

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in KuangChi Science Limited (the “Company”), you should at once hand this circular and the accompany form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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KUANGCHI SCIENCE LIMITED

光啟科學有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 439)

**(1) CONTINUING CONNECTED TRANSACTIONS
AND
(2) NOTICE OF SPECIAL GENERAL MEETING**

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



Lego Corporate

Finance Limited

力高企業融資有限公司

A notice convening the special general meeting (“SGM”) of the Company to be held at 2nd Floor, Software Building, No. 9 Gaoxin Middle 1st Road, Nanshan District, Shenzhen, China on Monday, 30 October 2023 at 11:00 a.m. is set out on pages SGM-1 to SGM-2 of this circular.

A form of proxy for use at the SGM is also enclosed with this circular. Whether or not you are able to attend the SGM, you are requested to complete the accompanying form of proxy for use at the SGM in accordance with the instructions printed thereon and return the same to the Company’s share registrar and transfer office in Hong Kong, Tricor Secretaries Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, as soon as possible and, in any event, not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjourned meeting thereof should you so wish. If you attend and vote at the SGM, the authority of your proxy will be revoked.

12 October 2023

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DEFINITIONS

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

“2022 KCT Annual Report”	the annual report of Kuang-Chi Technologies for the Year 2022 published on the Shenzhen Stock Exchange
“2023 KCT Interim Report”	the interim report of Kuang-Chi Technologies for the 6M2023 published on the Shenzhen Stock Exchange
“6M2022”	the six months ended 30 June 2022
“6M2023”	the six months ended 30 June 2023
“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 thereto in the Listing Rules
“Board”	the board of Directors
“Bye-law(s)”	the bye-law(s) of the Company
“Company”	KuangChi Science Limited, a company incorporated in Bermuda with limited liability and the Shares of which are listed on the Stock Exchange
“connected person(s)”	has the meaning ascribed thereto in the Listing Rules
“controlling shareholder(s)”	has the meaning ascribed thereto in the Listing Rules
“core connected person(s)”	has the meaning ascribed thereto in 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

DEFINITIONS

“HK\$” and “\$”	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. 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)
“Latest Practicable Date”	6 October 2023, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“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 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 Systems and Products

DEFINITIONS

“PRC” or “China”	the People’s Republic of China, excluding (except where the context requires) Hong Kong, Macau and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“SGM”	the special general meeting of the Company to be convened and held at 2nd Floor, Software Building, No. 9 Gaoxin Middle 1st Road, Nanshan District, Shenzhen, China on Monday, 30 October 2023 at 11:00 a.m. for the purpose of considering and if thought fit, approving the resolution proposed in this circular
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of Share(s) in issue
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary”	has the meaning ascribed thereto in the Listing Rules
“substantial Shareholder(s)”	has the meaning ascribed thereto in the Listing Rules
“Systems and Products”	the Integrated Intelligent Systems and the Metal Component Products
“VAT”	value-added tax
“Year 2020”	the year ended 31 December 2020
“Year 2021”	the year ended 31 December 2021
“Year 2022”	the year ended 31 December 2022
“Year 2023”	the year ending 31 December 2023
“Year 2024”	the year ending 31 December 2024
“Year 2025”	the year ending 31 December 2025
“%”	per cent.

Reference to time and dates in this circular are to Hong Kong time and dates.



KUANGCHI SCIENCE LIMITED
光啟科學有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 439)

Executive Directors:

Dr. Liu Ruopeng (*Chairman*)

Dr. Luan Lin

Dr. Zhang Yangyang

Dr. Ji Chunlin

Registered Office:

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

Non-executive Director:

Mr. Li Chiu Ho

*Head Office and Principal Place of
Business in Hong Kong:*

Unit 1104, 11/F

Leighton Centre

77 Leighton Road

Causeway Bay

Hong Kong

Independent non-executive Directors:

Dr. Wong Kai Kit

Mr. Choi Wing Koon

Dr. Wu Zhili

12 October 2023

To the Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

1. INTRODUCTION

Reference is made to the announcement of the Company dated 9 August 2023 regarding, among others, the Master Procurement Agreement and the continuing connected transactions contemplated thereunder.

The purpose of this circular is to: (a) provide you with further information relating to the continuing connected transactions contemplated under the Master Procurement Agreement; (b) set out other information of the Group as required under the Listing Rules; (c) set out the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders and the recommendation and opinion of the Independent Board Committee after having considered the advice of the Independent Financial Adviser in relation to the Master Procurement Agreement, the continuing connected transactions contemplated thereunder and the Annual Caps; and (d) give you notice of the SGM.

