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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 9 August 2023, the Company (for itself and on behalf of its subsidiaries), as vendor, and Kuang-Chi Technologies (for itself and on behalf of its subsidiaries), as purchaser, entered into the Master Procurement Agreement in respect of the procurement of the (i) Integrated Intelligent Systems (as defined below) and (ii) Metal Component Products (as defined below).

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. Luan, Dr. Zhang and Dr. Ji are executive Directors, thus Dr. Liu, Dr. Luan, Dr. Zhang, and Dr. Ji are connected persons of the Company pursuant to Rule 14A.07 of the Listing Rules; and (ii) Dr. Liu, Dr. Luan, Dr. Zhang 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. Luan, Dr. Zhang, 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.

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 at the SGM. 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 30 August 2023.

INTRODUCTION

The Board announces that on 9 August 2023, the Company (for itself and on behalf of its subsidiaries), as vendor, entered into the Master Procurement Agreement with Kuang-Chi Technologies (for itself and on behalf of its subsidiaries), as purchaser, in respect of the procurement of the (i) Integrated Intelligent Systems (as defined below) and (ii) Metal Component Products (as defined below).

MASTER PROCUREMENT AGREEMENT

Date : 9 August 2023

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

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

Duration

The Master Procurement Agreement is for a fixed term of three years from the date on which the condition to the Master Procurement Agreement as set out below is fulfilled, 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, the Group shall sell and KCT Group shall purchase (i) highly customized integrated intelligent systems which are mainly used for the production process management, detection and inspection control, daily management of industrial parks, and the others services relating to the deployment of such integrated intelligent systems (the “**Integrated Intelligent Systems**”); and (ii) metal component products which include the tools, equipments or components that can be used by KCT Group for its manufacturing process (the “**Metal Component Products**”) to KCT Group, provided that the Group may supply and provide the Products and Services to other third parties.

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

Pricing

Pursuant to the Master Procurement Agreement, the Group shall sell the Products and Services to KCT Group upon request by KCT Group, on terms and conditions (including the price of the Products and Services) to be agreed by the Group and KCT Group on arm’s length basis and normal commercial terms and fair and reasonable market trading rules. The price of the Products and Services shall be determined on the following principles:

- (i) by reference to the prevailing market price of the same or substantially similar products and service available from the Group to independent third parties of the same period, taking into account the price of the same or substantially similar products and service with comparable order quantities and quality offered by the Group to independent third parties and the prevailing market gross profit margin in the same industry for the same period;
- (ii) where no same or similar products and services are available from the Group to independent third parties, by reference to the prevailing market gross profit margin in the same industry for the same period and other factors which may affect the price of the Products and Services, such as the price of the Products and Services offered by the Group to other third parties; and
- (iii) in any event no less favourable to the Group than those offered by the Group to independent third parties 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 agreement(s), provided that the payment terms shall be no less favourable to the Group than the terms offered by the Group to the independent third parties for providing the same or similar goods or service by the Group of the same period.

The general payment terms for the Integrated Intelligent Systems are as follows:

- (i) 30% of the consideration shall be paid within 15 business days after the signing of the relevant agreement(s);
- (ii) 30% of the consideration shall be paid within 15 business days after all equipment duly arrive and the inspection and acceptance list of equipment have been signed;
- (iii) 35% of the consideration shall be paid within 15 business days after the relevant Integrated Intelligent System is officially deployed and the final inspection is passed; and
- (iv) the remaining 5% of the consideration shall be paid if there is no quality issue after the one-year warranty period.

The general payment term for the Metal Component Products is as follows:

- (i) full amount shall be paid after the inspection of the Metal Component Products is passed.

Condition Precedent

The Master Procurement Agreement is conditional upon the approval of the Independent Shareholders of the Master Procurement Agreement 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 other save for claim (if any) in respect of any antecedent breach thereof.

Internal Control

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 the Group to KCT Group will be no less favourable than prices and terms offered by the Group to independent third parties and that the Annual Caps are not exceeded:

- (i) considering the availability of alternative products and services to the Products and Services in the market;
- (ii) comparing the prices and terms of the supply of the Products and Services by the Group to KCT Group with the prices and terms of alternative or similar products and services (if any) offered by the Group to independent third parties on a regular basis;
- (iii) adhering to the relevant internal control policy of the Group on connected transactions in monitoring the prices and terms of supply of the Products and Services by the Group to KCT Group to ensure that they shall be no less favourable to the Group than those offered by the Group to independent third parties;
- (iv) 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 the Group to independent third parties on an annual basis; and
- (v) 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.

ANNUAL CAPS

The Annual Caps in respect of the transactions contemplated under the Master Procurement Agreement will be RMB60 million for the Year 2023, RMB78 million for the Year 2024 and RMB102 million for the Year 2025.

