

*Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.*



**KUANGCHI SCIENCE LIMITED**

**光啟科學有限公司**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 439)**

## **REVISION OF ANNUAL CAPS FOR CONTINUING CONNECTED TRANSACTIONS**

References are made to announcement of the Company dated 30 March 2020 in relation to, among others, the Master Procurement Agreement and the continuing connected transactions contemplated thereunder, the circular of the Company dated 7 May 2020 and the poll results announcement of the Company dated 22 May 2020.

### **REVISION OF EXISTING ANNUAL CAPS**

The Board expects that, in view of (i) the Empowered Helmets being an innovative and unique product introduced to the market for the first time in February 2020; (ii) that the Existing Annual Caps were determined by reference to the sales agreements of the Empowered Helmets entered into by the Group in February and March 2020 which were the exhaustive list of samples; and (iii) the unexpected increase in demand for the Empowered Helmets after the Existing Annual Caps were approved by the Independent Shareholders in May 2020, the Existing Annual Caps will not be sufficient for the Group's new projected procurement volume of the Wearable Smart Helmets for the Year 2020, the Year 2021 and the Year 2022. The Board therefore proposes to revise the Existing Annual Caps to the Revised Annual Caps of RMB100.1 million (equivalent to approximately HK\$109.3 million) (including VAT), RMB110.1 million (equivalent to approximately HK\$120.2 million) (including VAT) and RMB121.1 million (equivalent to approximately HK\$132.3 million) (including VAT) for the Year 2020, the Year 2021 and the Year 2022 respectively in respect of the transactions contemplated under the Master Procurement Agreement.

## **LISTING RULES IMPLICATIONS**

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.

Pursuant to Rule 14A.54 of the Listing Rules, the Company should re-comply with the applicable requirements under Chapter 14A of the Listing Rules when the proposed annual cap is exceeded. As more than one of the applicable percentage ratios relating to the Revised Annual Caps for the continuing connected transactions contemplated under the Master Procurement Agreement is more than 5%, the Revised Annual Caps 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 Revised Annual Caps. An Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in relation to the Revised Annual Caps.

The SGM will be convened at which an ordinary resolution will be proposed to seek the Independent Shareholders' approval of, among other things, the Revised 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 Revised Annual Caps.

A circular containing, among other things, (i) details of the Master Procurement Agreement and the Revised Annual Caps; (ii) the recommendation of the Independent Board Committee in respect of the Revised Annual Caps; (iii) a letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders containing its advice on the Revised 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 13 August 2020 as more time is required to prepare such circular.

## **INTRODUCTION**

References are made to announcement of the Company dated 30 March 2020 in relation to, among others, the Master Procurement Agreement and the continuing connected transactions contemplated thereunder, the circular of the Company dated 7 May 2020 and the poll results announcement of the Company dated 22 May 2020.

The Board expects that, in view of (i) the Empowered Helmets being an innovative and unique product introduced to the market for the first time in February 2020; (ii) that the Existing Annual Caps were determined by reference to the sales agreements of the Empowered Helmets entered into by the Group in February and March 2020 which were the exhaustive list of samples; and (iii) the unexpected increase in demand for the Empowered Helmets after the Existing Annual Caps were approved by the Independent Shareholders in May 2020, in particular, a few customers have recently entered into non-legally binding letter of intents with the Group indicating interest in purchase of more than 2,000 Empowered Helmets from the Group during the Year 2020, the Existing Annual Caps will not be sufficient for the Group's new projected procurement volume of the Wearable Smart Helmets for the Year 2020, the Year 2021 and the Year 2022. The Board therefore proposes to revise the Existing Annual Caps to the Revised Annual Caps of RMB100.1 million (equivalent to approximately HK\$109.3 million) (including VAT), RMB110.1 million (equivalent to approximately HK\$120.2 million) (including VAT) and RMB121.1 million (equivalent to approximately HK\$132.3 million) (including VAT) for the Year 2020, the Year 2021 and the Year 2022 respectively in respect of the transactions contemplated under the Master Procurement Agreement.

## **MASTER PROCUREMENT AGREEMENT**

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. The principal terms of the Master Procurement Agreement are set out as follows:

- 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 22 May 2020 (i.e. the date on which the Master Procurement Agreements and the transactions contemplated thereunder were approved by the Independent Shareholders in the special general meeting of the Company) 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 (i.e. at the time when the Group intends to purchase the Wearable Smart Helmets from KCT Group), 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 (i.e. at the time when the Group intends to purchase the Wearable Smart Helmets from KCT Group).

As regards (i) above, the Group will obtain price quotes from at least two independent third parties to determine the prevailing market price of the same or substantially similar products.

As regards (ii) above, the Group will make reference to the selling price of the Wearable Smart Helmets offered by KCT Group to at least two other third parties at the time when the Group intends to purchase the Wearable Smart Helmets from KCT Group. The Group will also consider whether KCT Group can provide the Wearable Smart Helmets stably and quickly when determining the selling price of the Wearable Smart Helmets.

Where no reference price can be obtained under (i) and (ii) above, the price of the Wearable Smart Helmets shall be determined on a cost-plus basis that allows the Group to sell the Wearable Smart Helmets in the market to obtain a profit margin of not less than 15%.

### **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 (i.e. at the time when the Group intends to purchase the Wearable Smart Helmets from KCT Group).

