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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **CALB Co., Ltd.**, you should at once hand this circular, together with the enclosed proxy form, to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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CALB

CALB Co., Ltd.

中創新航科技股份有限公司

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

(Stock Code: 3931)

**RENEWAL OF CONTINUING CONNECTED TRANSACTIONS
CHANGES IN ACCOUNTING POLICIES
AND
NOTICE OF 2023 FIRST EXTRAORDINARY GENERAL MEETING**

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



A letter from the Board is set out on pages 6 to 16 of this circular. A letter from the Independent Board Committee containing its advice to the Independent Shareholders is set out on page 17 of this circular. A letter from the Independent Financial Adviser containing its advice and recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 18 to 28 of this circular.

Notice convening the EGM of the Company to be held on Wednesday, January 18, 2023 at 2:00 p.m., at Conference Room 103, CALB Technology Co., Ltd., No. 166, Kejiao Road, Jintan District, Changzhou, PRC is set out on pages 39 to 40 of this circular.

Shareholders who intend to appoint a proxy to attend the EGM are requested to complete the proxy form in accordance with the instructions printed thereon. The proxy form shall be lodged with the H Share Registrar of the Company, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible and in any event not less than 24 hours before the time appointed for the holding of the EGM (i.e. 2:00 p.m. on Tuesday, January 17, 2023) or any adjournment thereof (as the case may be). Completion and return of the proxy form will not prevent you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

January 3, 2023

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DEFINITIONS

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

“Articles of Association”	the Articles of Association of the Company currently in force
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“AVIC”	Aviation Industry Corporation of China, Ltd.* (中國航空工業集團有限公司), a company established under the laws of the PRC with limited liability on November 6, 2008 and wholly owned by State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會), an Independent Third Party
“Board”	the board of directors of the Company
“Chengfei Integration”	Sichuan Chengfei Integration Technology Co., Ltd* (四川成飛集成科技股份有限公司), a company established under the laws of the PRC with limited liability on December 6, 2000, whose shares are listed on the Shenzhen Stock Exchange (stock code: 002190)
“Company”, “we” or “us”	CALB Co., Ltd. (中創新航科技股份有限公司), H Shares of which are listed on the Stock Exchange with stock code of 3931
“connected person(s)”	has the same meaning ascribed to it under the Listing Rules
“connected transaction(s)”	has the same meaning ascribed to it under the Listing Rules
“continuing connected transaction(s)”	has the same meaning ascribed to it under the Listing Rules
“controlling shareholder(s)”	has the same meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Domestic Share(s)”	ordinary shares in the share capital of the Company, with a nominal value of RMB1.00 each, which are subscribed for and paid up in Renminbi

DEFINITIONS

“EGM”	the 2023 first extraordinary general meeting of the Company to be held on Wednesday, January 18, 2023, at 2:00 p.m., at Conference Room 103, CALB Technology Co., Ltd., No. 166, Kejiao Road, Jintan District, Changzhou, the People’s Republic of China or any adjournment thereof
“Group”	the Company and its subsidiaries
“H Share(s)”	the overseas listed foreign share(s) in the share capital of the Company with nominal value of RMB1.00 each, which are traded in Hong Kong dollars and listed on the Main Board of the Stock Exchange
“H Share Shareholder(s)”	holder(s) of H Shares
“Huake Engineering	Changzhou Huake Engineering Construction Co., Ltd.* (常州華科工程建設有限公司), a company established under the laws of the PRC with limited liability on April 14, 2015 and is wholly owned by Jintan Hualuogeng
“Huake Investment”	Changzhou Huake Technology Investment Co., Ltd.* (常州華科科技投資有限公司), a company established under the laws of the PRC with limited liability on August 5, 2015 and wholly owned by Jintan Hualuogeng
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent committee of the Board, comprising all the independent non-executive Directors, formed for the purpose of advising the independent Shareholders in respect of, among other things, the 2023 Entrusted Processing Framework Agreement and the annual caps of the transactions contemplated thereunder
“Independent Financial Adviser” or “Gram Capital”	Gram Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO and appointed by the Company as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the 2023 Entrusted Processing Framework Agreement

DEFINITIONS

“Independent Shareholders”	Shareholders other than the Controlling Shareholders of the Company and any other persons who are required to abstain from voting on resolutions to approve the adoption of its annual cap at the EGM pursuant to the Listing Rules
“Independent Third Party(ies)”	any entity(ies) or person(s) who, to the best of the knowledge, information and belief of the Directors, is/are not a connected person(s) of the Company within the meaning ascribed thereto under the Listing Rules
“Jincheng Technology”	Jiangsu Jintan Jincheng Technology Industry Development Co., Ltd.* (江蘇金壇金城科技產業發展有限公司), a company established under the laws of the PRC with limited liability on December 7, 2015 and wholly owned by Jintan Holding, a connected person of the Company
“Jinhang Holding”	Jiangsu Jinhang Holding Co., Ltd.* (江蘇金航控股有限公司), a company established under the laws of the PRC with limited liability on March 2, 2022, which is owned as to 40% by Jincheng Technology, 30% by Cai Dongze (蔡東澤), an Independent Third Party, 12.5% by Nanjing Ruiguan Enterprise Management Centre (Limited Partnership)* (南京瑞冠企業管理中心(有限合夥)), 12.5% by Wuxi Fengshenghui Enterprise Management Partnership Business (Limited Partnership)* (無錫豐晟匯企業管理合夥企業(有限合夥)) and 5% by Jiangsu Fengchuang Environmental Energy Co., Ltd.* (江蘇楓創環保能源有限公司), an Independent Third Party. Jinhang Holding is a connected person of our Company
“Jinsha Investment”	Changzhou Jinsha Technology Investment Co., Ltd.* (常州金沙科技投資有限公司), a company established under the laws of the PRC with limited liability on May 4, 2008 and wholly owned by Jintan Holding
“Jintan Group”	namely Jinsha Investment, Huake Engineering, Huake Investment, Jintan International, Jintan Hualuogeng and Jintan Holding
“Jintan Holding”	Jiangsu Jintan Investment Holding Co., Ltd.* (江蘇金壇投資控股有限公司), a company established under the laws of the PRC with limited liability on September 16, 2014 and wholly owned by the Government of Jintan District, a connected person of the Company

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“Jintan Hualuogeng”	Jiangsu Jintan Hualuogeng Technology Industry Development Co., Ltd.* (江蘇金壇華羅庚科技產業發展有限公司), a company established under the laws of the PRC with limited liability on December 12, 2014 and owned as to 90% by Jintan Holding and 10% by Changzhou Investment Group Co., Ltd.* (常州投資集團有限公司), respectively, a connected person of the Company
“Jintan International”	Jiangsu Jintan National Development International Investment Development Co., Ltd.* (江蘇金壇國發國際投資發展有限公司), a company established under the laws of the PRC with limited liability on December 16, 2010 and exercising its voting rights in our Shares in accordance with the instructions of Jintan Holding, a connected person of our Company
“Jinyuan Industry”	Xiamen Jinyuan Industry Development Company Limited* (廈門金圓產業發展有限公司), a company established under the laws of the PRC with limited liability on August 13, 2014 and wholly owned by Jinyuan Investment, one of our Pre-IPO Investors and Substantial Shareholders
“Jinyuan Investment”	Xiamen Jinyuan Investment Group Co., Ltd.* (廈門金圓投資集團有限公司), a company established under the laws of the PRC with limited liability on July 13, 2011 and wholly owned by the Finance Bureau of Xiamen City* (廈門市財政局), one of our Pre-IPO Investors and Substantial Shareholders
“Latest Practicable Date”	December 28, 2022, being the latest practicable date for the purpose of ascertaining certain information contained in this circular prior to its printing
“Lihang Jinzhi”	Xiamen Lihang Jinzhi Equity Investment Partnership (Limited Partnership)* (廈門鋰航金智股權投資合夥企業(有限合夥)), a limited liability partnership established under the laws of the PRC on July 29, 2019 whose general partner is Xiamen Lihang Equity Investment, one of our Pre-IPO Investors, a connected person of our Company
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

DEFINITIONS

“Luoyang Company”	China Lithium Battery Technology (Luoyang) Co., Ltd.* (中航鋰電(洛陽)有限公司), a company established under the laws of the PRC with limited liability on September 14, 2009 and formerly our controlling Shareholder and subsequently became a subsidiary of our Company. As of the Latest Practicable Date, Luoyang Company is owned as to 51% by Jincheng Technology and 49% by Jinhang Holding, and a connected person of our Company
“Model Code”	Model Code for Securities Transactions by Directors of Listed Issuers
“PRC” or “China”	the People’s Republic of China
“Prospectus”	the prospectus of the Company dated September 23, 2022
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) in the issued capital of the Company with a nominal value of RMB1.00 each, comprising Domestic Share(s) and H Share(s)
“Shareholder(s)”	shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the same meaning ascribed to it under the Listing Rules
“Supervisor(s)”	the supervisor(s) of the Company
“%”	percent.

LETTER FROM THE BOARD

CALB

CALB Co., Ltd.

中創新航科技股份有限公司

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

(Stock Code: 3931)

Executive Directors:

Ms. Liu Jingyu (*Chairwoman of the Board,
executive Director and president*)

Mr. Dai Ying (*Executive Director,
vice president and company secretary*)

Non-executive Directors:

Mr. Zhou Sheng

Mr. Zhang Guoqing

Mr. Li Yunxiang

Independent Non-executive Directors:

Mr. Wu Guangquan

Mr. Wang Susheng

Mr. Chen Zetong

Registered Office:

No. 1

Jiangdong Avenue

Jintan District

Changzhou City

Jiangsu Province

PRC

*Headquarters and Principal Place of
Business in the PRC:*

No. 1

Jiangdong Avenue

Jintan District

Changzhou City

Jiangsu Province

PRC

Principal Place of Business in

Hong Kong:

40th Floor, Dah Sing Financial Centre

No. 248 Queen's Road East, Wanchai

Hong Kong

January 3, 2023

To Shareholders:

Dear Sir or Madam,

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

CHANGES IN ACCOUNTING POLICIES

AND

NOTICE OF 2023 FIRST EXTRAORDINARY GENERAL MEETING

INTRODUCTION

The purpose of this circular is to provide you with the notice of EGM and information on the proposals to be put forward at the EGM for, among others, (i) details of the 2023 Entrusted Processing Framework Agreement and the transactions contemplated thereunder; (ii) the recommendation of the Independent Board Committee in respect of the 2023 Entrusted Processing Framework Agreement and the transactions contemplated thereunder; (iii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the 2023 Entrusted Processing Framework Agreement and the transactions contemplated thereunder; and (iv) the changes in accounting policies.