Historical sales amounts

On 30 November 2022, the Group entered into an one-off procurement agreement for the sale of Integrated Intelligent Systems from the Group to the KCT Group (the “**One-off Procurement Agreement**”) at a consideration of RMB6,354,776.33. For further details of the One-off Procurement Agreement, please refer to the announcement of the Company dated 30 November 2022.

The sale of Integrated Intelligent Systems from the Group to the KCT Group (i) in the year ended 31 December 2022 amounted to approximately RMB2.04 million; and (ii) from 1 January 2023 up to the date of this announcement amounted to approximately RMB2.82 million.

The sale of Metal Component Products from the Group to the KCT Group from 1 January 2023 up to the date of this announcement amounted to approximately RMB1.28 million.

While the Annual Caps is higher than the historical sales amount of the Products and Services to the KCT Group, such Annual Caps are estimated primarily based on the expected increase in demand for (i) the Integrated Intelligent Systems arising from the KCT Group’s ongoing strategies to upgrade its existing and future production facilities with the deployment of the Integrated Intelligent Systems; and (ii) the Metal Component Products as the KCT Group historically sourced the Metal Component Products from other suppliers and plans to expand its cooperation with the Group for the supply of the Metal Component Products in light of the proven sales track record between the Group and KCT 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 and principally engaged in developing innovative advanced technology and its core business is in research and development, production and sale of new generation of metamaterial equipment products. Its major products include metamaterial intelligent structure and equipment as well as 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. Luan, Dr. Zhang, 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) 2.07% by a wholly-owned subsidiary of the Company; and (ii) 36.00% by a company which is ultimately owned as to 35.09% by Dr. Liu, 15.79% by Dr. Luan, 17.54% by Dr. Zhang, 15.79% by Dr. Ji and 15.79% by Dr. Zhao Zhiya.

REASONS FOR AND BENEFITS OF ENTERING INTO THE MASTER PROCUREMENT AGREEMENT

The transactions contemplated under the Master Procurement Agreement align with the Group's business strategy to expand into the fields of intelligent industrial production managements and metal component products by focusing on market development and product iteration.

The continuous provision of the Integrated Intelligent Systems allow the Company to gather customer feedback on large-scale industry applications and further optimise and upgrade algorithms and the algorithm platform to provide products or integrated solutions that meet industry standards and deeply integrate into customers' business processes. In addition, the revenue generated from the sale of the Integrated Intelligent Systems under the Master Procurement Agreement enables the Group to focus on continuous technological innovation with an aim to provide customers with high-quality, efficient, and highly customised products and solutions.

The Group leveraged on its research and development experiences gained and techniques honed when operating its aerospace-related businesses and developed craftsmanship for producing the Metal Component Products. Such achievement not only allows it to efficiently satisfy the needs of customers, but also improves the functionality of the Metal Component Products. At the same time, it is also conducive to collaborate with other industrial intelligence system businesses of the Group, which will expand product barriers and moats and form a coupling effect among businesses of the Group, with a vision that such collaboration will broaden our product line to offer a comprehensive one-stop solution providers for our customers.

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, Dr. Luan, Dr. Zhang and Dr. Ji are executive Directors, thus Dr. Liu, Dr. Luan, Dr. Zhang and Dr. Ji are connected persons of the Company pursuant to Rule 14A.07 of the Listing Rules; and (ii) Dr. Liu, Dr. Luan, Dr. Zhang 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. Luan, Dr. Zhang 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.

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.

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 at the SGM. Since Dr. Liu, Dr. Luan, Dr. Zhang and Dr. Ji are materially interested in the Master Procurement Agreement, Dr. Liu, Dr. Luan, Dr. Zhang 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 30 August 2023.

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 2023, the Year 2024 and the Year 2025
“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
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China

“Independent Board Committee”	an independent board committee, comprising all of the independent non-executive Directors, namely, Dr. Wong Kai Kit, Mr. Choi Wing Koon and Dr. Wu Zhili, 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”	31 October 2023 (or such other date agreed by the parties to the Master Procurement Agreement)

“Master Procurement Agreement”	the framework procurement agreement dated 9 August 2023 and entered into between the Company (for itself and on behalf of its subsidiaries) as vendor and Kuang-Chi Technologies (for itself and on behalf of its subsidiaries) as purchaser in respect of the procurement of the Products and Services
“Products and Services”	the Integrated Intelligent Systems and the Metal Component Products
“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
“VAT”	value-added tax
“Year 2023”	the year ending 31 December 2023
“Year 2024”	the year ending 31 December 2024
“Year 2025”	the year ending 31 December 2025

By Order of the Board
KuangChi Science Limited
Cheng Chi Chung Kevin
Company Secretary

Hong Kong, 9 August 2023

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. Wong Kai Kit, Mr. Choi Wing Koon and Dr. Wu Zhili.