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KUANGCHI SCIENCE LIMITED

光啟科學有限公司

(Incorporated in Bermuda with limited liability)

(Stock code: 439)

CONTINUING CONNECTED TRANSACTIONS – MASTER PROCUREMENT AGREEMENT

CONTINUING CONNECTED TRANSACTIONS

The Board announces that on 30 March 2020, the Company (for itself and on behalf of its subsidiaries), as purchaser, and Kuang-Chi Technologies (for itself and on behalf of its subsidiaries), as vendor, entered into the Master Procurement Agreement in respect of the procurement of the Wearable Smart Helmets.

IMPLICATIONS UNDER THE LISTING RULES

As at the date of this announcement, (i) Dr. Liu is an executive Director and a controlling Shareholder, and Dr. Zhang, Dr. Luan and Dr. Ji are executive Directors, thus Dr. Liu, Dr. Zhang, Dr. Luan and Dr. Ji are connected persons of the Company pursuant to Rule 14A.07 of the Listing Rules; and (ii) Dr. Liu, Dr. Zhang, Dr. Luan and Dr. Ji collectively control the exercise of more than 30% of the voting power of the general meetings of Kuang-Chi Technologies and thus Kuang-Chi Technologies is an associate of Dr. Liu, Dr. Zhang, Dr. Luan and Dr. Ji, and therefore a connected person of the Company pursuant to Rule 14A.12 of the Listing Rules. As such, the transactions contemplated under the Master Procurement Agreement constitute continuing connected transactions of the Company for the purpose of Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios relating to the Annual Caps for the continuing connected transactions contemplated under the Master Procurement Agreement is more than 5%, the continuing connected transactions contemplated under the Master Procurement Agreement are subject to the reporting, announcement, annual review and independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

GENERAL

The Independent Board Committee comprising all of the independent non-executive Directors has been established to advise the Independent Shareholders in relation to the Master Procurement Agreement, the continuing connected transactions contemplated thereunder and the Annual Caps. An Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

The SGM will be convened at which an ordinary resolution will be proposed to seek the Independent Shareholders' approval of, among other things, the Master Procurement Agreement, the continuing connected transactions contemplated thereunder and the Annual Caps. Since Dr. Liu, Dr. Zhang, Dr. Luan and Dr. Ji are materially interested in the Master Procurement Agreement, Dr. Liu, Dr. Zhang, Dr. Luan and Dr. Ji and their respective associates will be required to abstain from voting on the resolution to be proposed at the SGM to approve the Master Procurement Agreement, the continuing connected transactions contemplated thereunder and the Annual Caps.

A circular containing, among other things, (i) details of the Master Procurement Agreement and the Annual Caps; (ii) the recommendation of the Independent Board Committee in respect of the Master Procurement Agreement, the continuing connected transactions contemplated thereunder and the Annual Caps; (iii) a letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders containing its advice on the Master Procurement Agreement, the continuing connected transactions contemplated thereunder and the Annual Caps; (iv) a notice of the SGM; and (v) other information required under the Listing Rules, will be despatched to the Shareholders on or before 22 April 2020.

INTRODUCTION

The Board announces that on 30 March 2020, the Company (for itself and on behalf of its subsidiaries), as purchaser, entered into the Master Procurement Agreement with Kuang-Chi Technologies (for itself and on behalf of its subsidiaries), as vendor, in respect of the procurement of the Wearable Smart Helmets by the Group.

MASTER PROCUREMENT AGREEMENT

Date : 30 March 2020

Parties : (1) the Company (for itself and on behalf of its subsidiaries) (as purchaser)

(2) Kuang-Chi Technologies (for itself and on behalf of its subsidiaries) (as vendor)

Duration

The Master Procurement Agreement is for a term from the date on which the condition to the Master Procurement Agreement as set out below is fulfilled to 31 December 2022 (both dates inclusive), provided that either party to the Master Procurement Agreement may terminate the Master Procurement Agreement by giving the other not less than three months' prior written notice.

If either party should be in breach of any obligation under the Master Procurement Agreement, then the party not in breach may give notice to the breaching party to remedy such breach within a period of thirty (30) days. If the breach is not remedied within said period, the party complaining of breach may terminate the Master Procurement Agreement at any time and with immediate effect upon giving written notice to the breaching party.

Subject matter

Pursuant to the Master Procurement Agreement, KCT Group shall sell the Wearable Smart Helmets to the Group, provided that the Group may purchase the Wearable Smart Helmets from other third parties.

