



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

IRICO

(A joint stock company incorporated in the People's Republic of China with limited liability)
(Stock Code: 0438)

INTERIM
REPORT 2017

* For identification purpose only

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I. RESULTS HIGHLIGHTS

Item <i>(RMB'000)</i>	First half of 2017	First half of 2016	Increase (decrease)	Percentage change (%)
Turnover	989,693	826,707	162,986	19.72
Gross profit	91,116	96,971	(5,855)	(6.04)
Operating profit	64,680	26,837	37,843	141.01
Profit before income tax	42,797	32,359	10,438	32.26
Profit for the period	46,744	32,481	14,263	43.91
Attributable to:				
Equity attributable to owners of the Company	44,104	32,751	11,353	34.66
Non-controlling interests	2,640	(270)	2,910	(1077.78)
Total comprehensive income for the period	8,824	66,166	(57,342)	(86.66)
Attributable to:				
Equity attributable to owners of the Company	6,184	66,436	(60,252)	(90.69)
Non-controlling interests	2,640	(270)	2,910	(1077.78)
Gearing ratio	95%	95%	0%	N/A

II. MANAGEMENT DISCUSSION AND ANALYSIS

(I) INDUSTRY ANALYSIS

1. *Solar photovoltaic power stations*

During the reporting period, the global installed capacity of solar photovoltaic power continued to grow. Newly installed capacity of photovoltaic power in the PRC was approximately 24GW, representing a year-on-year increase of 9%, including 7GW of installed capacity in distributed photovoltaic power stations, representing a year-on-year increase of nearly three times. As at the end of June 2017, the total installed capacity of photovoltaic power in the PRC has reached 102GW and continued to rank the first globally.

According to the “Guidelines on the Implementation of the 13th Five-Year Development Plan for Renewable Energy” (《關於可再生能源發展“十三五”規劃實施的指導意見》) officially issued by the National Energy Administration on its website, the average annual installed capacity in China will amount to over 34GW in the coming years, still maintaining at a relatively high installed capacity.

2. *Solar photovoltaic glass*

During the reporting period, the solar photovoltaic glass market demand has maintained its growth trend, but the sales price of photovoltaic glass in the beginning of 2017 has decreased as affected by new addition of production capacity. However, the average sales price in the second quarter has slightly picked up due to continuous increase in market demand.

According to a report recently published by Markets and Markets, a market research firm, the global solar photovoltaic glass market is expected to reach USD4.3 billion in 2017, and to grow to USD18.4 billion in 2022, representing a compound annual growth rate of 33%.

3. *New materials*

Driven by the rapid development of new energy electric vehicles, the lithium battery industry grew vigorously. Lithium battery anode materials reached a compound annual growth rate of 41%. The market demand for lithium battery anode materials is growing in a fast pace.

(II) BUSINESS REVIEW

1. *Operation highlights*

During the reporting period, IRICO Group New Energy Company Limited* (the “**Company**”) and its subsidiaries (collectively, the “**Group**”) increased sales by approximately 20% over the same period of last year by promoting lean production and implementing large customer and high quality customer strategies. The production capacity of solar photovoltaic glass grew continuously, the yield from production lines increased substantially, and the production cost decreased significantly with remarkable results from inventory reduction; the operations of photovoltaic power station projects were smooth, scale construction was actively in progress, at the same time the power purchase and sales business was launched; the business of new materials such as lithium battery anode materials grew rapidly.

During the reporting period, the Group recorded sales of RMB989,693,000, representing an increase of RMB162,986,000 or growth of 19.72% as compared with the same period of last year, of which an increase of RMB127,204,000 in photovoltaic business, an increase of RMB44,808,000 in new materials business and a decrease of RMB8,803,000 in trading business were recorded as compared with the same period of last year.

2. Business review

(1) Solar photovoltaic business

- Solar photovoltaic glass

During the reporting period, the Group's solar photovoltaic glass business continued to expand. Production and sales further increased as compared with the corresponding period of last year, and the yield rate of products has improved steadily and reached the advanced standard in the industry. Our work on cost reduction, efficiency improvement and lean production proceeded smoothly.

Meanwhile, the construction of 800-850T/D Yan'an photovoltaic glass project progressed well, and the expansion of 800T/D Hefei photovoltaic glass project phase II was expected to be put into production in the third quarter of 2017 as scheduled. As for the relocation project of 800T/D Xianyang photovoltaic glass production lines, project survey and demonstration were both completed, and the procedure of company registration is in progress.

- Solar photovoltaic power station

During the reporting period, the Group has aggressively promoted the tracking and construction of distributed and ground-mounted centralized photovoltaic power station projects, with about 148MW projects involving investigation and research, and currently, contracts for projects of about 58MW have been signed. During the reporting period, the Group has completed the construction of photovoltaic power stations in Nanjing, Liqun, Hefei, Wuhan, etc. In the coming two years, the Group will successively invest in the construction of distributed photovoltaic power station projects in Xianyang Liqun Park, Hefei, Nanjing, Yan'an, etc., as well as ground-mounted centralized photovoltaic power station projects in Shenmu, Yangjiang, Leizhou, etc. The Group also plans to invest through cooperation in the construction of photovoltaic power station projects in Indonesia, India, Africa, Pakistan and other overseas markets. Meanwhile, the Group is actively promoting its power purchasing and sales business.

- Quartz sand processing

During the reporting period, the Group's Hanzhong Quartz Sand Mine has achieved steady supply to the photovoltaic glass plants and new photovoltaic glass projects of the Group, gradually showing the effect of industry chain synergies.

(2) *New materials business*

During the reporting period, the Group's lithium battery anode materials business grew rapidly, representing an increase of more than 40% in production and sales volume as compared with the same period of last year, and product yield rate has become much higher. The Group intends to develop this business and attain a better and stronger position by further enhancing product quality and customer satisfaction.

(3) *Trading and other businesses*

During the reporting period, the operations of the Group's trading and other businesses were steady.

(III) FINANCIAL REVIEW

1. Overall performance

During the reporting period, the Group's main business grew strongly, with sales of RMB989,693,000, representing an increase of RMB162,986,000 or 19.72% growth as compared with the same period of last year. The profit before tax was RMB42,797,000, representing a year-on-year increase of RMB10,438,000 or 32.26% growth. Despite the impacts of decline in photovoltaic glass prices and rising financing costs, the Group achieved rapid growth in sales and profits by actively expanding the scale of photovoltaic glass business, reducing cost and enhancing efficiency, and applying for government subsidies.

2. Business results

1) Unaudited profit and loss

	For the six months ended 30 June			
	2017	2016	Increase (decrease)	Percentage change
<i>(RMB'000)</i>				<i>(%)</i>
Turnover	989,693	826,707	162,986	19.72
Solar photovoltaic business	592,538	465,334	127,204	27.34
New materials business	147,052	102,244	44,808	43.82
Trading business	250,103	258,906	(8,803)	(3.40)
Others	0	223	(223)	(100.00)
Cost of sales	(898,577)	(729,736)	(168,841)	(23.14)
Gross profit	91,116	96,971	(5,855)	(6.04)
Administrative expenses	(58,384)	(59,958)	1,574	2.63
a) General administrative expenses	(54,928)	(58,535)	3,607	6.16
b) Research and development expenses	(3,456)	(1,600)	(1,856)	(116.00)
Selling and distribution expenses	(43,285)	(41,501)	(1,784)	(4.30)
Other operating expenses	(7,482)	(7,166)	(316)	(4.41)
Operating profit	64,680	26,837	37,843	141.01
Financing costs	(33,258)	(13,475)	(19,783)	(146.81)
Profit for the period	46,744	32,481	14,263	43.91
Attributable to:				
Equity attributable to owners of the Company	44,104	32,751	11,353	34.66
Non-controlling interests	2,640	(270)	2,910	1,077.78
Total comprehensive income for the period	8,824	66,166	(57,342)	(86.66)

2) *Turnover*

Turnover by product (RMB'000)

	For the six months ended 30 June			
	2017	2016	Increase (decrease)	Percentage change
(RMB'000)				(%)
Turnover	989,693	826,707	162,986	19.72
Solar photovoltaic business	592,538	465,334	127,204	27.34
New materials business	147,052	102,244	44,808	43.82
Trading business	250,103	258,906	(8,803)	(3.40)
Others	0	223	(223)	(100.00)

3. ***Changes compared with the corresponding period of last year and reasons***1) *Turnover and profit*

In the first half of 2017, the Group recorded a turnover of RMB989,693,000, representing an increase of RMB162,986,000 or 19.72% as compared with the corresponding period of last year. In particular, turnover from solar photovoltaic business amounted to RMB592,538,000, representing an increase of RMB127,204,000 or 27.34% as compared with the corresponding period of last year; turnover from new materials business amounted to RMB147,052,000, representing an increase of RMB44,808,000 or 43.82% as compared with the corresponding period of last year; and turnover from trading business amounted to RMB250,103,000, representing a decrease of RMB8,803,000 or 3.4% as compared with the corresponding period of last year.