LETTER FROM THE BOARD

2023 ENTRUSTED PROCESSING FRAMEWORK AGREEMENT

Reference is made to the announcement dated November 10, 2022, the Company (for itself and on behalf of the Group) and Luoyang Company (for itself and on behalf of its Group) entered into the entrusted processing framework agreement (the “**2023 Entrusted Processing Framework Agreement**”), for a term of one year commencing from January 1, 2023 (subject to the approval of the 2023 Entrusted Processing Framework Agreement by the Independent Shareholders at the EGM) to December 31, 2023 (both days inclusive).

Principal terms of the 2023 Entrusted Processing Framework Agreement

(1) *Date*

November 10, 2022

(2) *Parties*

- i. Company (for itself and on behalf of the Group); and
- ii. Luoyang Company (for itself and on behalf of its Group)

(3) *Term*

One year commencing from January 1, 2023 (subject to the approval of the 2023 Entrusted Processing Framework Agreement by the Independent Shareholders at the EGM) to December 31, 2023 (both days inclusive).

(4) *Nature of transaction*

The Company entrusts Luoyang Company for the provision of processing service of EV battery products for civil use and energy storage system (ESS) products (collectively the “**Lithium Batteries**”). Luoyang Company will be responsible for the raw materials, front line workers and technicians whose licences and qualifications are approved by us and completing the production and processing.

(5) *Pricing policy*

The fees to be paid for Lithium Batteries under 2023 Entrusted Processing Framework Agreement are determined with reference to the cost of processing and producing Lithium Batteries and the prevailing market price of processing services in the same or proximity areas charged by independent third parties, which mainly comprise (i) the costs to be incurred by Luoyang Company for processing and producing Lithium Batteries; and (ii) a reasonable profit of around 2%-3% of the above mentioned costs for the entrusted processing services. The Company would normally review at least two quotations from and/or agreements entered into with the Independent Third Parties for providing similar services as comparison in determining the fees to be paid for Lithium Batteries under 2023 Entrusted Processing Framework Agreement.

LETTER FROM THE BOARD

Upon receiving the pricing terms of the transactions under the 2023 Entrusted Processing Framework Agreement from Luoyang Company, the Company will normally compare it with (i) the Company's expected cost of manufacturing the same categories of products; and (ii) the quotation from and/or agreements entered into with the Independent Third Parties providing similar services, to ensure that the prices and terms offered in 2023 Entrusted Processing Framework Agreement is fair and reasonable to the Company.

(6) Terms of payment

The Company shall pay Luoyang Company in the following manner:

- i. prepayment of 60% of the total purchase amount for the next quarter in the last month of each quarter, which is determined based on the order amount forecasted for the following quarter; and
- ii. the remaining 40% of the total purchase amount shall be paid on a monthly basis, which is determined based on the verified number of finished goods actually delivered to us.

Under the 2023 Entrusted Processing Framework Agreement, Luoyang Company is responsible for purchase all or partial raw materials and producing Lithium Batteries. Therefore, Luoyang Company requires a high prepayment from the Company to purchase raw materials. The Board also reviewed the payment terms obtained from other two Independent Third Parties and noted the payment terms provided to Luoyang Company are no less favourable than to Independent Third Parties. Having considered above, the Board is of the view that the prepayment method is fair and reasonable and on normal commercial terms.

(7) Quality control

Luoyang Company has the obligation to inspect the finished goods according to the quality control standards requirements.

(8) Licensing of patent

The Company grants Luoyang Company the right to use certain specified patents of the Company ("**Authorized Patents**") which are necessary for its provision of Lithium Batteries processing services. In this connection, Luoyang Company undertakes to only use the Authorized Patents for the purpose of the Lithium Batteries processing services under the 2023 Entrusted Processing Framework Agreement and that it shall not be entitled to use the Authorized Patents for other purposes unless prior written consent is obtained from us.

LETTER FROM THE BOARD

(9) Ownership of intellectual property rights

The intellectual property right(s) and the right(s) to apply for patents in relation to all documents, certificates, drawings and information provided by us and arising from performing the specific entrusted processing agreement shall belong to us.

(10) Confidentiality

Both parties shall keep trade secrets and confidential information obtained during the cooperation confidential (the “**Confidential Information**”). Both parties are considered as the receiving and disclosing parties of the Confidential Information. The receiving party (i) shall keep proper custody of various documents provided by the disclosing party, including but not limited to technical information, technical plan, drawings, quantity and price for processing; (ii) shall return the same back to the disclosing party or destroy the same after completion of usage or upon the request of the disclosing party; and (iii) shall not deal the same at its own discretion without the written consent of the disclosing party.

Quality control over the products of Luoyang Company

Before Luoyang Company starts production, the Company will provide Luoyang Company with the quality and technical requirements, such as the manufacturing process, examination standards on raw materials and quality standards. Before accepting Luoyang Company as an entrusted manufacturer, the Company has checked the quality assurance certificates of Luoyang Company granted by national-level qualification accretion centers and reviewed the equipment and production sites of Luoyang Company to ensure its qualifications. In addition, the Company has checked the professional certifications of front-line workers and technicians of Luoyang Company to make sure the workers maintains necessary working qualification. When accepting products, the Company will review and check the finished products. Luoyang Company is required to label each product batch with the producing factory, name, number of product, type of product, quantity, production lot, date of production and QR code so that the Company can track each product if any quality issue rises. Each time when Luoyang Company delivers the products, it should provide the labels together with a testing result that should be consistent with the goods received by the Company. Luoyang Company should also identify, confirm and control the key and special processes during manufacturing and record such processes. If Luoyang Company failed to exhibit the records, the Company can refuse to accept the products. Further, Luoyang Company should retain equipment to conduct examinations of the products and keep the examination records. Such equipment should be maintained regularly to ensure good operation. If Luoyang Company cannot perform the examination on the products, the Company will designate a national examination center to examine the products at the cost of Luoyang Company.

LETTER FROM THE BOARD

Warranties and undertakings by Luoyang Company

To ensure delineation of business and non-competition between our Company and Luoyang Company, our Company entered into a non-competition agreement with Jintan Group on March 2, 2022. Pursuant to the non-competition agreement, Luoyang Company undertakes to the Company that:

- (1) no similar entrusted processing contracts with third parties existed or valid before the date of the 2023 Entrusted Processing Framework Agreement. It shall not provide the processing services to any third parties nor shall it manufacture any Lithium Batteries for its own sales in the case where it has any surplus production capacities;
- (2) during the term of the 2023 Entrusted Processing Framework Agreement, it shall use existing product lines and facilities to fulfil its obligations thereunder, and it shall not expand the production capacities for Lithium Batteries unless the expansion is necessary for meeting demands of the Company and a written consent from the Company having been obtained; and
- (3) prior to the expiry of the 2023 Entrusted Processing Framework Agreement, if Jintan Holding intends to dispose of all or part of its equity interests in Luoyang Company or Luoyang Company intends to dispose of its major assets or business in relation to Lithium Batteries, it shall inform us in a timely manner, and we shall have the right of refusal under the same terms and conditions.

Historical amount

Luoyang Company started to provide entrusted processing services from the end of 2021. For the year ended December 31, 2021 and ten months ended October 31, 2022, the total fees incurred from entrusted processing services provided by Luoyang Company were approximately RMB206.70 million RMB3,065.35 million, respectively.

The proposed annual cap and basis for the proposed annual cap

The Directors estimate that the fees to be incurred under the 2023 Entrusted Processing Framework Agreement will not exceed RMB4,200 million for the year ending December 31, 2023.

In determining such proposed annual cap, having considered (i) the cost of processing and producing the Lithium Batteries; (ii) the prevailing market price for the provision of processing service in the same or proximity areas; (iii) the expected 5GWh per year production capacity of Luoyang Company; (iv) the compound annual growth rate of 139.7% and 83.0% from 2019 to 2021 of sales volume of EV batteries and ESS products respectively; (v) the estimated demands surpassing the supply in the coming year; and (vi) the expected production capacity and utilization. Due to the non-competing undertakings, all the civil use production lines will be used for meeting the demands of the Company.

LETTER FROM THE BOARD

Reasons for and benefits of entering into the 2023 Entrusted Processing Framework Agreement

The Directors are of the view that the transactions under the 2023 Entrusted Processing Framework Agreement are to the benefit of the Company because (i) while the Group is committed to building own production lines to increase production capacity of the Company, it takes time to achieve the planned production capacity of the Company. It is expected that the effective production capacity of the Company will be expanded to approximately 90GWh in 2023. At the current stage, the current production of the Company capacity for manufacturing the Lithium Batteries is insufficient to meet the current and increasing demands of customers; (ii) Luoyang Company as well as the shareholders of Luoyang Company have already entered into a non-compete undertaking in favour of each member of the Group and undertook that Luoyang Company cannot engage in the business of manufacturing, research and development and sales of the Lithium Batteries, unless the Company's demands for entrusted processing services for the Lithium Batteries have been satisfied and an expressed consent have been obtained from the Company. Such undertaking can effectively avoid potential competition from Luoyang Company; (iii) entrusted processing arrangement between the Company and Luoyang Company can, on the one hand, supplement the Company's current production capacities by utilizing the production capacities of Luoyang Company to meet the increasing demand of the Group's customers and, on the other hand, it is conducive to Luoyang Company in respect of the delivery of delineated orders; and (iv) it is not easy to find a substitute for provision of processing service of Lithium Batteries in the market with similar quality, price, production capacity and cultivated trust and understanding.