The Group may, as purchaser, from time to time during the term of the Master Procurement Agreement, enter into individual procurement agreement(s) (which may be in the form of purchase order(s) and/or purchase agreement(s)) with the KCT Group, as supplier, in respect of each batch of purchase, setting out the actual transaction arrangement(s), provided that such individual procurement agreement(s) shall always be subject to the terms of the Master Procurement Agreement.

Pricing

Pursuant to the Master Procurement Agreement, KCT Group shall sell the Wearable Smart Helmets upon request by the Group, on terms and conditions (including the selling price of the Wearable Smart Helmets) to be agreed by the Group and KCT Group on arm's length basis and normal commercial terms. The price of the Wearable Smart Helmets shall be determined on the following principles:

- (i) by reference to the prevailing market price of the same or substantially similar products available from independent third parties to the Group of the same period, taking into account the price of the same or substantially similar products with comparable order quantities and quality offered by independent third parties;
- (ii) where no same or similar products are available from independent third parties, by reference to the factors which may affect the selling price of the Wearable Smart Helmets, such as the selling price of the Wearable Smart Helmets offered by KCT Group to other third parties; and
- (iii) in any event no less favourable to the Group than those offered by independent third parties to the Group in comparable transactions of the same period.

Payment terms

The payment terms (including the mode of payment and credit terms) shall be negotiated between the parties before signing the individual procurement agreement(s), provided that the payment terms shall be no less favourable to the Group than the terms offered by the independent third parties to the Group for providing the same or similar goods to the Group of the same period.

Condition Precedent

The Master Procurement Agreement is conditional upon the approval of the Independent Shareholders of the Master Procurement Agreements and the transactions contemplated thereunder in accordance with the Listing Rules on or before the Long Stop Date. If the condition is not fulfilled on or before the Long Stop Date, the Master Procurement Agreement shall cease and terminate, save and except governing law and process agent and miscellaneous clauses shall remain in full force and effect, and no party thereto shall have any claim against the others save for claim (if any) in respect of any antecedent breach thereof.

Internal Controls

The Group will undertake the following internal control measures to monitor the pricing and terms of the transactions contemplated under the Master Procurement Agreement and ensure that the prices and terms offered by KCT Group to the Group will be no less favourable than prices and terms offered to the Group by independent third parties and that the Annual Caps are not exceeded:

- (1) considering the availability of alternative products to the Wearable Smart Helmets in the market;
- (2) comparing the prices and terms of the supply of the Wearable Smart Helmets by KCT Group to the Group with the prices and terms of alternative or similar products (if any) offered by independent third parties to the Group on a regular basis;
- (3) adhering to the relevant internal control policy of the Group on connected transactions in monitoring the prices and terms of supply of the Wearable Smart Helmets offered by KCT Group to the Group to ensure that they shall be no less favourable to the Group than those offered by independent third parties to the Group;
- (4) the independent non-executive Directors will review and confirm that the pricing and terms of the transactions contemplated under the Master Procurement Agreement are in the Group's ordinary and usual course of business and are fair and reasonable to the Group and in the interests of the Shareholders and the Group as a whole, on terms no less favourable to the Group than prices and terms offered by independent third parties to the Group on an annual basis; and
- (5) the auditors of the Company will review the pricing and terms of the transactions contemplated under the Master Procurement Agreement and the Annual Caps of such continuing connected transactions in compliance with the annual reporting and review requirements under the Listing Rules on an annual basis.

Historical figures

KCT Group did not have sale transaction with the Group for the two years ended 31 December 2017 and 2018.

For the year ended 31 December 2019, KCT Group's sale of the Wearable Smart Helmets to the Group amounted to approximately RMB925,000, including VAT.

For the period from 1 January 2020 to 20 March 2020, KCT Group's sale of the Wearable Smart Helmets to the Group amounted to approximately RMB2.5 million, including VAT.