In the first half of 2017, the Group realised a profit before tax of RMB42,797,000, representing a year-on-year increase of RMB10,438,000 or 32.26%. Despite the impacts of decline in photovoltaic glass prices and rising financing costs, the Group achieved rapid growth in sales and profits by actively expanding the scale of photovoltaic glass business, reducing cost and enhancing efficiency, and applying for government subsidies.

2) *Administrative expenses*

The Group's administrative expenses for the first half of 2017 amounted to RMB58,384,000, representing a decrease of RMB1,574,000 or 2.63% as compared with the corresponding period of last year. The decrease in administrative expenses was mainly attributable to the enhancement in expense management and control of the Group.

3) *Finance costs*

The Group's finance costs included in profit and loss for the first half of 2017 was RMB33,258,000, representing an increase of RMB19,783,000 or 146.81% as compared with the corresponding period of last year. The increase in finance costs was mainly attributable to the impacts of the increase in borrowings and capitalization of interest in IRICO (Hefei) Photovoltaic Co., Ltd..

4. *Current assets and financial resources*

As at 30 June 2017, the Group's cash and bank balances amounted to RMB137,119,000, representing a decrease of RMB291,059,000 or 67.98% from RMB428,178,000 as at 31 December 2016.

For the six months ended 30 June 2017, the Group's net cash outflow from operating activities amounted to RMB199,457,000 (30 June 2016: net cash inflow from operating activities of RMB4,587,000), while net cash inflow from financing activities and net cash outflow from investing activities were RMB92,348,000 (30 June 2016: RMB105,413,000) and RMB183,882,000 (30 June 2016: RMB78,875,000) respectively. The Group's capital expenditures amounted to RMB131,139,000 in total (30 June 2016: RMB85,847,000).

As at 30 June 2017, the Group's total borrowings amounted to RMB2,250,485,000, of which borrowings due within one year amounted to RMB1,837,685,000 and borrowings due beyond one year amounted to RMB412,800,000. As at 31 December 2016, the Group's total borrowings amounted to RMB2,069,294,000, of which borrowings due within one year amounted to RMB1,552,684,000 and borrowings due beyond one year amounted to RMB516,610,000.

As at 30 June 2017, the Group's bank loans amounting to approximately RMB291,317,000 (31 December 2016: RMB137,500,000) were secured by certain properties, plants and equipment, land use rights and available-for-sale financial assets of the Group.

For the six months ended 30 June 2017, the turnover days for accounts receivables of the Group was 140 days, representing a decrease of 15 days as compared with the corresponding period of last year, which was mainly attributable to the strengthening of management over trade receivables by the Company.

For the six months ended 30 June 2017, the inventory turnover days of the Group was 29 days, representing an increase of 2 days as compared with the corresponding period of last year, which was mainly attributable to the merger of Jiangsu IRICO Yongneng New Energy Company Limited* (江蘇彩虹永能新能源有限公司) (formerly known as Jiangsu Yongneng Photovoltaic Technology Company Limited, “**Jiangsu Yongneng**”) and the increase in inventory of Hefei Photovoltaic Glass.

5. Capital structure

As at 30 June 2017, the Group's borrowings were mainly denominated in Renminbi and US dollars, while its cash and bank balances were held in Renminbi, Hong Kong dollars and US dollars. The Group intends to maintain a suitable ratio of share capital to liabilities to ensure an effective capital structure. As at 30 June 2017, the liabilities (including bank borrowings and other borrowings) of the Group totaled RMB2,250,485,000 (31 December 2016: RMB2,069,294,000); the cash and bank balances were RMB137,119,000 (31 December 2016: RMB428,178,000); and the gearing ratio was 95% (31 December 2016: 96%).

6. Interim dividend

As there was no accumulated operating surplus in the first half of 2017, the board of directors (the “**Board**”) of the Company has resolved not to distribute any interim dividend for the six months ended 30 June 2017.

7. Foreign exchange risk

The Group’s income and most of its expenses were denominated in Renminbi and US dollar. For the six months ended 30 June 2017, the operating costs of the Group decreased by RMB931,000 (30 June 2016: decreased by RMB639,000) as a result of exchange rate fluctuations. Exchange rate fluctuations had no material effect on the Group’s working capital or liquidity.

8. Commitments

As at 30 June 2017, capital expenditure commitments of the Group amounted to RMB595,856,000 (31 December 2016: RMB214,384,000).

9. Contingent liabilities

As at 30 June 2017, the Group had no material contingent liabilities.

10. Pledged assets

As at 30 June 2017, bank loans amounted to approximately RMB291,317,000, which were secured by certain properties, plants and equipment, land use rights, available-for-sale financial assets and bank balances of the Group with a net carrying amount of approximately RMB384,297,000.

As at 31 December 2016, bank loans amounted to approximately RMB137,500,000, which were secured by certain properties, plants and equipment, land use rights, available-for-sale financial assets and bank balances of the Group with a net carrying amount of approximately RMB306,503,000.

III. OTHER INFORMATION

(I) INTERESTS AND SHORT POSITIONS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES

As of 30 June 2017, none of the directors (the “**Directors**”), supervisors (the “**Supervisors**”) or chief executives of the Company and their respective associates held an interest and short position in shares, underlying shares and/or debentures of the Company and/or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the “**SFO**”)) which were (a) required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which such directors, supervisors, chief executives or senior management personnel were taken or deemed to have under such provisions of the SFO); or (b) required to be recorded in the register of interests kept by the Company pursuant to section 352 of the SFO; (c) required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the “**Model Code**”) as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”).

During the reporting period, no directors, chief executives, supervisors, senior management or their spouses and minor children under 18 was vested by the Company any right to subscribe shares or bonds of the Company or any associated corporation (as defined in the SFO).

(II) INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS

So far as the Directors are aware, each of the following persons, not being a Director, Supervisor or chief executive of the Company had an interest or short position in the Company's shares or underlying shares (as the case may be) as at 30 June 2017 and as recorded in the register of members to be kept pursuant to section 336 of the SFO:

China Electronics Corporation Limited, through IRICO Group Corporation, had interests in 1,601,468,000 domestic shares of the Company (representing 100% of the domestic share capital of the Company), whereas HKSCC Nominees Limited had interests in 628,743,589 H shares of the Company (representing 99.65% of the H share capital).

Si Yuncong and Huang Mingyan are Directors of the Company. Si Yuncong concurrently serves as the general manager of IRICO Group Corporation. Ding Wenhui is the Supervisor and the chairman of the supervisory committee of the Company and concurrently serves as the deputy secretary of the Communist Party Committee, the deputy secretary of Discipline Inspection Committee and the chairman of Employee Union of IRICO Group Corporation.

Notes:

As at 30 June 2017, based on the information available to the Directors and as far as the Directors are aware, HKSCC (Nominees) Limited held 628,743,589 H Shares, among which:

Baystar Capital II, L.P. had beneficial interests in 49,554,000 H Shares of the Company (representing approximately 7.85% of the issued H shares of the Company). Each of Baystar Capital Management LLC, Mr. Derby Steven P., Mr. Goldfarb Lawrence and Mr. Lamar Steven M. was deemed to be interested in the same tranche of H shares by virtue of their direct or indirect control of Baystar Capital II, L.P..

J.P. Morgan Fleming Asset Management Holdings Inc. held 33,742,000 H shares of the Company (representing 5.35% of the issued H shares of the Company) in the capacity of investment manager and through its controlled corporations, of which 33,198,000 H shares of the Company were held by JF Asset Management Limited and 544,000 H shares of the Company were held by JF International Management Inc..

Pictet Asset Management Limited held direct interests in 27,488,000 H shares of the Company (representing approximately 4.36% of the share capital of H shares) on behalf of Pictet Funds Asian Equities (holding interests in 28,504,000 shares).

(III) AUDIT COMMITTEE

The Company established an audit committee under the Board (the “**Audit Committee**”). The Board adopted all contents set out in code provision C.3.3 of the CG Code as the terms of reference of the Audit Committee. The Audit Committee has considered and reviewed the accounting standards and methods adopted by the Company and other matters relating to auditing, risk management and internal controls as well as financial reporting, including the unaudited condensed interim consolidated financial statements for the six months ended 30 June 2017.

The interim financial report has been reviewed by the Company’s auditor, in accordance with Hong Kong Standard on Review Engagements 2410 issued by the Hong Kong Institute of Certified Public Accountants.

(IV) INDEPENDENT NON-EXECUTIVE DIRECTORS

The Group has complied with the requirements concerning the appointment of sufficient independent non-executive Directors and that at least one of them possesses appropriate professional qualification or appropriate accounting or relevant financial management expertise as set out in Rules 3.10(1) and 3.10(2) of the Listing Rules. The Company has appointed three independent non-executive Directors, one of whom possesses financial management expertise.

(V) CORPORATE GOVERNANCE CODE

The Company's corporate governance practices are based on the principles and code provisions (the "**Code Provisions**") set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 of the Listing Rules. During the six months ended 30 June 2017, the Company has complied with the Code Provisions of the CG Code.