The Group has its own production lines for producing the Lithium Batteries. For the ten months ended October 31, 2022, the production capacity of Lithium Batteries of Luoyang Company accounted to 18% of the total production capacity of Lithium Batteries of the Group. As disclosed in the Prospectus, the Group continues to increase its production capacity through expanding or establishing production bases in Changzhou, Xiamen, Chengdu, Wuhan, etc. The proportion of self-owned production capacity of the Company will increase and the reliance on the production capacity of Luoyang Company will decrease in the future. Having considered above, the Board is of the view that entering into 2023 Entrusted Processing Framework Agreement with Luoyang Company will not result in any over-reliance on Luoyang Company and the reliance on Luoyang Company is expected to decrease in the future once more of the Group's production bases are expanded or established.

Opinion of the Board

In relation to the 2023 Entrusted Processing Framework Agreement, the Company has reviewed at least two quotations and/or agreements from Independent Third Parties providing similar services as comparisons and identified no material difference in major terms between them, and internal control department of the Company has reviewed the transaction volume, pricing and annual cap of the 2023 Entrusted Processing Framework Agreement. The Board is therefore of the view that the price and terms under the 2023 Entrusted Processing Framework Agreement are no favourable than quotations or the terms obtained from Independent Third Parties. The Company will review the pricing of the transactions under the 2023 Entrusted

LETTER FROM THE BOARD

Processing Framework Agreement and compare it with the agreements entered into between the Company and Independent Third Parties to ensure that the prices and terms offered in 2023 Entrusted Processing Framework Agreement is fair and reasonable to the Company. In addition, the Company's auditors and independent non-executive Directors will conduct annual review of the transactions contemplated under the 2023 Entrusted Processing Framework Agreement and provide annual confirmation in accordance with the Listing Rules to make sure the abovementioned procedure has been complied with throughout the year.

The Directors (excluding the independent non-executive Directors whose view has been disclosed in the section headed "Letter from the Independent Board Committee" of this circular) are of the view that (i) each of the 2023 Entrusted Processing Framework Agreement and the transactions contemplated thereunder have been entered into in the ordinary and usual course of business of the Group and are based on normal commercial terms that are fair and reasonable and in the interests of the Shareholders as a whole; and (ii) the proposed annual cap for the 2023 Entrusted Processing Framework Agreement is fair and reasonable and in the interests of the Shareholders as a whole.

Mr. Zhang Guoqing and Mr. Zhou Sheng, as non-executive Directors, hold important positions in Jintan Holding and its associates, they have therefore abstained from voting on the relevant Board resolution approving the 2023 Entrusted Processing Framework Agreement. Save as disclosed above, none of the other Directors has material interests in the transactions contemplated thereunder.

INTERNAL CONTROL MEASURES

The Company will adopt the following internal control and corporate governance measures to closely monitor connected transactions and ensure future compliance with the Listing Rules:

- (1) the Company will adopt and implement a management system on connected transactions and the Board and various internal departments of the Company will be responsible for the control and daily management in respect of the continuing connected transactions;
- (2) the Board and various other internal departments of the Company (including but not limited to the finance department and legal department) will be jointly responsible for evaluating the terms under the relevant agreements for the continuing connected transactions, in particular, the fairness of the pricing policies and annual caps (if applicable) under each transaction;

LETTER FROM THE BOARD

- (3) the Board and the finance department of the Group will monitor the connected transactions (including but not limited to transaction amounts and annual caps under the relevant agreements) every month and management of the Company will review the pricing policies to ensure connected transactions to be performed in accordance with the relevant agreements through the following review procedures every half year;
 - i. they will compare the proposed price with the market price to ensure that the proposed price is equivalent to or no less favorable to us than the price offered by the Independent Third Parties providing similar services. The Company will make enquiries from at least two Independent Third Parties for their quotations and conduct internal assessments; and
 - ii. review the proposed price to ensure it is consistent with the pricing terms under the 2023 Entrusted Processing Framework Agreement, and that the terms offered by the connected person to the Group are no less favorable than those offered by the Independent Third Parties.
- (4) the Company shall engage the auditors of the Company to, and the independent non-executive Directors will, conduct annual review on the continuing connected transactions to ensure that the transactions contemplated thereunder have been conducted pursuant to the requirements of the Listing Rules and have fulfilled the relevant disclosure requirements;
- (5) the Company will comply with the relevant requirements under Chapter 14A of the Listing Rules for the continuing connected transactions; and
- (6) when considering any renewal or revisions to the 2023 Entrusted Processing Framework Agreement, the interested Directors and Shareholders shall abstain from voting on the resolutions to approve such transactions at Board meetings and general meetings (as the case may be).

INFORMATION RELATING TO PARTIES

The Group is a leading new energy technology company mainly engaged in the design, R&D, production and sales of EV batteries and ESS products.

Luoyang Company is an other limited liability company established in the PRC, principally engaged in research, production, sales and market application development of lithium batteries, battery management systems (BMS), energy storage batteries and related integrated products and lithium battery-related materials and sales of new energy vehicles and parts. The ultimate beneficial owner is People's Government of Jintan District, Changzhou.

LETTER FROM THE BOARD

LISTING RULES IMPLICATIONS

As at the date of this circular, Jintan Holding directly and indirectly held approximately 25.54% issued Shares of the Company and is one of the substantial shareholders of the Company, and thus Jintan Holding and its associates are connected persons of the Company. Luoyang Company is owned as to 49% by Jinhang Holding and 51% by Jincheng Technology, respectively. Jincheng Technology is wholly owned by Jintan Holding, and hence an associate of Jintan Holding and a connected person of the Company. Therefore, the transactions contemplated under the 2023 Entrusted Processing Framework Agreement will constitute continuing connected transactions of the Company under the Chapter 14A of the Listing Rules.

As the highest applicable percentage ratios of the annual cap under the 2023 Entrusted Processing Framework Agreement is expected to be more than 5%, the transactions contemplated thereunder are therefore subject to the reporting, announcement, annual review and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee has been formed to provide recommendation to the Independent Shareholders in respect of the 2023 Entrusted Processing Framework Agreement and the transactions contemplated thereunder. Gram Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

ADDITIONAL INFORMATION IN RELATION TO PRICING POLICY UNDER 2023 SALES FRAMEWORK AGREEMENT OF THE COMPANY

Reference is made to the announcement dated November 10, 2022, the Company (for itself and on behalf of the Group) and CALB USA (for itself and on behalf of its Group) entered into the sales framework agreement (the “**2023 Sales Framework Agreement**”). The Company provides below additional information in relation to pricing policy for your reference, which will not constitute any part of the resolutions to be proposed at the EGM.

When determined the sales price for EV batteries, the Company referred to at least three quotations from domestic Independent Third Parties. The Company has also compared its terms against the Company's sales contract with Independent Third Parties and identifies no material difference in major terms between them, and internal control department has reviewed the transaction volume, pricing and annual cap of the 2023 Sales Framework Agreement. The Company also considered the historical selling price to CALB USA from 2019 to the ten months ended October 31, 2022, which is one of the references for the expected average selling price for 2023 Sales Framework Agreement. Based on the above, the Board is of the view that the terms are fair and reasonable and in line with market practice. The Company will review the pricing of the sales under 2023 Sales Framework Agreement and compare the terms of it with similar sales to Independent Third Parties to ensure that the prices and terms of the sales under 2023 Sales Framework Agreement are fair and reasonable to the Company. In addition, the Company's auditors and independent non-executive Directors will conduct annual review of the transactions contemplated under 2023 Sales Framework Agreement and provide annual confirmation in accordance with the Listing Rules to make sure the abovementioned procedure has been complied with throughout the year.

LETTER FROM THE BOARD

CHANGES IN ACCOUNTING POLICIES

On May 10, 2017, the Ministry of Finance of China issued No. 15 [2017] of the Ministry of Finance, revised the Accounting Standards for Enterprises No. 16 – Government Grants, which came into force on June 12, 2017. According to the revised standards, government grants can be accounted for using the total amount method and the net amount method. Due to the business development of the Company, the Company plans to change the government grants that meet the accounting conditions of the net amount method to be accounted for by the net amount method to make the accounting more accurate and the accounting disclosure more in line with the actual situation of the Company and use the retrospective adjustment method to change the presentation of the relevant financial statements.

Please refer to Appendix II to the Circular for details. An ordinary resolution will be proposed at the EGM to consider and approve the resolution on the changes in accounting policies relating to government grants of the Company.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of ascertaining the entitlement of the Shareholders to attend and vote at the EGM, the register of members of the Company will be closed from Friday, January 13, 2023 to Wednesday, January 18, 2023 (both days inclusive), during which period no transfer of Shares will be registered. To be eligible to attend and vote at the EGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's H Share Registrar, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not later than 4:30 p.m. on Thursday, January 12, 2023.

NOTICE OF EXTRAORDINARY GENERAL MEETING

Set out on pages 39 to 40 of this circular is the notice of the EGM at which, inter alia, ordinary resolutions will be proposed to Shareholders to consider and approve the 2023 Entrusted Processing Framework Agreement, the transactions contemplated thereunder and the annual cap as set out in the 2023 Entrusted Processing Framework Agreement and the changes in accounting policies relating to government grants of the Company.

FORM OF PROXY

A form of proxy is enclosed for use at the EGM. Such form of proxy is also published on the website of the Stock Exchange (www.hkexnews.hk). Whether or not you intend to attend the EGM, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return it to the Company's H Share Registrar, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not less than 24 hours before the time fixed for holding the EGM (i.e. before 2:00 p.m. on Tuesday, January 17, 2023) or any adjournment thereof. Completion and return of the form of proxy shall not preclude a Shareholder from attending and voting in person at the EGM if they so wish and in such event the form of proxy shall be deemed to be revoked.

