation services, kinetic operation and maintenance services and medical examination services as prescribed in the notices published by Shaanxi Provincial Price Bureau, Shaanxi Provincial Development and Reform Commission and other relevant regulatory authorities, the prices will be adjusted correspondingly based on arm’s length negotiations between Zhongdian IRICO and the Company. The quotation of production line facilities and installation services, kinetic operation and maintenance services and medical examination services will be reviewed by the procurement department of the Company and submitted to the head of such department for approval.

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

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

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

*Business*

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

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

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



*Potential projects of the Company*

With reference to the Purchase Agreement Circular, apart from the production of existing production line, the Company expected (i) the first production line in Xianyang will reach its full production capacity in 2022; (ii) the second and third production line in Xianyang will reach its full production capacity in 2023; (iii) the fourth and fifth production line in Xianyang will reach its full production capacity in 2024; (iv) the first furnace in Shangrao will reach its full production capacity in the first quarter of 2023; and (v) the second furnace in Shangrao will reach its full production capacity in the third quarter of 2023. It is further expected by the Company that ten ultra-thin and high-transmissivity photovoltaic glass furnaces and supporting processing production lines will be constructed by the end of the “Fourteenth Five-year” period in 2025 and production capacity of solar photovoltaic glass products will be boosted to approximately 300.0 million square meters per year for the year ending 31 December 2025 from approximately 82.0 million square meters per year for the year ending 31 December 2021, representing an estimated compound annual growth of approximately 38.3% from 2021 to 2025 (the “**2021 Development Plan**”).

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

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

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

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

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

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

D. Annual Caps and the Proposed Revised Annual Caps

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



*Utilisation of the Existing Annual Caps*

With reference to the basis of determination of Existing Annual Caps as set out in the Purchase Agreement Circular and the breakdown of the purchase of the raw materials under the Zhongdian IRICO Master Purchase Agreement provided by the management of the Company, we noted that Existing Annual Caps were determined based on (i) the sales of solar photovoltaic glass increased rapidly by approximately 114% from February 2021 to August 2021; (ii) the revenue from the two major customers for the six months ended 30 June 2021 who purchased from the products of photovoltaic glass business increased by approximately 140% as compared to the same period of previous year; (iii) achieved mass sales due to the solar photovoltaic glass product have been accredited by top ten domestic users and the Company received awards for the achievements in self-developed “photovoltaic glass oxygen-fuel combustion furnace technology with an output of 750 tones and industrialization” (iv) the increase of total production capacity of solar photovoltaic glass by approximately 31.1 million sqm, 104.9 million sqm and 82.0 million sqm in 2022, 2023 and 2024, respectively, and Yan’an, Hefei and Xianyang production capacity is expected to increase from approximately 82.0 million sqm in 2021 to 113.1 million sqm, 155.9 million sqm and 161.0 million sqm in 2022, 2023 and 2024, respectively; (v) usual practice of the Group to keep inventory of solar photovoltaic glass in stock; (vi) the existing production lines and the production facilities in the 2021 Development Plan requires to operate 24 hours, hence the Company expects it will fully utilise on its production capacity of the existing production lines and new production lines in the 2021 Development Plan as well as increase production volume of solar photovoltaic glass to cope with the market demand in the coming years; and (vii) the favourable government policies.

As advised by the Company, save for the events to be mentioned below, the Existing Annual Caps has taking into account the above factors and the 2021 Development Plan. The Company considered that there is no material change in circumstance which will leading to change in 2021 Development Plan and the Existing Annual Caps.

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

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

***Basis of determination of the Proposed Revised Annual Caps***

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

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

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



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

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

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



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

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



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

**E. Pricing policy and internal control measures within the Group**

The prices for production line facilities and installation services, kinetic operation and maintenance services and medical examination services shall be determined in accordance with the following policies:

- (a) where there is Government-prescribed Price, the prices shall be determined based on arm's length negotiations between the independent third parties with reference to the Government-prescribed Price; or
- (b) where there is no Government-prescribed Price, the prices shall be determined based on arm's length negotiations between the independent third parties with reference to reasonable costs incurred plus reasonable profit of around 5–10% of such reasonable cost (as calculated under the Accounting Standards for Business Enterprises of the PRC and the Directors are of the view that such profit is fair and reasonable). The reasonable costs primarily include raw materials, labour, taxation, management fee, etc.

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

We have discussed with the management of the Company and understood the process of price determination. Based on our enquiry on the price comparison process and upon our review of the Company's internal control manual, we understood that upon receipt of quotations from Zhongdian IRICO, the designated persons of the Group will ascertain the prices offered or charged by independent third parties, generally by way of obtaining quotations for a comparable volume of same or similar category of products or services from at least two independent third parties via emails, fax, phone or tenders by publishing tender notice via various media resources (for instance, the local newspapers), and take average of such quotations as the market price.

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

## RECOMMENDATION

In view of the above principal factors and reasons, we are of the view that the Proposed Revised Annual Caps is fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. We, therefore, recommend the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favor of the ordinary resolution to be put forward at the EGM in relation to the Proposed Revised Annual Caps.

Yours faithfully,  
For and on behalf of  
Octal Capital Limited



Alan Fung  
Managing Director



Louis Chan  
Director

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

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