(VI) MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS OF LISTED ISSUERS

For the six months ended 30 June 2017, the Company has adopted a model code for securities transactions by Directors and Supervisors which is no less strict than the required standard set out in the Model Code. Having made specific enquiry in the reporting period, the Company has confirmed that all Directors and Supervisors have complied with the requirements set out in the Model Code.

(VII) PURCHASE, REDEMPTION OR SALE OF SHARES OF THE COMPANY

Neither has the Company nor any of its subsidiaries purchased, redeemed or sold any shares of the Company during this reporting period.

(VIII) EMPLOYEES

As at 30 June 2017, the Group had a total of 2,296 in-service employees, of whom, approximately 12.3% were management and administrative personnel, 10.9% were technical personnel, 1.8% were financial and audit personnel, 1.7% were sales and marketing personnel and 73.3% were production workers.

The employment and remuneration policies of the Group remain the same as those set out in the Company's prospectus dated 8 December 2004. The Group's dedicated and enthusiastic employees are committed to ensure the high quality and reliability of products and services.

* *Excluding service dispatch workers*

(IX) PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, the Directors believe that the percentage of shares held by public at any time during the reporting period was in compliance with the prescribed level of the minimum public float as set out in Rule 8.08 of the Listing Rules.

(X) MATERIAL ACQUISITION AND DISPOSAL

I. Further acquisition of 30% equity interest in Jiangsu IRICO Yongneng New Energy Company Limited

On 29 September 2011, the Company, Sunlink Power Holdings Co., Ltd. ("**Sunlink Power**"), Suzhou Huilian Solar Energy Technology Co., Ltd.* (蘇州惠利安太陽能科技有限公司) ("**Suzhou Huilian**"), Suzhou Yongjin Investment Co., Ltd.* (蘇州永金投資有限公司) ("**Suzhou Yongjin**") and the then other shareholders of Jiangsu Yongneng entered into the share purchase agreement, pursuant to which the Company has conditionally agreed to acquire an aggregate of 30% equity interest in Jiangsu Yongneng.

On 22 March 2017, since all of the parties intended to complete the acquisition of 30% equity interest in Jiangsu Yongneng as soon as practicable through

friendly negotiation, the Company, Sunlink Power, Suzhou Huilian, Suzhou Yongjin and Jiangsu Tiancheng Energy Development Co., Ltd.* (江蘇天成能源發展有限公司) (“**Tiancheng Energy**”) entered into the equity acquisition variation agreement, pursuant to which the Company conditionally agreed to acquire, and Sunlink Power, Suzhou Huilian and Tiancheng Energy conditionally agreed to sell, an aggregate of 30% equity interest in Jiangsu Yongneng for a total cash consideration of RMB68,000,000. Upon completion of the acquisition, the Company holds 51% equity interest in Jiangsu Yongneng in aggregate. Jiangsu Yongneng has become a subsidiary of the Company and its financial results have been consolidated into the financial statements of the Company.

For details, please refer to the announcements of the Company dated 29 September 2011 and 22 March 2017 and the circular of the Company dated 31 May 2017.

2. Disposal of 90% equity interest in Kunshan IRICO Industry Co., Ltd

On 28 February 2017, the Company and Xianyang IRICO Electronics Shadow Mask Co., Ltd.* (咸陽彩虹電子網版有限公司) (“**IRICO Shadow Mask**”) entered into the equity transfer agreement with Xianyang Zhongdian IRICO Group Holdings Ltd.* (咸陽中電彩虹集團控股有限公司) (“**Zhongdian IRICO**”), pursuant to which the Company and IRICO Shadow Mask agreed to sell, and Zhongdian IRICO agreed to acquire 90% equity interest in Kunshan IRICO Industry Co., Ltd.* (昆山彩虹實業有限公司) (“**Kunshan IRICO**”) at a cash consideration of approximately RMB71,439,750. Upon completion of the disposal, the Company will cease to have any interest in

Kunshan IRICO. As such, Kunshan IRICO will cease to be a subsidiary of the Company and its financial results will not be consolidated into the financial statements of the Company. The disposal has been approved by independent shareholders at the extraordinary general meeting held on 27 April 2017. The update of registration record in the industry and commerce administration authority is still in progress as at 30 June 2017.

For details, please refer to the announcement of the Company dated 28 February 2017 and the circular of the Company dated 3 April 2017.

During the reporting period, save as disclosed in this report, the Company has no other material acquisition or disposal of subsidiaries and associates.

(XI) MATERIAL LITIGATIONS

During the reporting period, the Company was involved in litigations in relation to disputes arising from the share purchase agreement, pursuant to which the Company was to acquire 30% equity interest in Jiangsu Yongneng. Please refer to the announcement of the Company dated 4 November 2016 for details. The original first instance judgement of such litigations was not required to be enforced, and the cases were closed in March 2017.

The Directors consider that the above litigation cases have no negative impact on the overall financial or operating conditions of the Company.

Save as disclosed above, the Directors are not aware of any new litigations or claims of material adverse effect pending or threatened to be made by or against any member of the Group.

(XII) OTHER MATTERS

1. *Change of auditors*

At the extraordinary general meeting of the Company held on 18 January 2017, WUYIGE Certified Public Accountants LLP (大信會計師事務所(特殊普通合夥)) and PKF Hong Kong (大信梁學濂(香港)會計師事務所) were appointed as the domestic auditor and overseas auditor of the Company, respectively. On 10 May 2017, due to the reorganisation of PKF Hong Kong to PKF Hong Kong Limited (大信梁學濂(香港)會計師事務所有限公司), PKF Hong Kong retired as overseas auditor of the Company with effect from the conclusion of the 2016 annual general meeting of the Company.

At the annual general meeting held on 30 June 2017, the Company has re-appointed WUYIGE Certified Public Accountants LLP as the domestic auditor of the Company for the year 2017 and appointed PKF Hong Kong Limited as the overseas auditor of the Company for the year 2017.

2. *Appointment of secretary to the Board*

During the reporting period, Mr. Ni Huadong has been appointed as the secretary to the Board of the Company. For details, please refer to the announcement of the Company dated 8 May 2017.

3. *Proposed issue of new H shares under specific mandate; connected transaction relating to proposed subscription of new H shares by a connected person; and proposed subscription of new H shares by an independent third party*

The Board has approved the proposed H share issue (including the proposed subscription by each of Zhongdian IRICO and Yan'an Dingyuan Investment Co., Ltd. (延安市鼎源投資有限責任公司) ("**Yan'an Dingyuan**")) under a specific mandate, pursuant to which the Company shall issue not more than 2 billion new H shares to not more than 10 target subscribers (including Zhongdian IRICO and Yan'an Dingyuan) and therefore the aggregate nominal value of the H shares to be issued shall not exceed RMB2 billion. The gross proceeds to be raised from the proposed H share issue shall not exceed RMB2 billion.

As part of the proposed H share issue, the Company entered into the subscription agreements with each of Zhongdian IRICO and Yan'an Dingyuan on 24 July 2017. Pursuant to these subscription agreements, each of Zhongdian IRICO and Yan'an Dingyuan has conditionally agreed to subscribe in cash for, and the Company has conditionally agreed to allot and issue, not more than 900 million and 300 million new H shares at a consideration of RMB900 million and RMB300 million, respectively.

The resolution in relation to the proposed H share issue under a specific mandate will be put forward at the extraordinary general meeting and the H share class meeting, respectively, for the consideration and approval of the shareholders or the holders of H shares (as the case may be). The resolution in relation to the proposed subscription by Zhongdian IRICO will be put forward at

the extraordinary general meeting for the consideration and approval of the independent shareholders.

For details, please refer to the announcement of the Company dated 24 July 2017.

IV. CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Si Yuncong *Chairman*

Zou Changfu

NON-EXECUTIVE DIRECTORS

Huang Mingyan

Chen Changqing

INDEPENDENT NON-EXECUTIVE DIRECTORS

Feng Bing

Wang Jialu

Wang Zhicheng

AUDIT COMMITTEE

Wang Zhicheng

Huang Mingyan

Chen Changqing

Feng Bing

Wang Jialu

CHIEF FINANCIAL OFFICER

Gu Qiang

SECRETARY TO THE BOARD

Ni Huadong

COMPANY SECRETARY

Chu Xiaohang

AUTHORIZED REPRESENTATIVES

Zou Changfu

Chu Xiaohang

LEGAL ADDRESS 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

COMPANY WEBSITE

www.irico.com.cn

LEGAL ADVISERS

Baker & McKenzie

14th Floor, Hutchison House

10 Harcourt Road, Hong Kong

AUDITOR

PKF HONG KONG LIMITED

26th Floor, Citicorp Centre, 18 Whitfield Road

Causeway Bay, Hong Kong

REGISTRAR OF H SHARES IN HONG KONG

Computershare Hong Kong Investor Services Limited

Rooms 1712–1716, 17th Floor, Hopewell Center

183 Queen's Road East, Hong Kong

INVESTOR AND MEDIA RELATIONS

Wonderful Sky Financial Group Limited
6/F, Nexxus Building
No. 41 Connaught Road, Central
Hong Kong

* *The Chinese translation of the interim financial information is for reference only. In case of any discrepancy between the Chinese translation and the original English version, the latter shall prevail.*

INDEPENDENT REVIEW REPORT



Accountants &
business advisers

26/F, Citicorp Centre
18 Whitfield Road
Causeway Bay
Hong Kong

大信梁學濂(香港)會計師事務所有限公司

香港
銅鑼灣
威非路道18號
萬國寶通中心26樓

To the board of directors of IRICO Group New Energy Company Limited

(incorporated in the People's Republic of China with limited liability)

INTRODUCTION

We have reviewed the condensed interim consolidated financial statements of IRICO Group New Energy Company Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 30 to 92, which comprises the condensed consolidated statement of financial position as of 30 June 2017 and the related condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed interim consolidated financial statements in accordance with HKAS 34.