Annual Caps

The Annual Caps in respect of the transactions contemplated under the Master Procurement Agreement for the Year 2020, the Year 2021 and the Year 2022 will be RMB50.0 million (equivalent to approximately HK\$54.6 million) (including VAT), RMB54.0 million (equivalent to approximately HK\$59.0 million) (including VAT) and RMB58.0 million (equivalent to approximately HK\$63.3 million) (including VAT), respectively. Such Annual Caps are estimated primarily with reference to:

- (1) the historical sales amount of the Wearable Smart Helmets sold by KCT Group to the Group during the year ended 31 December 2019 and the period from 1 January 2020 to 20 March 2020;
- (2) the projected procurement volume of the Wearable Smart Helmets by the Group in the Year 2020, the Year 2021 and the Year 2022; and
- (3) the projected purchase price of the Wearable Smart Helmets will remain stable in the Year 2020, the Year 2021 and the Year 2022;

and on the principal assumptions that, for the duration of the projected period, there will not be any adverse change or disruption in market conditions, operation and business environment or government policies which may materially affect the businesses of the Group.

In view of the above, the Directors (excluding the independent non-executive Directors whose opinion will be rendered and stated in the circular to be despatched after taking into account the advice from the Independent Financial Adviser) are of the view that the Annual Caps for the Master Procurement Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

INFORMATION ON THE GROUP AND THE CONNECTED PERSON

The Group is principally engaged in the research and development as well as manufacture of innovative products for future technology businesses, and the provision of other innovative technology service solutions.

Kuang-Chi Technologies is a company listed on the Shenzhen Stock Exchange principally engaged in developing innovative advanced technology and its core business is in metamaterial intelligent structure and equipment research, as well as the manufacture of seat function components for automobiles.

REASONS FOR AND BENEFITS OF ENTERING INTO THE MASTER PROCUREMENT AGREEMENT

The procurement of the Wearable Smart Helmets from KCT Group is crucial as the Wearable Smart Helmets are part of the core technology of the artificial intelligent coverage system currently developed by the Group. The Wearable Smart Helmets, the new generation of intelligent helmets developed by KCT Group, can be used as the excellent terminal equipment empowered by the artificial intelligent coverage system for many customers. Such empowered helmets were initially launched by the Group in the market last year for testing market response, which was positive. The Group has decided to fully promote the empowered helmets to the market from February 2020. The Board considers that the procurement of the Wearable Smart Helmets from KCT Group will facilitate the Group's development in the business.

Accordingly, the Directors (excluding the independent non-executive Directors whose opinion will be rendered and stated in the circular to be despatched after taking into account the advice from the Independent Financial Adviser) are of the view that the terms of the Master Procurement Agreement are fair and reasonable and the transactions contemplated under the Master Procurement Agreement are on normal commercial terms and in the ordinary and usual course of business of the Group, and the entering into of the Master Procurement Agreement is in the interests of the Company and the Shareholders as a whole.

IMPLICATIONS UNDER THE LISTING RULES

As at the date of this announcement, (i) Dr. Liu is an executive Director and a controlling Shareholder, and Dr. Zhang, Dr. Luan and Dr. Ji are executive Directors, thus Dr. Liu, Dr. Zhang, Dr. Luan and Dr. Ji are connected persons of the Company pursuant to Rule 14A.07 of the Listing Rules; and (ii) Dr. Liu, Dr. Zhang, Dr. Luan and Dr. Ji collectively control the exercise of more than 30% of the voting power of the general meetings of Kuang-Chi Technologies and thus Kuang-Chi Technologies is an associate of Dr. Liu, Dr. Zhang and Dr. Luan, and therefore a connected person of the Company pursuant to Rule 14A.12 of the Listing Rules. As such, the transactions contemplated under the Procurement Agreement constitute continuing connected transactions of the Company for the purpose of Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios relating to the Annual Caps for the continuing connected transactions contemplated under the Master Procurement Agreement is more than 5%, the continuing connected transactions contemplated under the Master Procurement Agreement are subject to the reporting, announcement, annual review and independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

As Dr. Liu, Dr. Luan, Dr. Zhang and Dr. Ji have material interests in the transactions contemplated under the Master Procurement Agreement, Dr. Liu, Dr. Luan, Dr. Zhang and Dr. Ji have abstained from voting on the relevant resolutions of the Board approving the Master Procurement Agreement, the continuing connected transactions contemplated thereunder and the Annual Caps. Save as disclosed above, no other Director has a material interest in the transactions and is required to abstain from voting for the aforesaid resolutions.