LETTER FROM THE BOARD

2. MASTER PROCUREMENT AGREEMENT

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

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 party not less than three months' prior written notice.

If either party is in breach of any obligation under the Master Procurement Agreement, then the non-breaching party 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 the said period, the non-breaching party 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, technological process management, 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, equipment 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 Systems and Products to other third parties.

LETTER FROM THE BOARD

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 Systems and Products to KCT Group upon request by KCT Group, on terms and conditions (including the price of the Systems and Products) 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 Systems and Products 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 for 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 for the most recent half-year or full year review period (the "**Review Period**") as detailed in the paragraphs headed "Internal Control" in this circular;
- (ii) where no same or similar products and services are available from the Group to independent third parties, based on the expected cost of providing the Systems and Products (such as raw material cost, labour cost, subcontracting cost and manufacturing expenses) plus a reasonable profit margin as determined with reference to the prevailing market gross profit margin for the most recent Review Period as detailed in the paragraphs headed "Internal Control" in this circular; and
- (iii) in any event no less favourable to the Group than those offered by the Group to independent third parties in comparable transactions for the same period.

As the Systems and Products are highly customised based on the specification required by our clients, the cost and gross profit margin of the Systems and Products may vary depending on the degree of complexity of its specification. The Group targets to sell the Integrated Intelligent Systems and the Metal Component Products to the KCT Group under the Master Procurement Agreement at a gross profit margin ranging from 15% to 30% and 15% to 25%, respectively (the "**Target Gross Profit Margin**"). Such Target Gross Profit Margin may be adjusted based on the market gross profit margin for the most recent Review Period as detailed in the paragraphs headed "Internal Control" in this circular.

LETTER FROM THE BOARD

As the sale of artificial intelligent system and related products is a major revenue stream of the Group, the Group has supplied the Integrated Intelligent Systems to independent third parties. The gross profit margin of the Integrated Intelligent Systems supplied to independent third parties ranges from approximately 12.3% to 54.8% with an average of approximately 26.4% from the Year 2020 up to 6M2023. During the period from Year 2020 up to 6M2023, the Company had only one sales agreement entered into with an independent third party which recorded a gross profit margin of over 30% (i.e. 54.8%) and such exceptionally higher gross profit margin was due to the high level of complexity of the customisation of the Integrated Intelligent Systems required by the customer. Save for the abovementioned sales agreement, the gross profit margins of the Integrated Intelligent Systems supplied to independent third parties ranges from approximately 12.3% to 26.4% from Year 2020 up to 6M2023 (the “**Average Gross Profit Margin Range**”), which is lower than the Target Gross Profit Margin range of the Integrated Intelligent Systems to be supplied to the KCT Group (i.e. 15% to 30%). The market gross profit margin of the Integrated Intelligent Systems for the 6M2023 ranges from approximately 12.6% to 32.1% with an average of approximately 21.5%.

The sale of the Metal Component Products is a new area of business developed by the Group from the Year 2023 onwards. As at the Latest Practicable Date, the Group had only sold the Metal Component Products to the KCT Group, with a gross profit margin ranging from 15.0% to 32.4% with an average of 20.9%. The market gross profit margin of the Metal Component Products from the Year 2020 up to 6M2023 ranges from approximately 12.3% to 27.2% with an average of approximately 18.8%.

Having considered that the Target Gross Profit Margin is within the range of the market gross profit margin for the 6M2023 and the Target Gross Profit Margin for the Integrated Intelligent Systems is higher than the Average Gross Profit Margin Range supplied to independent third parties in respect of the Integrated Intelligent Systems from the Year 2020 up to 6M2023, the Company considers that the Target Gross Profit Margin is (a) no less favourable to those offered by the Group to the independent third parties; and (b) fair and reasonable to the Company and in the interest of the Shareholders as a whole.