INDEPENDENT REVIEW REPORT (CONTINUED)

INTRODUCTION (CONTINUED)

Our responsibility is to express a conclusion on these condensed interim consolidated financial statements 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” issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed interim consolidated financial statements 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 condensed interim consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

INDEPENDENT REVIEW REPORT (CONTINUED)

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to the condensed interim consolidated financial statements which indicate that the Group had net current liabilities of RMB1,411,293,000 as at 30 June 2017. As set out in Note 2 to the condensed interim consolidated financial statements, this condition, along with other matters as set forth in Note 2, indicate that a material uncertainty exists which may cast significant doubt about the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

PKF HONG KONG LIMITED

Certified Public Accountants

Hong Kong

Lam Kar Bo

Practising certificate number: P05453

22 August 2017

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2017

	NOTES	Six months ended 30 June	
		2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Revenue	4	989,693	826,707
Cost of sales		(898,577)	(729,736)
Gross profit		91,116	96,971
Gain on disposal of subsidiaries	21	24,195	18,779
Loss on derecognition of an associate	22	(12,625)	–
Other operating income		82,715	38,491
Selling and distribution costs		(43,285)	(41,501)
Administrative expenses		(58,384)	(59,958)
Other operating expenses		(7,482)	(7,166)
Finance costs	5	(33,258)	(13,475)
Share of profit of associates		48	218
Share of loss of a joint venture		(243)	–
Profit before tax		42,797	32,359
Income tax credit	6	3,947	122
Profit for the period	7	46,744	32,481
Profit for the period attributable to:			
– Owners of the Company		44,104	32,751
– Non-controlling interests		2,640	(270)
		46,744	32,481

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

	NOTES	Six months ended 30 June	
		2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Earnings per share			
– Basic and diluted	9	<u>0.02</u>	<u>0.01</u>
Profit for the period		<u>46,744</u>	<u>32,481</u>
Other comprehensive (expense) income:			
Items that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation of a foreign subsidiary		(68)	–
Available-for-sale financial assets:			
– Changes in fair value		(37,852)	–
– Reversal of impairment loss		–	33,685
Other comprehensive (expense) income for the period		<u>(37,920)</u>	<u>33,685</u>
Total comprehensive income for the period		<u>8,824</u>	<u>66,166</u>
Total comprehensive income for the period attributable to:			
Owners of the Company		6,184	66,436
Non-controlling interests		2,640	(270)
		<u>8,824</u>	<u>66,166</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2017

		30 June	31 December
		2017	2016
	<i>NOTES</i>	RMB'000	<i>RMB'000</i>
		(Unaudited)	(Audited)
Non-current assets			
Property, plant and equipment	10	1,442,682	1,297,645
Investment properties		11,540	16,904
Leasehold land and land use rights		195,055	109,186
Intangible assets		20,818	22,205
Interests in associates		4,490	33,517
Interest in a joint venture		35,548	35,791
Goodwill		41,533	–
Available-for-sale financial assets	11	383,192	421,044
		2,134,858	1,936,292
Current assets			
Inventories		168,844	113,563
Trade and bills receivables	12	899,894	622,119
Other receivables, deposits and prepayments	13	590,934	411,733
Tax recoverable		3,140	3,140
Restricted bank balances		90,653	98,034
Bank balances and cash		137,119	428,178
		1,890,584	1,676,767
Non-current assets classified as held for sale		25,695	25,563

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

AS AT 30 JUNE 2017

		30 June	31 December
		2017	2016
	<i>NOTES</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Audited)
Current liabilities			
Trade and bills payables	14	886,040	695,308
Other payables and accruals		592,812	572,650
Tax payables		5,544	786
Bank and other borrowings – due within one year	15	1,837,685	1,552,684
Termination benefits		5,491	12,099
		3,327,572	2,833,527
Net current liabilities		(1,411,293)	(1,131,197)
Total assets less current liabilities		723,565	805,095

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

AS AT 30 JUNE 2017

		30 June 2017	31 December 2016
	<i>NOTES</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Audited)
Capital and reserves			
Share capital	16	2,232,349	2,232,349
Other reserves		836,216	874,136
Accumulated losses		(2,976,667)	(3,020,771)
Equity attributable to owners of the Company		91,898	85,714
Non-controlling interests		107,385	66,785
Total equity		199,283	152,499
Non-current liabilities			
Bank and other borrowings – due after one year	15	412,800	516,610
Deferred income		90,231	98,797
Termination benefits		20,745	29,957
Deferred tax liabilities		506	7,232
		524,282	652,596
		723,565	805,095

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2017

	Attributable to owners of the Company				Non-controlling interests	Total equity
	Share capital	Other reserves	Accumulated losses	Total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2017 (Audited)	2,232,349	874,136	(3,020,771)	85,714	66,785	152,499
Profit (loss) for the period	-	-	44,104	44,104	2,640	46,744
Other comprehensive income:						
Exchange differences arising on translation of a foreign subsidiary	-	(68)	-	(68)	-	(68)
Available-for-sale financial assets						
- Changes in fair value	-	(37,852)	-	(37,852)	-	(37,852)
Total comprehensive (expense) income for the period	-	(37,920)	44,104	6,184	2,640	8,824
Acquisition of a subsidiary	-	-	-	-	43,229	43,229
Release on disposal of a subsidiary (Note 21)	-	-	-	-	(5,269)	(5,269)
Balance at 30 June 2017 (Unaudited)	<u>2,232,349</u>	<u>836,216</u>	<u>(2,976,667)</u>	<u>91,898</u>	<u>107,385</u>	<u>199,283</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

	Attributable to owners of the Company				Non-controlling interests	Total equity
	Share capital	Other reserves	Accumulated losses	Total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2016 (Audited)	2,232,349	936,297	(3,126,483)	42,163	86,090	128,253
Profit (loss) for the period	-	-	32,751	32,751	(270)	32,481
Other comprehensive income:						
Reversal of impairment loss in respect of the available-for-sale financial asset	-	33,685	-	33,685	-	33,685
Total comprehensive income (expense) for the period	-	33,685	32,751	66,436	(270)	66,166
Disposal of a subsidiary (Note 21)	-	-	-	-	(18,111)	(18,111)
Balance at 30 June 2016 (Unaudited)	<u>2,232,349</u>	<u>969,982</u>	<u>(3,093,732)</u>	<u>108,599</u>	<u>67,709</u>	<u>176,308</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2017

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Cash flows from operating activities		
Cash (used in) generated from operations	(200,171)	5,259
Tax refunded/(paid)	714	(672)
	<hr/>	<hr/>
Net cash (used in) from operating activities	(199,457)	4,587
Cash flows from investing activities		
Net cash from disposal of subsidiaries (Note 21)	32,666	–
Net cash from acquisition of subsidiary (Note 22)	(19,653)	–
Purchases of property, plant and equipment	(131,139)	(85,847)
Acquisition of leasehold land and land use rights	(75,159)	–
Proceeds from disposal of property, plant and equipment	1,209	10
Other investing cash flows (net)	8,194	6,962
	<hr/>	<hr/>
Net cash used in investing activities	(183,882)	(78,875)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Cash flows from financing activities		
Bank and other borrowings raised	420,097	520,780
Repayments of bank and other borrowings	(278,961)	(385,569)
Other financing cash flows (net)	(48,788)	(29,798)
	<u>92,348</u>	<u>105,413</u>
Net cash from financing activities		
Net (decrease) increase in cash and cash equivalents	(290,991)	31,125
Cash and cash equivalents at 1 January	428,178	252,596
Effect of foreign exchange rate changes	(68)	–
	<u>137,119</u>	<u>283,721</u>
Cash and cash equivalents at 30 June represented by bank balances and cash		

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2017

1. GENERAL INFORMATION

IRICO Group New Energy Company Limited (the “Company”) was established in the People’s Republic of China (the “PRC”) on 10 September 2004 as a joint stock company with limited liability under the Company Law of the PRC. The Company’s shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 20 December 2004. The address of its registered office and principal place of business is No. 1 Caihong Road, Xianyang, Shaanxi Province, the PRC.

The Company and its subsidiaries (collectively referred to as the “Group”) are engaged in solar photovoltaic business, new materials business, trading business and others.