Based on the Group's past transactions with KCT Group, the consideration was paid by the Group to KCT Group upon satisfaction of quality check of the goods delivered and within thirty (30) business days after the submission of payment request by KCT Group to the Group in agreed form. The Group does not have past transaction with other independent third parties for the procurement of Wearable Smart Helmets.

## REVISION OF EXISTING ANNUAL CAPS

### 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 30 June 2020, KCT Group's sale of the Wearable Smart Helmets to the Group amounted to approximately RMB49.99 million, including VAT.

### Proposed revision of annual caps of the Master Procurement Agreement and the basis of determination

In view of (i) the Empowered Helmets being an innovative and unique product introduced to the market for the first time in February 2020; (ii) that the Existing Annual Caps were determined by reference to the sales agreements of the Empowered Helmets entered into by the Group in February and March 2020 which were the exhaustive list of samples; and (iii) the unexpected increase in demand for the Empowered Helmets after the Existing Annual Caps were approved by the Independent Shareholders in May 2020, in particular, a few customers have entered into non-legally binding letter of intents with the Group indicating interest in purchase of more than 2,000 Empowered Helmets from the Group during the Year 2020, the Company proposes to revise the Existing Annual Caps as follows:

	<b>Existing Annual Caps (including VAT)</b>	<b>Revised Annual Caps (including VAT)</b>
<b>Year 2020</b>	RMB50.0 million (equivalent to approximately HK\$54.6 million)	RMB100.1 million (equivalent to approximately HK\$109.3 million)
<b>Year 2021</b>	RMB54.0 million (equivalent to approximately HK\$59.0 million)	RMB110.1 million (equivalent to approximately HK\$120.2 million)
<b>Year 2022</b>	RMB58.0 million (equivalent to approximately HK\$63.3 million)	RMB121.1 million (equivalent to approximately HK\$132.3 million)

The Revised 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 30 June 2020;
- (2) the increase in the demand for the Empowered Helmets as shown in the letter of intents recently entered into by the Group and its customers;
- (3) the new projected procurement volume of 5,406 units, 5,950 units and 6,545 units of the Wearable Smart Helmets by the Group in the Year 2020, the Year 2021 and the Year 2022; and
- (4) the projected purchase price of the Wearable Smart Helmets will remain stable at RMB18,500 per unit 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.

Save for the revision to the Existing Annual Caps for the Year 2020, the Year 2021 and the Year 2022, other terms of the Master Procurement Agreement and the internal control measures as set out in the circular of the Company dated 7 May 2020, remain unchanged.

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 Revised 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. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as at the date of this announcement, the ultimate beneficial owners of Kuang-Chi Technology who are not public shareholders are Dr. Liu, Dr. Zhang, Dr. Luan, Dr. Ji and Dr. Zhao Zhiya. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as at the date of this announcement, Kuang-Chi Technology is owned as to (i) 3.32% by a wholly-owned subsidiary of the Company; and (ii) 42.75% by a company which is ultimately owned as to 35.09% by Dr. Liu, 17.54% by Dr. Zhang, 15.79% by Dr. Luan, 15.79% by Dr. Ji and 15.79% by Dr. Zhao Zhiya.

## **LISTING RULES IMPLICATIONS**

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.

Pursuant to Rule 14A.54 of the Listing Rules, the Company should re-comply with the applicable requirements under Chapter 14A of the Listing Rules when the proposed annual cap is exceeded. As more than one of the applicable percentage ratios relating to the Revised Annual Caps for the continuing connected transactions contemplated under the Master Procurement Agreement is more than 5%, the Revised Annual Caps 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 resolution of the Board approving the Revised Annual Caps. Save as disclosed above, no other Director has a material interest in the Revised Annual Caps and is required to abstain from voting for the aforesaid resolution.



## **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 Revised Annual Caps. An Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in relation to the Revised Annual Caps.

The SGM will be convened at which an ordinary resolution will be proposed to seek the Independent Shareholders' approval of, among other things, the Revised 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 Revised Annual Caps.

A circular containing, among other things, (i) details of the Master Procurement Agreement and the Revised Annual Caps; (ii) the recommendation of the Independent Board Committee in respect of the Revised Annual Caps; (iii) a letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders containing its advice on the Revised 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 13 August 2020 as more time is required to prepare such circular.

## **DEFINITIONS**

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

“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 and executive Director and controlling shareholder of the Company
“Dr. Luan”	Dr. Luan Lin, an executive Director
“Dr. Zhang”	Dr. Zhang Yangyang, an executive Director
“Empowered Helmets”	the Wearable Smart Helmets processed by the Group (including complementing the artificial intelligent coverage system) for selling to the customers of the Group
“Existing Annual Cap(s)”	the existing 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 of RM50.0 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
“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 Revised 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 Revised 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 Revised 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
“Master Procurement Agreement”	the master 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
“Revised Annual Cap(s)”	the revised 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 under the Master Procurement Agreement of RMB100.1 million (equivalent to approximately HK\$109.3 million) (including VAT), RMB110.1 million (equivalent to approximately HK\$120.2 million) (including VAT) and RMB121.1 million (equivalent to approximately HK\$132.3 million) (including VAT) respectively

“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 Revised Annual Caps
“Shareholder(s)”	the shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“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
“Year 2020”	the year ending 31 December 2020
“Year 2021”	the year ending 31 December 2021
“Year 2022”	the year ending 31 December 2022

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

Hong Kong, 13 July 2020

*As at the date of this announcement, the Board 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.*