LETTER FROM THE BOARD

VOTING BY POLL

In accordance with the Listing Rules, any Shareholder with a material interest in the 2023 Entrusted Processing Framework Agreement, and its/his/her associates will be required to abstain from voting on the resolution approving the 2023 Entrusted Processing Framework Agreement, the transaction contemplated thereunder and the annual caps as set out in the 2023 Entrusted Processing Framework Agreement at the EGM.

As at the Latest Practicable Date, Jintan Holding directly and indirectly holds approximately 25.54% equity interest in the Company and is a substantial Shareholder. As such, Jintan Holding will abstain from voting on such resolution. Save for Jintan Holding, to the best knowledge, information and belief of the Directors having made all reasonable enquiries, no other Shareholder is required to abstain from voting on such resolution.

Pursuant to Rule 13.39(4) of the Listing Rules and article 88 of the Articles of Association, any resolution put to the vote of the Shareholders at a general meeting shall be decided on a poll except where the chairman of the meeting may, in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. Accordingly, the resolution put to vote at the EGM will be taken by way of poll. An announcement on the poll results will be made by the Company after the EGM in the manner prescribed under Rule 13.39(5) of the Listing Rules.

On a poll, every Shareholder present in person or by proxy or, in the case of a Shareholder being a corporation, by its duly authorised representative, shall have one vote for every fully paid Share of which he/she/it is the holder. A Shareholder entitled to more than one vote need not use all his/her/its votes or cast all the votes he/she/it uses in the same way.

RECOMMENDATION

The Board considers that the 2023 Entrusted Processing Framework Agreement, the transactions contemplated thereunder and the annual cap as set out in the 2023 Entrusted Processing Framework Agreement and the changes in accounting policies are in the interests of the Group and the Shareholders as a whole. Accordingly, the Board recommends the Shareholders to vote in favour of the resolutions to be proposed at the EGM.

Yours faithfully,

For and on behalf of the Board

By order of the Board

CALB Co., Ltd.

Liu Jingyu

Chairwoman of the Board, executive Director and president

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

CALB

CALB Co., Ltd.

中創新航科技股份有限公司

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

(Stock Code: 3931)

To the Independent Shareholders

January 3, 2023

Dear Sir or Madam,

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

We refer to the circular of the Company dated January 3, 2023 (the “**Circular**”) of which this letter forms part. Unless the context requires otherwise, capitalised terms used herein shall have the same meanings as those defined in the Circular.

We have been appointed by the Board as the Independent Board Committee to consider and advise the Independent Shareholders as to whether the terms of the 2023 Entrusted Processing Framework Agreement, the transactions contemplated thereunder and the annual caps set out in the 2023 Entrusted Processing Framework Agreement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Gram Capital has been appointed as the Independent Financial Adviser to advise us in this respect.

We wish to draw your attention to the “Letter from Independent Financial Adviser” as set out on pages 18 to 28 of the Circular. We have considered the terms and conditions of the transactions, the advice of the Independent Financial Adviser and the other factors contained in the “Letter from the Board” as set out on pages 6 to 16 of the Circular.

Having considered the advice given by Gram Capital, in particular the principal factors, reasons and recommendation as set out in this letter, we consider that (i) the enter into the 2023 Entrusted Processing Framework Agreement is in ordinary and usual course of business of the Group and is in the interests of the Company and the Shareholders as a whole; and (ii) the terms and conditions of the 2023 Entrusted Processing Framework Agreement are normal commercial terms whilst the annual caps as set out in the 2023 Entrusted Processing Framework Agreement are fair and reasonable so far as the Company and the Independent Shareholders are concerned. Accordingly, we recommend you vote in favor of the relevant ordinary resolution to be proposed at the EGM to approve the 2023 Entrusted Processing Framework Agreement, the transactions contemplated thereunder and the annual caps set out in the 2023 Entrusted Processing Framework Agreement.

Yours faithfully
For and on behalf of
Independent Board Committee

Mr. WU Guangquan

Mr. WANG Susheng

Mr. CHEN Zetong

Independent non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Set out below is the text of a letter received from Gram Capital, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Transaction for the purpose of inclusion in this circular.



Room 1209, 12/F.
Nan Fung Tower
88 Connaught Road Central/
173 Des Voeux Road Central
Hong Kong

3 January 2023

*To: The independent board committee and the independent shareholders
of CALB Co., Ltd.*

Dear Sirs,

CONTINUING CONNECTED TRANSACTION

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the 2023 Entrusted Processing Framework Agreement and the transactions contemplated thereunder (the “**Transaction**”), details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 3 January 2023 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 10 November 2022, the Company (for itself and on behalf of the Group) and Luoyang Company (for itself and on behalf of its Group) entered into the 2023 Entrusted Processing Framework Agreement, pursuant to which the Company agrees to entrust Luoyang Company to provide processing services of EV battery products for civil use and ESS products (collectively the “**Lithium Batteries**”) for the Company for a term of one year commencing from 1 January 2023 to 31 December 2023.

According to the Board Letter, the Transaction constitutes continuing connected transactions of the Company and is therefore subject to the reporting, announcement, annual review and the Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee comprising Mr. Wu Guangquan, Mr. Wang Susheng, Mr. Chen Zetong (all being the independent non-executive Director) has been established to advise the Independent Shareholders on (i) whether the terms of the Transaction are on normal commercial terms and are fair and reasonable; (ii) whether the Transaction is in the interests

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

of the Company and the Shareholders as a whole and is conducted in the ordinary and usual course of business of the Group; and (iii) how the Independent Shareholders should vote in respect of the resolution to approve the Transaction at the EGM. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

INDEPENDENCE

We were not aware of (i) any relationships or interests between Gram Capital and the Company; or (ii) any services provided by Gram Capital to the Company, during the past two years immediately preceding the Latest Practicable Date, or any other parties that could be reasonably regarded as hindrance to Gram Capital's independence to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the Directors' representation and confirmation that there is no undisclosed private agreement/arrangement or implied understanding with anyone concerning the 2023 Entrusted Processing Framework Agreement. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

The Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive and there are no other matters the omission of which would make any statement in the Circular or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, Luoyang Company or their respective subsidiaries or associates (where applicable), nor have we considered the taxation implication on the Group or the Shareholders as a result of the Transaction. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly extracted from the relevant sources while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Transaction, we have taken into consideration the following principal factors and reasons:

Information on the Group

With reference to the Board Letter, the Group is a leading new energy technology company mainly engaged in the design, R&D, production and sales of EV batteries and ESS products.

Set out below are the audited financial information of the Group for the two years ended 31 December 2021 and for the three months ended 31 March 2022 (with comparative figures for the corresponding period in 2021) as extracted from the Company's prospectus (the "Prospectus"):

	For the three months ended 31 March 2022 ("3M2022") RMB'000	For the three months ended 31 March 2021 ("3M2021") RMB'000	Year-on- year change %	For the year ended 31 December 2021 ("FY2021") RMB'000	For the year ended 31 December 2020 ("FY2020") RMB'000	Year-on- year change %
Revenue	3,897,090	1,063,192	266.5	6,817,115	2,825,419	141.3
– EV batteries	3,691,182	960,957	284.1	6,065,200	2,499,300	142.7
– ESS products	100,129	74,634	34.2	446,080	238,181	87.3
– Others	105,779	27,601	283.2	305,835	87,938	247.8
Gross profit	320,929	140,585	128.3	378,278	384,674	(1.7)
Profit (Loss) for the period/year	58,017	60,154	(3.6)	111,540	(18,328)	N/A

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

According to the above table, revenue generated from EV batteries accounted for the majority part of the Group's revenue. The Group's revenue was approximately RMB6,817.1 million for FY2021, representing increase of approximately 141.3% as compared to that for FY2020. The Group's revenue further significantly increased by approximately 266.5% for 3M2022 as compared to that for the corresponding period in 2021. With reference to the Prospectus, such strong increase in revenue was mainly driven by the rapid growth in demand of the Group's EV batteries as supported by the increase in the Group's production capacities. At the same time, the sales of the Group's ESS products also experienced growth, which in turn, was mainly driven by the increase in sales to certain major customers.

The Group's gross profit margin for the years ended 31 December 2020, 31 December 2021 and three months ended 31 March 2022 were approximately 13.6%, 5.5% and 8.2% respectively (3M2021: approximately 13.2%). The change in gross profit margin was mainly attributable to price fluctuation of battery raw materials including cathode materials and electrolytes and the positive impact of the economies of scale relating to production capacity expansion. The Group's gross profit decreased by approximately 1.7% from approximately RMB384.7 million for FY2020 to approximately RMB378.3 million for FY2021, which was primarily due to the increase in the Group's raw materials costs. However, the Group's gross profit increased by approximately 128.3% from RMB140.6 million for 3M2021 to RMB320.9 million for 3M2022, which is mainly attributable to the increase in the Group's sale volume.

For FY2020, the Group recorded loss for the year of approximately RMB18.3 million, which was mainly due to the shifting of the Group's strategic focus into the EV passenger vehicle market not long. The Group incurred substantial early investment but did not generate much income, thus leading to net losses for FY2020.

For FY2021, the Group's profit for the year was approximately RMB111.5 million, including a significant gain on disposal of subsidiaries recorded by the Group. The related gains mainly resulted from combined effects of (i) a gain on disposal of subsidiaries of approximately RMB347.2 million; and (ii) an impairment loss on investment in an associate of approximately RMB178.7 million. For 3M2022, the Group's net profit decreased by approximately RMB2.1 million as compared to that for 3M2021, which was mainly due to (i) the increase in income tax expenses in connection with tax incurred for the recognition of government grants in a direct wholly-owned subsidiary of the Company; (ii) the other losses incurred primarily for the fair value loss in put option liabilities and allowance for inventories; and (iii) the increase in selling expenses, administrative expenses and research and development expenses as the Group's business scale expanded, which was partially offset by the increase in gross profit and government grants and subsidies.