The directors of the Company consider that IRICO Group Corporation (“IRICO Group”) is the Company’s parent company and the ultimate holding company is China Electronics Corporation (“CEC”), a state-owned enterprise established in the PRC.

The condensed interim consolidated financial statements are presented in Renminbi (“RMB”) which is also the functional currency of the Company.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

2. BASIS OF PREPARATION

- (a) The condensed interim consolidated financial statements of the Group for the six months ended 30 June 2017 have been prepared in accordance with the applicable disclosure provisions of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).
- (b) The Group had net current liabilities of approximately RMB1,411,293,000 as at 30 June 2017. This condition indicates the existence of a material uncertainty which may cast significant doubt on the Group’s and the Company’s ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business. Nevertheless, the directors of the Company are of the opinion that the Group and the Company will have sufficient working capital to meet its financial obligations as and when they fall due for the next twelve months from the end of the reporting period given that:
 - (i) IRICO Group, the parent company of the Company, has sufficient financial capability and will actively provide financial support to the Group and the Company to meet the Group’s and the Company’s liabilities and commitments as and when they fall due;

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

2. BASIS OF PREPARATION (CONTINUED)

(b) (Continued)

- (ii) the directors of the Company anticipate that the Group and the Company will maintain adequate cash flows for its operations and existing investments or financing needs; and
- (iii) the senior management aims to maintain flexibility in funding by keeping committed credit lines available.

Accordingly, the directors of the Company are of the opinion that it is appropriate to prepare the condensed interim consolidated financial statements on a going concern basis. Should the Group and the Company be unable to continue to operate as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts, to provide for further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effect of these adjustments has not been reflected in the condensed interim consolidated financial statements.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

3. PRINCIPAL ACCOUNTING POLICIES

The condensed interim consolidated financial statements have been prepared on the historical cost basis, except for certain available-for-sale financial assets, which are measured at fair value.

The accounting policies used in the condensed interim consolidated financial statements for the six months ended 30 June 2017 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2016.

In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA which are effective for the Group's financial period beginning 1 January 2017:

Amendments to HKAS 7	Disclosure initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12 included in Annual Improvement 2014–2016 Cycle	Disclosure of Interests in Other Entities

The application of the above amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed interim consolidated financial statements and/or on the disclosures set out in these condensed interim consolidated financial statements.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

4. SEGMENT INFORMATION

The Group's reportable and operating segments, based on information reported to the chief executive officer, being the chief operating decision maker, for the purpose of resource allocation and assessment of segment performance with focuses on types of goods. No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

Specifically, the Group's reportable and operating segments under HKFRS 8 are as follows:

1. Solar photovoltaic business
2. New materials business – production and sales of luminous materials and lithium battery anode materials
3. Trading business – trading of solar modules and other related accessories
4. Others

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

4. SEGMENT INFORMATION (CONTINUED)

The following is an analysis of the Group's revenue and results by reportable and operating segment:

Six months ended 30 June 2017

	Solar photovoltaic business RMB'000 (Unaudited)	New materials business RMB'000 (Unaudited)	Trading business RMB'000 (Unaudited)	Others RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
REVENUE					
External sales	<u>592,538</u>	<u>147,052</u>	<u>250,103</u>	<u>-</u>	<u>989,693</u>
Segment profit (loss)	<u>47,446</u>	<u>3,280</u>	<u>1,308</u>	<u>(185)</u>	<u>51,849</u>
Unallocated income					54,135
Unallocated expenses					(41,304)
Gain on disposal of subsidiaries					24,195
Loss on derecognition of an associate					(12,625)
Finance costs					(33,258)
Share of loss of associates					48
Share of loss of a joint venture					(243)
Profit before tax					<u>42,797</u>

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

4. SEGMENT INFORMATION (CONTINUED)

Six months ended 30 June 2016

	Solar photovoltaic business RMB'000 (Unaudited)	New materials business RMB'000 (Unaudited)	Trading business RMB'000 (Unaudited)	Others RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
REVENUE					
External sales	465,334	102,244	258,906	223	826,707
Segment profit (loss)	25,269	(1,044)	3,251	(3,637)	23,839
Unallocated income					13,248
Unallocated expenses					(10,250)
Gain on disposal of a subsidiary					18,779
Finance costs					(13,475)
Share of profit of associates					218
Profit before tax					32,359

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

4. SEGMENT INFORMATION (CONTINUED)

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment profit/loss represents the profit earned/loss from each segment without allocation of central administration costs, depreciation of investment properties, directors' salaries, gain/loss on business combination, share of profit/loss of associates and joint venture, impairment loss recognised in respect of inventories, rental income, interest income and finance costs. This is the measure reported to the chief executive officer with respect to the resource allocation and performance assessment.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

4. SEGMENT INFORMATION (CONTINUED)

The following is an analysis of the Group's assets by reportable and operating segments:

	Solar photovoltaic business <i>RMB'000</i>	New materials business <i>RMB'000</i>	Trading business <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
At 30 June 2017 (Unaudited)					
Segment assets	<u>2,744,921</u>	<u>326,188</u>	<u>276,274</u>	<u>41,211</u>	<u>3,388,594</u>
Unallocated assets					<u>662,543</u>
Consolidated total assets					<u>4,051,137</u>
At 31 December 2016 (Audited)					
Segment assets	<u>1,930,681</u>	<u>344,580</u>	<u>229,857</u>	<u>100,036</u>	<u>2,605,154</u>
Unallocated assets					<u>1,033,468</u>
Consolidated total assets					<u>3,638,622</u>

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

4. SEGMENT INFORMATION (CONTINUED)

The following is an analysis of the Group's liabilities by reportable and operating segments:

	Solar photovoltaic business <i>RMB'000</i>	New materials business <i>RMB'000</i>	Trading business <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
At 30 June 2017 (Unaudited)					
Segment liabilities	<u>1,202,208</u>	<u>68,452</u>	<u>189,805</u>	<u>70,929</u>	1,531,394
Unallocated liabilities					<u>2,320,460</u>
Consolidated total liabilities					<u><u>3,851,854</u></u>
At 31 December 2016 (Audited)					
Segment liabilities	<u>879,269</u>	<u>83,852</u>	<u>233,361</u>	<u>126,574</u>	1,323,056
Unallocated liabilities					<u>2,163,067</u>
Consolidated total liabilities					<u><u>3,486,123</u></u>

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

4. SEGMENT INFORMATION (CONTINUED)

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets other than interests in associates, interest in a joint venture, investment properties, available-for-sale financial assets, restricted bank balances, tax recoverable, bank balances and cash and certain unallocated head office assets are allocated to operating segments; and
- all liabilities are allocated to operating segments other than tax payables, deferred tax liabilities, bank and other borrowings and certain unallocated head office liabilities.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

5. FINANCE COSTS

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest on:		
Bank and other borrowings	31,187	15,659
Amount due to parent company	9,836	14,139
	<hr/>	<hr/>
Total borrowing costs	41,023	29,798
Less: amounts capitalised in the cost of qualifying assets	(7,765)	(16,323)
	<hr/>	<hr/>
	33,258	13,475
	<hr/> <hr/>	<hr/> <hr/>

Borrowing costs capitalised during the period arose on general borrowings pool and are calculated by applying a capitalisation rate of 4.75% per annum (six months ended 30 June 2016: 4.75% per annum) to expenditure on qualifying assets.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

6. INCOME TAX CREDIT

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax (credit)/expense		
PRC Enterprise Income Tax	1,285	–
Deferred tax	(5,232)	(122)
	(3,947)	(122)

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from Hong Kong for both periods ended 30 June 2017 and 2016.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of certain subsidiaries of the Group in the PRC is 25%.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

6. INCOME TAX CREDIT (CONTINUED)

Companies are entitled to the Tax Preference Policies for the Western Development in the PRC (“TPPWD Policy”) if they are engaged in the projects listed in the Catalogue for Industries, Products and Technologies Currently and Particularly Encouraged by the State for Development (as amended in year 2000) and Guiding Catalogue for Industrial Structure Adjustment (2011), and their principal business and the revenue from the principal operations account for over 70% of their total revenue. The applicable reduced preferential EIT rate under the TPPWD Policy is 15%. From 10 September 2004, date of incorporation of the Company, the operations of the Company have met the requirements under the TPPWD Policy, and accordingly, EIT has been paid at the reduced rate of 15%.

The operation of the subsidiary, Shaanxi IRICO New Material Co., Ltd* (陝西彩虹新材料有限公司) has met the requirements under the TPPWD Policy, and accordingly, EIT has also been provided at 15% for the six months ended 30 June 2017 (2016: nil).

The subsidiary, Jiangsu IRICO Yongneng New Energy Company Limited* (江蘇彩虹永能新能源有限公司) (formerly known as Jiangsu Yongneng Photovoltaic Technology Company Limited, “Jiangsu Yongneng”) is entitled to the preferential tax treatment for High and New Technology Enterprise (“HNTE Policy”). The applicable reduced preferential EIT rate under the HNTE Policy is 15%.