GENERAL

The Independent Board Committee comprising all of the independent non-executive Directors has been established to advise the Independent Shareholders in relation to the Master Procurement Agreement, the continuing connected transactions contemplated thereunder and the Annual Caps. An Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

The SGM will be convened at which an ordinary resolution will be proposed to seek the Independent Shareholders' approval of, among other things, the Master Procurement Agreement, the continuing connected transactions contemplated thereunder and the Annual Caps. Since Dr. Liu, Dr. Zhang, Dr. Luan and Dr. Ji are materially interested in the Master Procurement Agreement, Dr. Liu, Dr. Zhang, Dr. Luan and Dr. Ji and their respective associates will be required to abstain from voting on the resolution to be proposed at the SGM to approve the Master Procurement Agreement, the continuing connected transactions contemplated thereunder and the Annual Caps.

A circular containing, among other things, (i) details of the Master Procurement Agreement and the Annual Caps; (ii) the recommendation of the Independent Board Committee in respect of the Master Procurement Agreement, the continuing connected transactions contemplated thereunder and the Annual Caps; (iii) a letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders containing its advice on the Master Procurement Agreement, the continuing connected transactions contemplated thereunder and the Annual Caps; (iv) a notice of the SGM; and (v) other information required under the Listing Rules, will be despatched to the Shareholders on or before 22 April 2020.

DEFINITIONS

Unless otherwise specified, the following terms have the following meanings in this announcement:

“Annual Caps”	the maximum aggregate annual transaction values in respect of the continuing connected transactions contemplated under the Master Procurement Agreement for the Year 2020, the Year 2021 and the Year 2022
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	Kuangchi Science Limited, a company incorporated in Bermuda with limited liability and the ordinary shares of which are listed on the Main Board of the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Dr. Ji”	Dr. Ji Chunlin, an executive Director
“Dr. Liu”	Dr. Liu Ruopeng, the chairman of the Board, an executive Director and a controlling Shareholder
“Dr. Luan”	Dr. Luan Lin, an executive Director
“Dr. Zhang”	Dr. Zhang Yangyang, an executive Director
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

“Independent Board Committee”	an independent board committee, comprising all of the independent non-executive Directors, namely, Dr. Liu Jun, Dr. Wong Kai Kit and Mr. Choi Wing Koon, established to advise the Independent Shareholders in respect of the Master Procurement Agreement, the continuing connected transactions contemplated thereunder and the Annual Caps
“Independent Financial Adviser”	Lego Corporate Finance Limited (力高企業融資有限公司), a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), being the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Master Procurement Agreement, the continuing connected transactions contemplated thereunder and the Annual Caps
“Independent Shareholder(s)”	the Shareholder(s), other than those who are required by the Listing Rules to abstain from voting on the resolution approving the Master Procurement Agreement, the continuing connected transactions contemplated thereunder and the Annual Caps
“KCT Group”	Kuang-Chi Technologies and its subsidiaries
“Kuang-Chi Technologies”	Kuang-Chi Technologies Co., Ltd. 光啟技術股份有限公司, a PRC company listed on the Shenzhen Stock Exchange (stock code: 002625)
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	30 June 2020 (or such other date agreed by the parties to the Master Procurement Agreement)
“Master Procurement Agreement”	the framework procurement agreement dated 30 March 2020 and entered into between the Company (for itself and on behalf of its subsidiaries) as purchaser and Kuang-Chi Technologies (for itself and on behalf of its subsidiaries) as vendor in respect of the procurement of the Wearable Smart Helmets

“RMB”	Renminbi, the lawful currency of the PRC
“SGM”	a special general meeting of the Company to be convened and held to, among other matters, consider and, if thought fit, approve the Master Procurement Agreement, the continuing connected transactions contemplated thereunder and the Annual Caps
“Shareholder(s)”	the shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Year 2020”	the year ending 31 December 2020
“Year 2021”	the year ending 31 December 2021
“Year 2022”	the year ending 31 December 2022
“VAT”	value-added tax
“Wearable Smart Helmets”	the new generation of intelligent helmets with certification to be used in the artificial intelligent coverage system currently being developed by the Group

By Order of the Board
KuangChi Science Limited
Liu Ruopeng
Chairman and Executive Director

Hong Kong, 30 March 2020

As at the date of this announcement, the board of directors comprises four executive directors, namely Dr. Liu Ruopeng, Dr. Luan Lin, Dr. Zhang Yangyang and Dr. Ji Chunlin; one non-executive director, namely Mr. Li Chiu Ho; and three independent non-executive directors, namely Dr. Liu Jun, Dr. Wong Kai Kit and Mr. Choi Wing Koon.