Please refer to section headed "PRINCIPAL COMPONENTS OF CONSOLIDATED STATEMENTS OF PROFIT OR LOSS" in the Prospectus for further details of the historical financial performance of the Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Information on Luoyang Company

With reference to the Board Letter, Luoyang Company is an other limited liability company established in the PRC, principally engaged in research, production, sales and market application development of lithium batteries, battery management systems (BMS), energy storage batteries and related integrated products and lithium battery-related materials and sales of new energy vehicles and parts.

Luoyang Company is owned as to 51% by Jincheng Technology and 49% by Jinhang Holding and, respectively. The ultimate beneficial owner of Luoyang Company is People's Government of Jintan District, Changzhou.

Luoyang Company had been the Company's controlling shareholder during the period from the Company's establishment on 8 December 2015 and prior to an equity transfer and capital increases in July 2019. On 22 April 2019, (i) Chengfei Integration agreed to transfer its 45% equity interests in Luoyang Company to the Company; and (ii) Chengfei Integration and Jinsha Investment agreed to subscribe for certain amount of the increased registered capital of the Company by transferring 18.98% and 9.38% of their respective equity interests in Luoyang Company as consideration. Upon completion of the aforesaid equity transfer and capital increases, Luoyang Company ceased to be a Shareholder of the Company and became a non-wholly subsidiary of the Company, which was owned as to 73.36% by the Company. The Company further acquired 1.01% equity interests in Luoyang Company and therefore owned 74.37% equity interests in Luoyang Company.

As stated in the Prospectus, having considered certain risks and potential impact arising from having Luoyang Company been a subsidiary/associates of the Company, the Company entered into a series of transactions in October 2021 and March 2022, upon completion of which, the Company ceased to have any equity interest in Luoyang Company.

Please refer to the section headed "ACQUISITION AND DISPOSAL OF LUOYANG COMPANY" of the Prospectus for details of the change in Luoyang Company's shareholding.

As advised by the Directors, Luoyang Company owns eight EV battery production lines with expected production capacity of approximately 5GWh.

Reasons for and benefits of the Transaction

With reference to the Board Letter, the Directors are of the view that the transactions under the 2023 Entrusted Processing Framework Agreement are to the benefit of the Company because of the following reasons:

- (i) while the Group is committed to building own production lines to increase production capacity of the Company, it takes time to achieve the planned production capacity of the Company. It is expected that the effective production capacity of the Company will be expanded to approximately 90GWh in 2023. At the current stage, the current production of the Company capacity for manufacturing the Lithium Batteries is insufficient to meet the current and increasing demands of customers;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (ii) Luoyang Company as well as the shareholders of Luoyang Company have already entered into a non-compete undertaking in favour of each member of the Group and undertook that Luoyang Company cannot engage in the business of manufacturing, research and development and sales of EV battery products for civil use and ESS products, unless the Company's demands for entrusted processing services for EV battery products and ESS products have been satisfied and an expressed consent have been obtained from the Company. Such undertaking can effectively avoid potential competition from Luoyang Company;
- (iii) entrusted processing arrangement between the Company and Luoyang Company can, on the one hand, supplement the Company's current production capacities by utilizing the production capacities of Luoyang Company to meet the increasing demand of the Group's customers and, on the other hand, it is conducive to Luoyang Company in respect of the delivery of delineated orders; and
- (iv) it is not easy to find a substitute for provision of processing service of EV batteries for civil use and ESS products in the market with similar quality, price, production capacity and cultivated trust and understanding.

As advised by the Directors, the Company are currently at the rapid growth stage. Along with the increase of client recognition and brand awareness, there will be a growing demand from the existing and new customers. As mentioned above, at the current stage, the current production of the Company capacity for manufacturing the EV batteries for civil use and ESS products is insufficient to meet the current and increasing demands of customers. We consider that the entrusted processing arrangement with Luoyang Company is beneficial to the Group as the Group is able to utilize Luoyang Company's production capacity to meet the increasing demand of the Group's customers and thereby reduce the gap between the Group's production capacities and the Group's customers' demand.

As advised by the Directors, there will generally be a construction cycle of 18-24 months before the mass production of the Group's new production bases. Since Luoyang Company has accumulated experience in the production of EV battery and ESS products and other products, the entrusted processing arrangement with Luoyang Company will be beneficial to maintain the continuity of the Group's EV battery and ESS business, and also enable the Group to better prepare for the release of production capacity and mass production and delivery in future.

As stated in the Prospectus, EV battery manufacturing involves a series of complex process and parameters control to ensure that the battery can meet the design requirements and featured with great product consistency. Mature EV battery manufacturing capabilities not only rely on the industry-leading R&D capabilities of EV battery manufacturers, but also require years of experience in EV battery manufacturing and shipment. As advised by the Directors, Luoyang Company has over 12 years in EV battery manufacturing.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As mentioned above, the strong increases in the Group revenue from FY2020 to FY2021 and 3M2021 to 3M2022 was mainly driven by the rapid growth in demand of the Group's EV batteries as supported by the increase in the Group's production capacities. It indicated that the Group's production capacities are important.

Furthermore, as confirmed by the Directors, as the Transaction is expected to be conducted in the ordinary and usual course of business of the Group and on a frequent basis, it would be costly and impractical to make regular disclosure of each of the relevant transactions and obtain the prior approval from the Independent Shareholders as required by the Listing Rules, if necessary. Accordingly, the Directors are of the view that the Transaction will be beneficial to the Company and the Shareholders as a whole.

In light of the above, we consider that the Transaction is conducted in the ordinary and usual course of business of the Group and is in the interests of the Company and the Shareholders as a whole.

Principal terms of the Transaction

The tables below summarise the major terms of the Transaction, details of which are set out under the section headed "2023 Entrusted Processing Framework Agreement" of the Board Letter:

Date

10 November 2022

Parties

- (a) Company (for itself and on behalf of the Group); and
- (b) Luoyang Company (for itself and on behalf of its Group)

Term of the agreement

One year commencing from 1 January 2023 (subject to the approval of the 2023 Entrusted Processing Framework Agreement by the Independent Shareholders at the EGM) to 31 December 2023 (both days inclusive)

Nature of transaction

The Company entrust Luoyang Company for the provision of processing service of Lithium Batteries. Luoyang Company will be responsible for the raw materials, front line workers and technicians whose licences and qualifications are approved by the Group and completing the production and processing.

Ownership of intellectual property rights

The intellectual property right(s) and the right(s) to apply for patents in relation to all documents, certificates, drawings and information provided by the Group and arising from performing the specific entrusted processing agreement shall belong to the Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Pricing Policy

The fees to be paid for Lithium Batteries are determined with reference to the cost of processing and producing Lithium Batteries and the prevailing market price of processing services in the same or proximity areas charged by independent third parties, which, with reference to the Board Letter mainly comprise (i) the costs to be incurred by Luoyang Company for processing and producing Lithium Batteries; and (ii) a reasonable profit of around 2%-3% of the abovementioned costs for the entrusted processing services. The Company would normally review at least two quotations from and/or agreements entered into with the Independent Third Parties for providing similar services as comparison in determining the fees to be paid for Lithium Batteries under 2023 Entrusted Processing Framework Agreement.

Upon receiving the pricing terms of the transactions under the 2023 Entrusted Processing Framework Agreement from Luoyang Company, the Company will normally compare it with (i) the Company's expected cost of manufacturing the same categories of products; and (ii) the quotation from and/or agreements entered into with the Independent Third Parties providing similar services, to ensure that the prices and terms offered in 2023 Entrusted Processing Framework Agreement is fair and reasonable to the Company.

After considering that (i) there were only ten full months from the effective date of the existing framework agreement to the date of the 2023 Entrusted Processing Framework Agreement; and (ii) the Company will make enquiries from at least two Independent Third Parties for their quotations and conduct internal assessments, we requested the Company to provide us three quotation letters. To ensure the representativeness of the quotation letters, the Company advised that the three quotation letters were selected on a random selection basis from the Group's two largest independent third party suppliers in respect of the entrusted processing services. As the quotations were from two independent third parties (being half of the total number of the independent third parties who currently provide the entrusted processing services to the Group and the amounts of entrusted processing services as provided by the two independent third parties for the 10 months ended 31 October 2022 accounted for the majority proportion of the entrusted processing services as provided by all the independent third parties to the Group for the same period) and were provided by such parties in different period, we consider the quotations are representative to justify the fairness and reasonableness of the pricing policy of the 2023 Entrusted Processing Framework Agreement.

According to the quotation letters, we noted that the reasonable profit of around 2%-3% charged by Luoyang Company was not less favourable than those offered by the independent third parties for the entrusted processing service of Lithium Batteries.

Therefore, we consider that the above mentioned reasonable profit is fair and reasonable.

The Company further advised us that the Company will conduct cross check of cost incurred by Luoyang Company for processing and producing Lithium Batteries on a monthly basis. For our due diligence purpose, we requested the Company to provide us supporting for their cross check on cost incurred by Luoyang Company for the last six months before the date of 2023 Entrusted Processing Framework Agreement. The Company provided us supporting information, showing the cross check procedures conducted between the Company and Luoyang Company for each month for the period from May 2022 to October 2022.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

With reference to the Board Letter, the Company will adopt the following internal control and corporate governance measures to closely monitor connected transactions and ensure future compliance with the Listing Rules, details of which are set out under the section headed “Internal Control Measures” of the Board Letter. Having considered that (i) the Board and various other internal departments of the Company (including but not limited to the finance department and legal department) will be jointly responsible for evaluating the terms under the relevant agreements for the continuing connected transactions, in particular, the fairness of the pricing policies and annual caps (if applicable) under each transaction; and (ii) there will be regularly monitoring procedures on the connected transactions and regularly review on the pricing policies, we consider there are sufficient measures to ensure the fair pricing and the monitoring annual caps.