* English name for identification purpose only

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

7. PROFIT FOR THE PERIOD

Profit for the period has been arrived at after charging (crediting):

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Amortisation of intangible assets	1,387	1,388
Amortisation of leasehold land and land use rights	1,810	1,501
Depreciation of property, plant and equipment	36,157	24,667
Depreciation of investment properties	796	753
Cost of inventories recognised as an expense	892,128	729,736
Employee benefit expenses	16,544	15,647
Research and development costs	3,456	1,600
Operating lease rentals in respect of property, plant and equipment	4,112	5,565
Provision for doubtful debts of trade and other receivables (included in administrative expenses)	6,342	4,026
(Reversal of provision) provision for inventories (included in other operating expenses)	(267)	2,474
Share of tax of associates (included in share of profit of associates)	14	59
Provision for warranty	–	672
Amortisation of deferred income on government grants received (included in other operating income)	(4,635)	(4,592)
Government grants income (included in other operating income)	(23,946)	(1,073)
Loss (gain) on disposal of property, plant and equipment	510	(14,488)
Bank interest income	(1,106)	(759)

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

8. DIVIDEND

No dividends were paid, declared or proposed during both the interim periods. The directors of the Company have determined that no dividend will be paid in respect of both the interim periods.

9. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
Profit for the period attributable to the owners of the Company (<i>RMB'000</i>)	44,104	32,751
Weighted average number of ordinary shares in issue (<i>'000 shares</i>)	<u><u>2,232,349</u></u>	<u><u>2,232,349</u></u>

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

10. CAPITAL EXPENDITURE

During the current interim period, the Group spent approximately RMB131,139,000 and RMB75,159,000 (six months ended 30 June 2016: RMB85,847,000 and nil) on additions of property, plant and equipment and leasehold land and land use rights respectively.

During the current interim period, the Group disposed of property, plant and equipment with carrying values of approximately RMB1,719,000 (six months ended 30 June 2016: RMB22,684,000) with consideration of approximately RMB1,209,000 (six months ended 30 June 2016: RMB37,172,000).

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

11. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	30 June 2017	31 December 2016
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Equity securities listed outside Hong Kong (<i>Note a</i>)	280,176	318,028
Unlisted equity securities, at cost (<i>Note b</i>)	103,016	103,016
	383,192	421,044

Notes:

- (a) As at 30 June 2017, the listed investments substantially comprise of the investment in equity interests in IRICO Display Devices Co., Ltd.* (彩虹顯示器件股份有限公司) (“A Share Company”), which is directly held as to approximately 4.80% (at 31 December 2016: 4.80%) by the Group. A Share Company is a company listed on the Shanghai Stock Exchange. During the period, the Company recorded RMB37,852,000 as other comprehensive loss on fair value changes.
- (b) As at 30 June 2017, the unlisted equity securities are 7.30% (at 31 December 2016: 7.30%) equity interest issued by a private company, Shaanxi Caihong Electronics Glass Co., Ltd.* (陝西彩虹電子玻璃有限公司), incorporated in the PRC. They are measured at cost less impairment at the end of each reporting period because the range of reasonable fair value estimate is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

* English name for identification purpose only

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

12. TRADE AND BILLS RECEIVABLES

The Group allows an average credit period of 90 days to its trade customers.

The following is an aged analysis of trade receivables net of accumulated impairment losses of approximately RMB46,597,000 (at 31 December 2016: RMB29,626,000) presented based on the invoice date, which approximated the revenue recognition date, at the end of the reporting period:

	30 June	31 December
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Audited)
0 to 90 days	490,036	388,337
91 to 180 days	301,584	160,242
181 to 365 days	46,709	32,506
Over 365 days	61,565	41,034
	899,894	622,119

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

13. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENT

	30 June	31 December
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Other receivables	191,389	68,072
Less: allowance for doubtful debts	(1,379)	(418)
	190,010	67,654
Leasehold land and land use rights	1,810	2,965
Deposits and prepayments	332,777	266,980
Value-added tax recoverables	66,337	74,134
	590,934	411,733

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

14. TRADE AND BILLS PAYABLES

The ageing analysis of trade and bills payables is presented based on the invoice date at the end of the reporting period:

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
0 to 90 days	334,712	450,171
91 to 180 days	346,641	126,919
181 to 365 days	123,226	33,607
Over 365 days	81,461	84,611
	886,040	695,308

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

15. BANK AND OTHER BORROWINGS

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Bank loans – secured	291,317	137,500
Bank loans – unsecured	319,000	434,800
Other loans – secured	401,000	401,000
Other loans – unsecured	1,239,168	1,095,994
	<u>2,250,485</u>	<u>2,069,294</u>
Carrying amount repayable:		
On demand or within one year	1,837,685	1,552,684
More than one year, but not exceeding two years	137,000	220,840
More than two years, but not more than five years	275,800	295,770
	<u>2,250,485</u>	<u>2,069,294</u>
Less: Amounts shown under current liabilities	<u>(1,837,685)</u>	<u>(1,552,684)</u>
Amounts shown under non-current liabilities	<u>412,800</u>	<u>516,610</u>

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

15. BANK AND OTHER BORROWINGS (CONTINUED)

During the current interim period, the Group obtained new bank borrowings amounting to approximately RMB420,097,000 (30 June 2016: RMB520,780,000), acquired borrowings amounting to RMB88,000,000 upon acquisition of a subsidiary and repaid borrowings amounting to approximately RMB278,961,000 (30 June 2016: RMB385,569,000). For the six months ended 30 June 2017, the bank and other borrowings carry interests ranging from 1.20% to 7.00% per annum (at 31 December 2016: 1.20% to 5.70% per annum), which were used to finance the operations and used for general working capital of the Group.

The H shares rank pari passu in all respects with the domestic shares and rank equally for all dividends or distributions declared, paid or made except that all dividends in respect of H shares are to be paid by the Company in Hong Kong dollars and H shares may only be subscribed for by, and traded in Hong Kong dollars between legal or natural persons of any other country other than the PRC. The transfer of the domestic shares is subject to such restrictions as the PRC laws may impose from time to time.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

16. SHARE CAPITAL

A summary of the registered, issued and fully paid capital of the Company is as follows:

	Domestic shares		H shares		Total	
	Number of		Number of		Number of	
	shares	Amount	shares	Amount	shares	Amount
	'000	RMB'000	'000	RMB'000	'000	RMB'000
Registered, issued and fully paid:						
At 1 January 2016 (audited),						
31 December 2016 (audited) and						
30 June 2017 (unaudited)	1,601,468	1,601,468	630,881	630,881	2,232,349	2,232,349

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

17. RELATED PARTY TRANSACTIONS

The Group is controlled by IRICO Group (incorporated in the PRC), which owns 71.74% of the Company's shares. The remaining 28.26% of the shares are widely held.

Related parties are those parties that have the ability to control the other party or exercise significant influence in making financial and operation decisions. Parties are also considered to be related if they are subject to common control. The Group is subject to the control of the PRC government which also controls a significant portion of the productive assets and entities in the PRC (collectively known as the "state-owned enterprises").

In accordance with HKAS 24 (Revised) "Related Party Disclosures", other government-related enterprises and their subsidiaries, directly or indirectly controlled by the PRC government are regarded as related parties of the Group ("other government-related entities"). For the purpose of related party disclosures, the Group has in place procedures to identify the immediate ownership structure of its customers and suppliers to determine whether they are state-owned enterprises. Many government-related entities have multi-layered corporate structure and the ownership structures change over time as a result of transfers and privatisation programs. Nevertheless, management believes that meaningful information relating to related party transactions have been adequately disclosed.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

17. RELATED PARTY TRANSACTIONS (CONTINUED)

Related parties transactions include those with IRICO Group and its subsidiaries (other than the Group), associates and jointly controlled entities, corporations in which the Company is able to control, jointly control or exercise significant influences, key management personnel of the Company and IRICO Group and their close family members. IRICO Group does not produce financial statements available for public use. Transactions with entities within the CEC Group are disclosed as transactions with “Other State-owned enterprises” under the respective categories of related party transactions.

The following is a summary of significant related party transactions entered into in the ordinary course of business between the Group and its related parties, excluding other state-owned enterprises not under the CEC Group, during the six months ended 30 June 2017 and 2016 and balances as at 30 June 2017 and 31 December 2016 with related party transactions.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

17. RELATED PARTY TRANSACTIONS (CONTINUED)

The following transactions were carried out with related parties:

(a) Sales of goods

	Six months ended 30 June	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Sales of goods to the IRICO Group (<i>Note</i>)		
– Xianyang Zhongdian		
IRICO Group Holdings Ltd.	<u>426</u>	–
	<u>426</u>	–
Other state-owned enterprises	<u>6,882</u>	<u>1,295</u>
Provision of services provided to the IRICO Group (<i>Note</i>)		
– Rental income from		
Xianyang Zhongdian		
IRICO Group Holdings Ltd.	<u>2,173</u>	–
	<u>2,173</u>	–

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

17. RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Sales of goods (Continued)

Note: Sales of goods and provision of services to related parties were conducted with terms mutually agreed by both contract parties with reference to market prices.

(b) Purchases of goods and provision of services

	Six months ended 30 June	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Purchases of goods from the IRICO Group (<i>Note i</i>)		
– IRICO Group Labor Service Company	–	129
– Xianyang Cailian Packaging Materials Co., Ltd.	37,681	17,917
– Hefei Epilight Technology Co., Ltd.	76	–
– Xianyang Zhongdian IRICO Group Holdings Ltd.	–	1,829
– Xianyang Zhongdian IRICO Properties Management Co., Ltd.	–	12
	37,757	19,887
Other state-owned enterprises	4,356	1,002

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

17. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Purchases of goods and provision of services (Continued)

	Six months ended 30 June	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Provision of services provided from the IRICO Group (<i>Note i</i>)		
– Utility charges to the utilities plant of the IRICO Energy Services Co.	79,529	100,472
– Utility charges to the utilities plant of the Xianyang IRICO Solar Photovoltaic Technology Co., Ltd.	247	–
– Utility charges to the utilities plant of the Xianyang Cailian Packaging Materials Co., Ltd.	–	100
– Utility charges to Xianyang IRICO Thermoelectricity Co., Ltd.	–	319
– Rental expense to Xianyang Zhongdian IRICO Group Holdings Ltd.	4,112	5,565
– Trademark license fee to parent company (<i>Note ii</i>)	80	–
– Miscellaneous charges to IRICO Energy Services Co.	78	77
– Interest expense paid to parent company	9,836	14,139
– Utility charges to IRICO (Hefei) LCD Glass Co., Ltd.	21,512	35,966
– Utility and other charges to Xianyang Zhongdian IRICO Group Holdings Ltd.	1,606	–
	<u>117,000</u>	<u>156,638</u>

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

17. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Purchases of goods and provision of services (Continued)

Notes:

- (i) Purchases of goods and provision of services from related parties were conducted with terms mutually agreed by both contract parties with reference to market prices.
- (ii) License fee for using the trademark owned by parent Company was paid by the Group at 0.1% (2016: nil) of sales based on the terms stipulated in agreements.

(c) Balance with parent company

(i) Amount due to parent company

	30 June	31 December
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Included in other payables and accruals	11,959	5,188

The balance is unsecured, interest-free and repayable on demand.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

17. RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Balance with parent company (Continued)

(ii) Loans from parent company

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Interest bearing loan	<u>769,562</u>	<u>1,042,284</u>

The interest bearing loan from parent company is unsecured, bear interest at variable rate with reference to the People's Bank of China Prescribed Interest Rate and are repayable on demand. As at 30 June 2017, the effective interest rate is ranging from 1.20% to 3.48% (31 December 2016: 1.20% to 3.48%) per annum.

(iii) Directors' emolument born by parent company

During the six months ended 30 June 2017 and 2016, all the executive and non-executive directors emoluments were borne by IRICO Group Corporation.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

17. RELATED PARTY TRANSACTIONS (CONTINUED)

(d) Key management compensation

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Short-term benefits	1,247	988
Retirement benefit contributions	323	227
	1,570	1,215

The remuneration of directors of the Company and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

17. RELATED PARTY TRANSACTIONS (CONTINUED)

(e) Balances arising from sales/purchases of goods/provision of services

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Trade receivables from related parties:		
The IRICO Group		
– Xianyang Rainbow Photovoltaic Technology Co., Ltd.	7,162	7,162
– Parent company	1,562	8,960
– Hefei Epilight Technology Co., Ltd	35	572
– Xianyang Zhongdian IRICO Group Holdings Ltd.	–	5,068
– Xianyang Cailian Packaging Materials Co., Ltd	–	9,661
	8,759	31,423
Other state-owned enterprises	1,264	3,978
	10,023	35,401
Representing:		
Trade receivables	10,023	35,401

The balance with other state-owned enterprise and its fellow subsidiaries only accounted for approximately 1% (31 December 2016: approximately 1%) of the Group's trade and bills receivables as at 30 June 2017.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

17. RELATED PARTY TRANSACTIONS (CONTINUED)

(e) Balances arising from sales/purchases of goods/provision of services (Continued)

	30 June 2017 <i>RMB'000</i> (Unaudited)	31 December 2016 <i>RMB'000</i> (Audited)
Trade payables to related parties (<i>Note</i>):		
The IRICO Group		
– Xianyang Cailian Packaging Materials Co., Ltd.	4,308	12,096
– Parent company	–	602
– Xianyang Caiqin Electronic Devices Co., Ltd.	4,740	4,740
– IRICO (Hefei) LCD Glass Co., Ltd.	10,541	9,346
– Xianyang Zhongdian IRICO Group Holdings Ltd.	3,541	11,133
– Xianyang Rainbow Photovoltaic Technology Co., Ltd.	289	–
– IRICO Energy Services Co.	40,826	70,659
– Xianyang Zhongdian IRICO Properties Management Co., Ltd.	74	–
– Rui Bou Electronics (HK) Ltd.	59,068	54,105
– IRICO Group Labor Service Company	–	221
– Xi'an IRICO Zixun Co., Ltd	–	781
– IRICO Hospital	–	331
	123,387	164,014
Other state-owned enterprises	17,597	10,348
	140,984	174,362
Representing:		
Trade payables	140,984	174,362

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

17. RELATED PARTY TRANSACTIONS (CONTINUED)

(e) Balances arising from sales/purchases of goods/provision of services (Continued)

The balance with other state-owned enterprises and its fellow subsidiaries only accounted for approximately 2% (31 December 2016: Less than 2%) of the Group's trade and bills payables as at 30 June 2017.

(f) Apart from the aforementioned transactions, the Group has transactions with other state-owned enterprises include but not limited to the following:

- Sales and purchases of goods and services
- Purchases of assets
- Bank deposits and borrowings

In the ordinary course of business, the Group sells goods and services to, and purchase goods and services from other state-owned enterprises based on terms as set out in the underlying agreements, market price or actual cost incurred, or as mutually agreed.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

17. RELATED PARTY TRANSACTIONS (CONTINUED)

The Group places deposits with and receives loans mainly from state-owned financial institutions in the ordinary course of business. The deposit and loans are in accordance with terms as set out in the respective agreement, and the interest rates are set at prevailing market rates.

(g) Disposal of subsidiaries

	30 June 2017 <i>RMB'000</i> (Unaudited)	30 June 2016 <i>RMB'000</i> (Unaudited)
Consideration received from disposal of the following subsidiaries to Xianyang Zhongdian IRICO Group Holdings Ltd. ("Xianyang IRICO"):		
– Xianyang IRICO Electronic Parts Co., Ltd. ("IRICO Accessories") (Note 21)	–	45,946
– Kunshan IRICO (Note 21)	<u>71,440</u>	<u>–</u>

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

17. RELATED PARTY TRANSACTIONS (CONTINUED)

(h) Disposal of plant and equipment

	30 June 2017 RMB'000 (Unaudited)	30 June 2016 RMB'000 (Unaudited)
Consideration received from disposal of plant and equipment to:		
– Xianyang Zhongdian IRICO Group Holdings Limited	1,194	–

(i) Balances born by the parent company

	30 June 2017 RMB'000 (Unaudited)	30 June 2016 RMB'000 (Unaudited)
Balances born by the parent company to support the continued operations of a certain subsidiary of the Group	25,631	–

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

18. COMMITMENTS

Capital expenditure

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Contracted for but not provided in the condensed interim consolidated financial statements:		
– Construction of photovoltaic glass production line	575,511	200,240
– Construction of solar photovoltaic power station	20,345	14,144
	<u>595,856</u>	<u>214,384</u>

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

18. COMMITMENTS (CONTINUED)

Operating leases

As lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follow:

	Leasehold buildings	
	30 June	31 December
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Within one year	5,390	1,319
In the second to fifth years inclusive	157	–
	5,547	1,319

Operating lease payments represent rentals payable by the Group for certain of its property, plant and equipment, land use rights and leasehold buildings. Leases are negotiated for an average term of three years respectively and rentals are fixed for an average of one and three years respectively.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

18. COMMITMENTS (CONTINUED)

Operating leases (Continued)

As lessor

All the properties held have committed tenants for the next 1 year to 6 years (six months ended 30 June 2016: 1 year to 6 years).