We also discussed with staffs of the Company’s various internal departments (e.g. finance department and legal department) and understood that such departments are aware of the internal control measures and will comply with the internal control measures when conducting the Transaction.

Based on the above, we do not doubt the effectiveness of the implementation of the internal control procedures for the Transaction.

Proposed annual cap

Set out below are (i) the total service fees incurred from entrusted processing services provided by Luoyang Company for the 10 months ended 31 October 2022 with the existing annual cap for the year ending 31 December 2022; and (ii) the proposed annual cap for the year ending 31 December 2023:

	For the year ending 31 December 2022 (“FY2022”) RMB’million
Historical amounts	3,065.35 <i>(Note)</i>
Existing annual cap	3,500.00
Utilisation rate	87.6%
	For the year ending 31 December 2023 (“FY2023”) RMB’million
Proposed annual cap	4,200

Note: the figure was for the 10 months ended 31 October 2022.

The proposed annual cap for FY2023 were determined based on the factors as set out under the section headed “The proposed annual cap and basis for the proposed annual cap” of the Board Letter.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

According to the above table, the utilization of existing annual cap was approximately 87.6% based on the total service fees incurred from entrusted processing services provided by Luoyang Company for the 10 months ended 31 October 2022, being at a high level. We further noted that the proposed annual cap for FY2023 represented an increase of 20% as compared to the existing annual cap for FY2022. As advised by the Directors, the aforesaid increase in proposed annual cap for FY2023 was mainly due to the expected increase in unit cost of entrusted processing service of Lithium Batteries to be provided by Luoyang Company and its expected effective production capacity.

Upon our request, we obtained the calculation of the proposed annual cap for the year ending 31 December 2023 and noted that the components of the proposed annual cap were (a) the effective production capacity of the Luoyang Company; and (b) the estimated unit cost of entrusted processing service of Lithium Batteries to be provided by Luoyang Company.

As mentioned above, Luoyang Company owns eight EV battery production lines with expected production capacity of approximately 5GWh. We noted that the effective production capacity of the Luoyang Company is in line with its current expected production capacity. As advised by the Directors, they expected that Luoyang Company's production capacity will be released in full in FY2023.

In addition, upon our request, we obtained the unit cost of entrusted processing service for major product under the entrusted processing service for the 10 months ended 31 October 2022 and noted that, the estimated unit cost of entrusted processing service were in line with the entrusted unit cost of entrusted processing service for such product for the 10 months ended 31 October 2022. As advised by the Directors, the Company anticipated that the major product will account for over 90% of the products under the entrusted processing service. Accordingly, we are of the view that the estimated unit cost of entrusted processing service of Lithium Batteries is fair and reasonable.

Having considered that the proposed annual cap was calculated by multiplying (a) the effective production capacity of the Luoyang Company; and (b) the estimated unit cost of entrusted processing service of Lithium Batteries to be provided by Luoyang Company, both of which are fair and reasonable as mentioned above, we are of the view that the proposed annual cap for FY2023 is fair and reasonable.

Shareholders should note that as the proposed annual cap is relating to future events and were estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2023, and they do not represent forecasts of revenue/income arising or cost incurring from the Transaction. Consequently, we express no opinion as to how closely the actual revenue/income arising or cost incurring from the Transaction will correspond with the proposed annual cap.

Having considered the above, including the principal terms of the Transaction and the proposed annual cap, we are of the view that the terms of the Transaction are fair and reasonable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Listing Rules implication

The Directors confirmed that the Company shall comply with the requirements of Rules 14A.53 to 14A.59 of the Listing Rules pursuant to which (i) the values of the Transaction must be restricted by the proposed annual cap; (ii) the terms of the Transaction (together with the proposed annual cap) must be reviewed by the independent non-executive directors annually; and (iii) details of the independent non-executive directors' annual review on the terms of the Transaction (together with the corresponding the proposed annual cap) must be included in the Company's subsequent published annual reports.

Furthermore, it is also required by the Listing Rules that the auditors of the Company must provide a letter to the Board confirming, among other things, whether anything has come to their attention that causes them to believe that the Transaction (i) have not been approved by the Board; (ii) were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and (iii) have exceeded the proposed annual caps.

In the event that the total amounts of the Transaction are anticipated to exceed the proposed annual cap, or that there is any proposed material amendment to the terms of the Transaction, as confirmed by the Directors, the Company shall comply with the applicable provisions of the Listing Rules governing continuing connected transactions.

Given the above stipulated requirements for continuing connected transactions pursuant to the Listing Rules, we are of the view that there are adequate measures in place to monitor the Transaction and thus the interest of the Independent Shareholders would be safeguarded.

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Transaction (including the proposed annual cap) are on normal commercial terms and are fair and reasonable; and (ii) the Transaction is conducted in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Transaction (including the proposed annual cap) and we recommend the Independent Shareholders to vote in favour of the resolution in this regard.

Yours faithfully,
For and on behalf of
Gram Capital Limited
Graham Lam
Managing Director

Note: Mr. Graham Lam is a licensed person registered with the Securities and Futures Commission and a responsible officer of Gram Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 25 years of experience in investment banking industry.

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS

(i) Directors, Supervisors, and the Chief Executive of the Company

As at the Latest Practicable Date, the following Directors, Supervisors and chief executives of the Company were interested, or were deemed or taken to be interested in the following long and short positions in the Shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which were required to (a) be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code to be notified to the Company and the Stock Exchange (for this purpose, the relevant provisions of the SFO will be interpreted as if they applied to the Supervisors):

Name of Director, Supervisor or chief executive	Position	Nature of interest	Class of Shares	Number of Shares held ⁽¹⁾	Percentage in the respective class of share capital ⁽²⁾	Percentage of total share capital ⁽³⁾
Liu Jingyu	Executive director	Beneficial owner	Domestic Shares	1,513,192	0.10%	0.09%
Dai Ying	Executive director	Beneficial owner	Domestic Shares	1,053,968	0.07%	0.06%

Notes:

- (1) All the interests stated above represent long positions.
- (2) The percentages are calculated based on the Company's total number in the respective class of shares, being 1,506,456,558 Domestic Shares and 265,845,300 H Shares, as at the Latest Practicable Date.
- (3) The percentages are calculated based on the Company's total number of the issued shares, being 1,772,301,858 Shares, as at the Latest Practicable Date.

Save as disclosed above, as at the Latest Practicable date, none of the Directors, Supervisors and chief executives of the Company were interested, or were deemed or taken to be interested in the following long and short positions in the Shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which were required to (a) be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code to be notified to the Company and the Stock Exchange (for this purpose, the relevant provisions of the SFO will be interpreted as if they applied to the Supervisors).

(ii) Substantial Shareholders

As at the Latest Practicable Date, to the best knowledge of the Directors, the following persons (other than the Directors, Supervisors, or chief executives of the Company) had interests or short positions in the Shares or underlying Shares, which were required to be disclosed to the Company and the Stock Exchange under Divisions 2 and 3 of Part XV of the SFO, or to be recorded in the register required to be kept by the Company under section 336 of the SFO:

Name of Shareholder	Nature of interest	Class of Shares	Number of Shares held ⁽¹⁾	Percentage in the respective class of share capital ⁽²⁾	Percentage of total share capital ⁽³⁾
Jinsha Investment ⁽⁷⁾	Beneficial owner	Domestic Shares	252,130,281(L)	16.74 %(L)	14.23%(L)
Huake Engineering ⁽⁷⁾	Beneficial owner	Domestic Shares	98,658,313(L)	6.55%(L)	5.57%(L)
Huake Investment ⁽⁷⁾	Beneficial owner	Domestic Shares	77,785,163(L)	5.16%(L)	4.39%(L)
Jintan Hualuogeng ^{(4)&(7)}	Interest in controlled corporation	Domestic Shares	176,443,476(L)	11.71%(L)	9.96%(L)
Jintan Holding ^{(5)&(6)&(7)}	Interest in controlled corporation	Domestic Shares	452,573,757(L)	30.04%(L)	25.54%(L)
Xiamen Lihang Equity Investment Management Co., Ltd.* ⁽⁸⁾	Interest in controlled corporation	Domestic Shares	141,866,141(L)	9.42%(L)	8.00%(L)
Lihang Jinzhi ⁽⁸⁾	Beneficial owner	Domestic Shares	141,866,141(L)	9.42%(L)	8.00%(L)

Name of Shareholder	Nature of interest	Class of Shares	Number of Shares held ⁽¹⁾	Percentage in the respective class of share capital ⁽²⁾	Percentage of total share capital ⁽³⁾
Jinyuan Industry ⁽⁹⁾	Interest in controlled corporation	Domestic Shares	179,446,576(L)	11.91%(L)	10.12%(L)
Jinyuan Investment ⁽⁹⁾	Interest in controlled corporation	Domestic Shares	253,809,580(L)	16.85%(L)	14.32%(L)
Chengfei Integration ⁽¹⁰⁾	Beneficial owner	Domestic Shares	151,145,867(L)	10.03%(L)	8.53%(L)
AVIC ⁽¹⁰⁾	Interest in controlled corporation	Domestic Shares	163,970,995(L)	10.88%(L)	9.25%(L)
Guotai Junan Securities Co., Ltd. ⁽¹¹⁾	Interest in controlled corporation	H Shares	48,331,900(L)	18.18%(L)	2.73%(L)
HuaAn Fund Management Co., Ltd representing HUAAN-XJ7-QDII, HUAAN-XJ8-QDII, HUAAN-XJ10-QDII and HUAAN-XJ12-QDII ⁽¹¹⁾	Interest in controlled corporation	H Shares	48,331,900(L)	18.18%(L)	2.73%(L)
Huatai Securities Co., Ltd. ⁽¹⁴⁾	Interest in controlled corporation	H Shares	35,742,700(L) 29,148,000(S)	13.44%(L) 10.96%(S)	2.01%(L) 1.64%(S)
J.P. MORGAN SECURITIES PLC ⁽¹²⁾	Interest in controlled corporation	H Shares	29,570,100(L) 1,260,400(S)	11.12%(L) 0.47%(S)	1.67%(L) 0.07%(S)
HUAAN-XJ8-QDII-SINGLE ASSET MANAGEMENT PLAN ⁽¹¹⁾	Beneficial owner	H Shares	20,449,400(L)	7.69%(L)	1.15%(L)
HUAAN-XJ12-QDII-SINGLE ASSET MANAGEMENT PLAN ⁽¹¹⁾	Beneficial owner	H Shares	20,285,900(L)	7.63%(L)	1.14%(L)
Tianqi Lithium HK CO., ltd	Beneficial owner	H Shares	20,217,200(L)	7.60%(L)	1.14%(L)

Name of Shareholder	Nature of interest	Class of Shares	Number of Shares held ⁽¹⁾	Percentage in the respective class of share capital ⁽²⁾	Percentage of total share capital ⁽³⁾
JPMorgan Chase & Co. ⁽¹²⁾	Interest in controlled corporation	H Shares	19,302,300(L)	7.26%(L)	1.09%(L)
			29,600(S)	0.01%(S)	0.00%(S)
			9,500(P)	0.00%(P)	0.00%(P)
CCB Fund Management Co., Ltd. (On behalf of CCB Overseas Nuggets No. 92 Single Asset Management Plan) (建信基金管理有限責任公司 (代建信海外掘金92號單一資產管理計劃))	Investment Manager	H Shares	16,696,500(L)	6.28%(L)	0.94%(L)
Zijin Mining Group Co., Ltd. (紫金礦業集團股份有限公司) ⁽¹³⁾	Interest in controlled corporation	H Shares	16,525,800(L)	6.21%(L)	0.93%(L)
Gold Mountains (H.K.) International Mining Company Limited (金山(香港)國際礦業有限公司) ⁽¹³⁾	Beneficial owner	H Shares	16,525,800(L)	6.21%(L)	0.93%(L)
WANG SING INTERNATIONAL RESOURCES LIMITED	Beneficial owner	H Shares	16,359,500(L)	6.15%(L)	0.92%(L)
Sunshine Insurance Group Co., Ltd. (陽光保險集團股份有限公司)	Interest in controlled corporation	H Shares	14,885,700(L)	5.60%(L)	0.84%(L)
Hefei North City Construction Investment (Group) Co., Ltd. (合肥北城建設投資(集團)有限公司)	Beneficial owner	H Shares	13,718,100(L)	5.16%(L)	0.77%(L)

Notes:

- (1) (L), (S) and (P) represent long position, short position and lending pool respectively.
- (2) The percentages are calculated based on the Company's total number in the respective class of shares, being 1,506,456,558 Domestic Shares and 265,845,300 H Shares, as at the Latest Practicable Date.
- (3) The percentages are calculated based on the Company's total number of the issued shares, being 1,772,301,858 Shares, as at the Latest Practicable Date.
- (4) Each of Huake Engineering and Huake Investment is wholly owned by Jintan Hualuogeng. Jintan Hualuogeng is deemed to be interested in the Shares held by each of Huake Engineering and Huake Investment under the SFO.
- (5) Jinsha Investment is wholly owned by Jintan Holding. Jintan Hualuogeng is owned as to 90% by Jintan Holding. Jintan Holding is a state-owned enterprise and controlled by the Government of Jintan District. Jintan Holding is deemed to be interested in the Shares held by each of Jinsha Investment, Huake Engineering and Huake Investment under the SFO.
- (6) The investment by Jintan International in our Company was made in accordance with the instructions of Jintan Holding and Jintan International exercises its voting rights in our Company in accordance with the instructions of Jintan Holding.
- (7) Jinsha Investment, Huake Engineering, Huake Investment, Jintan International, Jintan Hualuogeng and Jintan Holding are a group of largest Shareholders and directly or indirectly control an aggregate of approximately 25.54% of our Company's voting rights.
- (8) Lihang Jinzhi is a limited partnership established under the laws of the PRC with Xiamen Lihang Equity Investment Management Co., Ltd.* (廈門鋰航股權投資管理有限公司) being its general partner and Jinyuan Industry being its limited partner. According to the partnership agreement of Lihang Jinzhi which provides, among other things, that the investment decision committee of Lihang Jinzhi shall comprise three members of which Jinyuan Industry shall be entitled to nominate two members, Jinyuan Industry exercises de facto control of Lihang Jinzhi. As such, Jinyuan Industry is deemed to be interested in the Shares held by Lihang Jinzhi under the SFO. Jinyuan Industry directly owns approximately 2.49% interests in our Company and therefore Jinyuan Industry directly and indirectly controls an aggregate of approximately 10.12% of our Company's voting rights.
- (9) Jinyuan Industry is a wholly owned subsidiary of Jinyuan Investment and as such Jinyuan Investment is deemed to be interested in all the Shares held by Lihang Jinzhi and Jinyuan Industry under the SFO. Moreover, each of Xiamen Jinli No. 2 and Jinli Investment owns approximately 1.59% and 0.85% interests in our Company respectively. Xiamen Jinli No. 2 is a limited partnership with Xiamen City Jinyuan Equity Investment Co., Ltd* (廈門市金圓股權投資有限公司) being its general partner. Xiamen City Jinyuan Equity Investment Co., Ltd* (廈門市金圓股權投資有限公司) is ultimately controlled by Jinyuan Investment. Jinli Investment is a limited partnership with Jinyuan Capital Management (Xiamen) Co., Ltd* (金圓資本管理(廈門)有限公司) being its general partner. Jinyuan Capital Management (Xiamen) Co., Ltd* (金圓資本管理(廈門)有限公司) is ultimately controlled by Jinyuan Investment. As such, Jinyuan Investment is also deemed to be interested in the Shares held by each of Xiamen Jinli No.2 and Jinli Investment under the SFO. Jinyuan Investment directly owns approximately 2.49% interests in our Company and therefore Jinyuan Investment directly and indirectly controls an aggregate of approximately 14.32% of our Company's voting rights.
- (10) Chengfei Integration is a joint stock limited company whose shares are listed on the Shenzhen Stock Exchange (Stock Code: 002190) and ultimately controlled by AVIC. As such, AVIC is deemed to be interested in the Shares held by Chengfei Integration under the SFO. Moreover, each of Aviation Industry Integration Fund, Missile Academy, Aviation Investment and Hongdu Airline owns approximately 0.80%, 0.65%, 0.11% and 0.09% interests in our Company respectively, and each of the above companies and partnerships is ultimately controlled by AVIC, which is also deemed to be interested in the Shares held by such companies and partnerships under the SFO. Therefore, AVIC indirectly controls an aggregate of approximately 9.25% of our Company's voting rights.

- (11) HuaAn Fund Management Co., Ltd is the asset manager (資產管理人) of (1) HUAAN-XJ7-QDII-SINGLE ASSET MANAGEMENT PLAN, (2) HUAAN-XJ8-QDII-SINGLE ASSET MANAGEMENT PLAN, (3) HUAAN-XJ10-QDII-SINGLE ASSET MANAGEMENT PLAN and (4) HUAAN-XJ12-QDII-SINGLE ASSET MANAGEMENT PLAN and is deemed to be interested in the Shares held by abovementioned four assets management plans under the SFO. Guotai Junan Securities Co., Ltd. held 43% of the equity interest in HuaAn Fund Management Co., Ltd and is deemed to be interested in the Shares held by HuaAn Fund Management Co. under the SFO.
- (12) JPMorgan Chase & Co. held 100% interests in each of JPMorgan Chase Bank, National Association and JPMorgan Chase Holdings LLC: (i) JPMorgan Chase Bank, National Association held 100% interests in (a) JPMORGAN CHASE BANK, N.A. – LONDON BRANCH. JPMORGAN CHASE BANK, N.A. – LONDON BRANCH held 9,500 H Shares in long position; and (b) J.P. Morgan International Finance Limited. J.P. Morgan International Finance Limited held 100% interests in J.P. MORGAN CAPITAL HOLDINGS LIMITED. J.P. MORGAN CAPITAL HOLDINGS LIMITED held 100% interests in J.P. MORGAN SECURITIES PLC. And J.P. MORGAN SECURITIES PLC held 19,260,900 H Shares in long position and 29,600 in short position. (ii) JPMorgan Chase Holdings LLC held 100% interests in J.P. Morgan Broker-Dealer Holdings Inc. and J.P. Morgan Broker-Dealer Holdings Inc. held 100% interests in J.P. Morgan Securities LLC. J.P. Morgan Securities LLC held 31,900 H Shares in long position. Therefore, JPMorgan Chase & Co. is deemed to be interested in 19,302,300 H Shares in long position, 29,600 H Shares in short position and 9,500 H Shares in lending pool under the SFO.
- (13) Gold Mountains (H.K.) International Mining Company Limited is held as to 100% interests by Zijin Mining Group Co., Ltd. Therefore, Zijin Mining Group Co., Ltd. is deemed to be interested in 16,525,800 H Shares in long position under the SFO.
- (14) Huatai Securities Co., Ltd. held 100% interests in Huatai International Financial Holdings Company Limited. Huatai International Financial Holdings Company Limited is held 100% interests in Huatai Financial Holdings (Hong Kong) Limited and Huatai Capital Investment Limited. Huatai Financial Holdings (Hong Kong) Limited held 6,594,700 H Shares in long position. Huatai Capital Investment Limited held 29,148,000 H Shares in long position and 29,148,000 H Shares in short position. Therefore, Huatai International Financial Holdings Company Limited is deemed to be interested in 35,742,700 H Shares in long position and 29,148,000 H Shares in short position and Huatai Securities Co., Ltd. is deemed to be interested in 35,742,700 H Shares in long position and 29,148,000 H Shares in short position under the SFO.