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Within one year	6,024	13,055
In the second to fifth years inclusive	6,145	19,801
	12,169	32,856

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

19. PLEDGE OF ASSETS

At 30 June 2017, certain assets of the Group were pledged to secure bank borrowings granted to the Group as follows:

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Property, plant and equipment	42,029	7,519
Leasehold land and land use right	12,101	–
Available-for-sale financial assets	219,350	248,984
Bank balance	50,000	50,000
Bills receivables	60,817	–
	384,297	306,503

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

20. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Fair value of the Group's financial assets that are measured at fair value on a recurring basis

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

20. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value of the Group's financial assets that are measured at fair value on a recurring basis (Continued)

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)
	30/6/2017 (unaudited) RMB'000	31/12/2016 (audited) RMB'000		
Listed equity securities classified as available-for-sale financial assets	280,176	318,028	Level 1	Quoted bid prices in active market

There were no transfers into or out from level 1 in both reporting periods.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed interim consolidated financial statements approximate their fair values.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

21. GAIN ON DISPOSAL OF SUBSIDIARIES

For the six months ended 30 June 2017

On 28 February 2017, the Company and Xianyang IRICO Electronics Shadow Mask Co., Ltd* (咸陽彩虹電子網版有限公司) (“IRICO Shadow Mask”) entered into the equity transfer agreement with Xianyang Zhongdian IRICO Group Holdings Ltd.* (咸陽中電彩虹集團控股有限公司) (“Zhongdian IRICO”), a subsidiary of CEC, pursuant to which the Company and IRICO Shadow Mask agreed to sell, and Xianyang IRICO agreed to acquire 90% equity interest in Kunshan IRICO Industry Co., Ltd.* (昆山彩虹實業有限公司) (“Kunshan IRICO”) at a cash consideration of approximately RMB71,439,750. As a result of such disposal, the Company and IRICO Shadow Mask ceased to have any interest in Kushan IRICO. The update of registration record in the industry and commerce administration authority is still in progress as at 30 June 2017.

* English name for identification purpose only

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

21. GAIN ON DISPOSAL OF SUBSIDIARIES (CONTINUED)

For the six months ended 30 June 2017 (Continued)

The net assets and liabilities of Kunshan IRICO at the date of disposal as at 30 April 2017 were as follows:

	Total
	RMB'000
<hr/>	
Analysis of assets and liabilities disposed of:	
Property, plant and equipment	12,605
Investment properties	4,568
Leasehold land and land use rights	5,509
Inventories	1,001
Trade and bills receivables	2,406
Other receivables, deposits and prepayments	10,321
Bank balances and cash	38,439
Trade and bills payables	(215)
Other payables and accruals	(21,764)
Tax payables	(179)
	<hr/>
	52,691
	<hr/> <hr/>

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

21. GAIN ON DISPOSAL OF SUBSIDIARIES (CONTINUED)

For the six months ended 30 June 2017 (Continued)

	Total
	RMB'000
<hr/>	
Gain on disposal of a subsidiary:	
Consideration received	71,440
Net assets disposed of	(52,691)
Non-controlling interests	5,269
	<hr/>
Gain on disposal	24,018
	<hr/> <hr/>
Net cash inflow arising on disposal:	
Cash consideration	71,440
Cash and cash equivalents disposed of	(38,439)
	<hr/>
	33,001
	<hr/> <hr/>

During the period from 1 January 2017 to 30 April 2017, Kunshan IRICO contributed approximately RMB194,000 and RMB398,000 to the Group's profit and net cash outflow respectively.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

21. GAIN ON DISPOSAL OF SUBSIDIARIES (CONTINUED)

For the six months ended 30 June 2017 (Continued)

On 30 April 2017, Shaanxi IRICO Optoelectronic Materials Company* (陝西彩虹光電材料總公司), a fellow subsidiary of the Group, injected RMB3,779,100 to IRICO New Energy (Liquan) Co., Ltd.* (禮泉彩虹新能源有限公司) (“Liquan”), a wholly-owned subsidiary of the Group, and the Group injected capital of RMB780,900 to Liquan.

These injections resulted in a dilution of the Group’s equity interest in Liquan from 100% to 49% and constituted a disposal of the Group’s equity interest in a subsidiary.

The assets and liabilities of Liquan were deconsolidated from the Group’s condensed consolidated statement of financial position and the resulting interest in Liquan has been accounted for as an associate using equity method.

The gain on disposal of RMB177,000 (detailed calculation is stated below) is recorded in profit and loss of the Group for the period ended 30 June 2017.

* English name for identification purpose only

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

21. GAIN ON DISPOSAL OF SUBSIDIARIES (CONTINUED)

For the six months ended 30 June 2017 (Continued)

The net assets and liabilities of Liqun at the date of disposal as at 30 April 2017 were as follows:

	Total
	RMB'000
<hr/>	
Analysis of assets and liabilities (before equity injections on 30 April 2017) disposed of:	
Property, plant and equipment	9,871
Trade and bills receivables	114
Other receivables, deposits and prepayments	1,329
Bank balances and cash	335
Trade and bills payables	(1,343)
Other payables and accruals	(7,800)
Tax payables	(1)
	<hr/>
	2,505
	<hr/> <hr/>

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

21. GAIN ON DISPOSAL OF SUBSIDIARIES (CONTINUED)

For the six months ended 30 June 2017 (Continued)

	Total RMB'000
Gain on disposal of a subsidiary:	
Capital injection by the Group	(781)
Net assets disposed of	(2,505)
Fair value of retained interest	3,463
	<hr/>
Gain on disposal	177
	<hr/> <hr/>
Net cash outflow of cash and cash equivalents:	
Cash and cash equivalents disposed of	(335)
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During the period from 1 January 2017 to 30 April 2017, Liquan contributed a loss and net cash outflow of approximately RMB14,000 and RMB417,000 to the Group's profit and net cash outflow respectively.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

21. GAIN ON DISPOSAL OF SUBSIDIARIES (CONTINUED)

For the six months ended 30 June 2016

On 9 May 2016, the Company and Zhongdian IRICO, a subsidiary of CEC, entered into the agreement, pursuant to which the Company agreed to sell, and Zhongdian IRICO agreed to acquire 60% of equity interest in Xianyang IRICO Electronics Accessories Co., Ltd.* (咸陽彩虹電子配件有限公司) (“IRICO Accessories”) at a cash consideration of approximately RMB45,945,900. As a result of such disposal, the Company ceased to have any interest in IRICO Accessories. The relevant procedure was completed on 7 December 2016.

The consolidated net assets and liabilities of IRICO Accessories and its subsidiaries at the date of disposal as at 30 April 2016 were as follows:

	Total RMB'000
<hr/>	
Analysis of assets and liabilities disposed of:	
Property, plant and equipment	11,797
Leasehold land and land use right	2,123
Trade and bills receivables	26,667
Other receivables	3
Bank balances and cash	10,193
Trade and bills payables	(456)
Other payables	(2,927)
Termination benefit	(2,122)
	<hr/>
	45,278
	<hr/> <hr/>

* English name for identification purpose only

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

21. GAIN ON DISPOSAL OF SUBSIDIARIES (CONTINUED)

For the six months ended 30 June 2016 (Continued)

	Total RMB'000
Gain on disposal of a subsidiary:	
Consideration received	45,946
Net assets disposed of	(45,278)
Non-controlling interests	<u>18,111</u>
Gain on disposal	<u><u>18,779</u></u>
Net cash inflow arising on disposal:	
Cash consideration	45,946
Settlement through current account included in other payables and accruals	(45,946)
Cash and cash equivalents disposed of	<u>(10,193)</u>
	<u><u>(10,193)</u></u>

During the period from 1 January 2016 to 30 April 2016, IRICO Accessories contributed approximately RMB16,000 and RMB23,000 to the Group's profit and net cash outflow respectively.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

22. ACQUISITION OF A SUBSIDIARY

On 22 March 2017, the Group acquired 30% equity interest in Jiangsu Yongneng, from certain existing shareholders of Jiangsu Yongneng at a cash consideration of RMB68,000,000. Jiangsu Yongneng was the Group's associate as at 31 December 2016. Upon completion of the acquisition, the equity interest in Jiangsu Yongneng held by the Group increased from 21% of the issued share capital of Jiangsu Yongneng to 51% as enlarged by the acquisition.

The fair value of the identifiable assets and liabilities of Yongneng as at the date of acquisition is as follows:

	Total
	RMB'000
Property plant and equipment	116,778
Leasehold land and land use rights	16,874
Deferred tax asset	1,494
Inventories	120,413
Trade and bills receivables	560,515
Other receivables, deposits and prepayments	63,539
Bank balances and cash	48,347
Trade and bills payable	(684,252)
Other payables and accruals	(64,546)
Bank borrowings	(88,000)
Tax payables	(2,939)
	88,223

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

22. ACQUISITION OF A SUBSIDIARY (CONTINUED)

	Total RMB'000
Goodwill arising on acquisition:	
Consideration for acquisition	68,000
Less: Fair value of identifiable net assets acquired	(26,467)
	<hr/>
Goodwill	41,533
	<hr/> <hr/>
Net cash outflow on acquisition:	
Cash consideration	68,000
Cash and cash equivalents acquired	(48,347)
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	19,653
	<hr/> <hr/>

Jiangsu Yongneng became a non-wholly owned subsidiary of the Group after the acquisition. Its financial results were consolidated into the financial statements of the Company since then and a loss arose from the derecognition of the Group's interest in an associate.

	Total RMB'000
Carrying amount of the Group's interest in Jiangsu Yongneng	31,152
Fair value of the Group's interest in Jiangsu Yongneng as at the acquisition date	(18,527)
	<hr/>
Loss on derecognition of an associate	12,625
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NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

23. COMPARATIVE FIGURES

Certain comparative figures have been reclassified or restated to conform to the current period presentation of the condensed interim consolidated financial statements.

* *English name for identification purpose only*