Save as disclosed above, as at the Latest Practicable Date, the Directors, Supervisors or chief executive of the Company were not aware of any persons (other than the Directors, Supervisors or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares which were required to be disclosed to the Company and the Stock Exchange under Divisions 2 and 3 of Part XV of the SFO, or to be recorded in the register required to be kept by the Company under section 336 of the SFO.

Save as disclosed in this circular, as at the Latest Practicable Date, none of the Director, Supervisor or proposed Director is a director or employee of a company which has an interest or short position in the shares and underlying shares of the issuer which would fall to be disclosed to the issuer under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance.

3. MATERIAL ADVERSE CHANGES

As at the Latest Practicable Date, the Directors confirmed that there were no material adverse changes to the financial or trading position of the Group since March 31, 2022 (being the date to which the latest published audited accounts of the Company were made up).

4. COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors and Supervisors or their respective associates was interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

5. DIRECTORS' INTEREST IN ASSETS, CONTRACTS OR ARRANGEMENT

As at the Latest Practicable Date, none of the Directors and Supervisors had any direct or indirect interest in any assets which had been acquired or disposed of by or leased to any member of the Group since March 31, 2022 (being the date to which the latest published audited financial statements of the Group were made up) or were proposed to be acquired or disposed of by or leased to any member of the Group; and none of the Directors and Supervisors or their respective associates was materially interested in any contract or arrangement subsisting as at the Latest Practicable Date which was significant in relation to the business of the Group.

6. DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Pursuant to Rules 19A.54 and 19A.55 of the Listing Rules, each of the Directors and Supervisors has entered into a contract with the Company on September 19, 2022 in respect of, among other things, (i) the compliance of relevant laws and regulations, (ii) compliance with the Articles of Association, and (iii) the provision on arbitration.

Save as disclosed above, none of the Directors or Supervisors has or is proposed to have any service contracts with the Group (other than contracts expiring or determinable by the relevant employers within one year without the payment of compensation (other than statutory compensation)).

7. EXPERT AND CONSENT

The following is the qualification of the expert who has given opinions or advice which are contained in this circular:

Name	Qualification
Gram Capital	a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO

As at the Latest Practicable Date, Gram Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter dated January 3, 2023 (as set out on pages 18 to 28 of this circular) and references to its name, in the form and context in which it respectively appears.

As at the Latest Practicable Date, Gram Capital:

- i. did not have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any shares, convertible securities, warrants, options or derivatives which carry voting rights in any member of the Group; or
- ii. did not have any interest, either directly or indirectly, in any assets which have been, since the date to which the latest published audited financial statements of the Company were made up (i.e., March 31, 2022), acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

8. DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the websites of the Stock Exchange (<https://www.hkexnews.hk>) and the Company (www.calb-tech.com) for a period of 14 days from the date of this circular:

- i. 2023 Entrusted Processing Framework Agreement;
- ii. the letter from the Independent Board Committee, the text of which is set out on pages 17 of the circular;
- iii. the letter from the Independent Financial Adviser, the text of which is set out on pages 18 to 28 of the circular;
- iv. the written consent of the Independent Financial Adviser referred to under the paragraph headed “7. Expert and Consent” in this Appendix; and
- v. this circular.

9. MISCELLANEOUS

- i. The registered office of the Company is located at No. 1, Jiangdong Avenue, Jintan District, Changzhou City, Jiangsu Province, PRC.
- ii. The H Share registrar of the Company is Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong.
- iii. The joint company secretaries of the Company are Mr. Dai Ying and Mr. Cheung Kai Cheong Willie.

1. DETAILS OF CHANGES IN ACCOUNTING POLICIES**(1) Accounting policy before the changes:****(1) *Asset-related government grants***

The government grants obtained by the Company for acquisition and construction or forming long-term assets in other ways shall be classified as asset-related government grants. Asset-related government grants shall be recognized as deferred income and included in the profit and loss by stages in a reasonable and systematic way within the service life of the relevant assets. The government grants measured in nominal amount shall be directly included in the current profit and loss. If relevant assets are sold, transferred, scrapped or damaged before the end of their service life, the balance of relevant deferred income that has not been allocated shall be transferred to the profit and loss of the current period of asset disposal.

(2) *Income-related government grants*

Government grants other than asset-related government grants shall be classified as income-related government grants. Income-related government grants shall be accounted for according to the following provisions:

if they are used to compensate the relevant costs or losses of the Company in subsequent periods, they shall be recognized as deferred income and included in the current profit and loss during the period when the relevant costs or losses are recognized;

if they are used to compensate the relevant costs or losses incurred by the Company, they shall be directly included in the current profit and loss.

For government grants that include both asset-related parts and income-related parts, different parts shall be accounted for separately; if they are difficult to distinguish, all of them shall be classified as income-related government grants.

Government grants related to the Company's daily activities shall be included in other income according to the nature of economic business. Government grants unrelated to the Company's daily activities shall be included in non-operating income and expenditure.

(2) Accounting policy after the changes:**(1) *Asset-related government grants***

The government grants obtained by the Company for acquisition and construction or forming long-term assets in other ways shall be classified as asset-related government grants. Asset-related government grants shall offset the book value of related assets. The government grants measured in nominal amount shall be directly included in the current profit and loss. If relevant assets are sold, transferred, scrapped or damaged before the end of their service life, the balance of relevant deferred income that has not been allocated shall be transferred to the profit and loss of the current period of asset disposal.

(2) *Income-related government grants*

Government grants other than asset-related government grants shall be classified as income-related government grants. Income-related government grants shall be accounted for according to the following provisions:

if they are used to compensate the relevant costs or losses of the Company in subsequent periods, they shall be recognized as deferred income and included in the current profit and loss or offset relevant costs during the period when the relevant costs or losses are recognized;

if they are used to compensate the relevant costs or losses incurred by the Company, they shall be directly included in the current profit and loss or offset relevant costs.

For government grants that include both asset-related parts and income-related parts, different parts shall be accounted for separately; if they are difficult to distinguish, all of them shall be classified as income-related government grants.

Government grants related to the Company's daily activities shall be included in other income or offset relevant costs according to the nature of economic business. Government grants unrelated to the Company's daily activities shall be included in non-operating income and expenditure.

2. IMPACT OF THE CHANGES IN ACCOUNTING POLICIES ON THE COMPANY

The current accounting policy change of the Company adopts a retroactive adjustment method to adjust the financial data related to the balance sheet and income statement during the comparison period. It has no impact on the Company's net assets, net profits and cash flows, and there is no damage to the interests of the Company and shareholders.

NOTICE OF 2023 FIRST EXTRAORDINARY GENERAL MEETING

CALB

CALB Co., Ltd.

中創新航科技股份有限公司

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

(Stock Code: 3931)

NOTICE OF 2023 FIRST EXTRAORDINARY GENERAL MEETING

A NOTICE IS HEREBY GIVEN THAT the 2023 first extraordinary general meeting (the “EGM”) of CALB Co., Ltd. (the “Company”) will be held on January 18, 2023, at 2:00 p.m., at Conference Room 103, CALB Technology Co., Ltd., No. 166, Kejiao Road, Jintan District, Changzhou, People’s Republic of China, at which, the following ordinary resolutions will be considered and approved.

ORDINARY RESOLUTIONS

1. To consider and approve (i) the 2023 Entrusted Processing Framework Agreement, the transactions contemplated thereunder and the proposed annual caps for the year ending December 31, 2023; and (ii) the authorization of any one director of the Company to do all such acts and things and sign all such documents (under seal, if necessary) and to take all such steps as he/her considers necessary or expedient or desirable in connection with or to give effect to the 2023 Entrusted Processing Framework Agreement and to implement the transactions contemplated thereunder and to agree to such variation, amendment or waiver as are, in the opinion of such director of the Company, in the interests of the Company.
2. To consider and approve the resolution on the changes in accounting policies relating to government grants of the Company.

By order of the Board

CALB Co., Ltd.

Liu Jingyu

Chairwoman of the Board, executive Director and president

Changzhou, PRC

January 3, 2023

NOTICE OF 2023 FIRST EXTRAORDINARY GENERAL MEETING

Notes:

1. For the purpose of determining the entitlement of the shareholders to attend and vote at the EGM, the register of members of the Company will be closed from Friday, January 13, 2023 to Wednesday, January 18, 2023 (both days inclusive), during which period no transfer of shares will be registered. To be eligible to attend and vote at the EGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's H Share Registrar, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not later than 4:30 p.m. on Thursday, January 12, 2023.
2. Any member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and vote in his stead. A proxy need not be a member of the Company. If more than one proxy is appointed, the appointment shall specify the number of shares in respect of which each such proxy is appointed.
3. Form of proxy together with the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority, must be lodged with the Company's H Share Registrar, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not later than 24 hours before the time fixed for holding the Extraordinary General Meeting (i.e. before 2:00 p.m. on Tuesday, January 17, 2023) or any adjournment thereof. Completion and return of the proxy form will not preclude a member from attending and voting in person at the EGM or any adjournment thereof (as the case may be), should he/she so wishes and in such event, the form of proxy shall be deemed to be revoked.
4. Pursuant to Rule 13.39(4) of the Listing Rules, the ordinary resolution set out above will be voted by poll. Where the chairperson of the Company in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted, such resolution will be decided by a show of hands.
5. Where there are joint holders of any share, any one of such joint holder may vote, either in person or by proxy in respect of such share as if he/she were solely entitled thereto, but if more than one of such joint holders be present at the EGM, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and, for this purpose, seniority shall be determined by the order in which the names stand in the register in respect of the joint holding of such share.
6. The Chinese translation of this notice is for reference only, and in case of any inconsistency, the English version shall prevail.
7. Unless otherwise specified, capitalized terms used in this notice shall have the same meanings as those defined in the circular of the Company dated January 3, 2023.