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);

LETTER FROM THE BOARD

- (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 has 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 in respect 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, except that the 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 party 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 Systems and Products in the market;
- (ii) comparing the prices and terms of the supply of the Systems and Products 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 at least semi-annually. The Company considered that such frequency of comparison is appropriate to ensure that the pricing in relation to the supply of the Systems and Products to KCT Group is fair and reasonable and no less favourable to the Company than terms available to independent third parties as it strikes a balance between operational feasibility (such as creating administrative burden on the business, requiring frequent adjustments and communications after each price review) and the need for timely adjustments in response to the market conditions;

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- (iii) as the Systems and Products are highly customised in nature and the Company is not allowed to share the specification of the Systems and Products with any third party vendors due to confidentiality reasons, it will not be feasible for the Company to obtain references of the prevailing market price of the same customised Systems and Products through requesting for quotations of the same customised Systems and Products from at least two independent third party vendors. Instead, as the Company adopts a cost-plus approach for the determination of the pricing of the Systems and Products, the Company will review the prevailing cost of providing the Systems and Products and the prevailing market gross profit margin from time to time, at least semi-annually. For instance, the Company will review the quotation and price record from at least two independent third party suppliers for the provision of the Systems and Products (including raw material suppliers, subcontractors and manufacturers) from the supplier list maintained by the Company. Also, the Company will review the annual reports and interim reports of certain comparable companies in order to determine the prevailing market gross profit margin. In particular, the Company will identify such comparable companies based on the following criteria: (i) the total number of such comparable companies should not be less than three, (ii) such comparable companies must be companies listed on the stock exchanges in the PRC with a principal business including the supply of the Integrated Intelligent Systems or the Metal Component Products (as the case may be) and (iii) the total operating revenue of the Integrated Intelligent Systems or the Metal Component Products (as the case may be) shall constitute not less than 25% of the total operating revenue of such comparable companies.

The Company has identified the following comparable companies for the Integrated Intelligent Systems and their respective gross profit margin for 6M2023:

No.	Stock Code	Stock Exchange	Name	Principal business	Gross profit margin of their Integrated Intelligent Systems segment for 6M2023
1	002298	Shenzhen Stock Exchange	Anhui Sinonet & Xinlong Science & Technology Co., Ltd. (安徽中電興發與鑫龍科技股份有限公司)	Information system integration services; application system integration services in artificial intelligence industry; sales of artificial intelligence hardware; sales of integrated circuit chips and products; and development and sales of software	28.8%
2	688038	Shanghai Stock Exchange	Wuhan Citms Technology Co., Ltd. (武漢中科通達高新技術股份有限公司)	Computer system integration and software development; intelligent construction engineering; and design, production and sales of computer products and smart devices	19.8%

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No.	Stock Code	Stock Exchange	Name	Principal business	Gross profit margin of their Integrated Intelligent Systems segment for 6M2023
3	600728	Shanghai Stock Exchange	PCI Technology Group Co., Ltd. (佳都科技集團股份有限公司)	Technical development and technical services of artificial intelligence algorithm-based software; information system integration services; research and development of computer hardware; and technical development and technical services of electronics and computers	12.6%
4	835207	Beijing Stock Exchange	Henan Cocyber Information and Technology Co., Ltd. (河南翠誠信息科技股份有限公司)	Development and design of computer software; technical consulting and sales and leasing of ancillary electronic equipment; computer system integration; and computer information technology services	16.1%
5	300468	Shenzhen Stock Exchange	Shenzhen Forms Syntron Information Co., Ltd. (深圳四方精創資訊股份有限公司)	Technical development of computer software; hardware, design, development and maintenance of databases, computer systems integration services and related technical consulting and maintenance services; and wholesale of computer software and hardware	32.1%
6	600446	Shanghai Stock Exchange	Shenzhen Kingdom Sci-Tech., Ltd. (深圳市金證科技股份有限公司)	Software business; hardware business; and system integration services for customized machines	21.6%
7	300366	Shenzhen Stock Exchange	Troy Information Technology Co., Ltd. (創意信息技術股份有限公司)	Providing the design, installation, system integration, maintenance, consulting and other technical services in relation to the network communication equipment and software; technical development of computer software and hardware; technical consulting and technical services; providing services and design in respect of big data, cloud computing, cloud storage, smart cities, smart transportation and security engineering	22.3%

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No.	Stock Code	Stock Exchange	Name	Principal business	Gross profit margin of their Integrated Intelligent Systems segment for 6M2023
8	002197	Shenzhen Stock Exchange	SZZT Electronics Co., Ltd. (深圳市證通電子股份有限公司)	Computer software, hardware, computer system integration and technical services, data processing and storage services; data center operation and maintenance services, and research and development, sales, construction and maintenance of management systems adopted for smart cities	29.2%
9	600602	Shanghai Stock Exchange	INESA Intelligent Tech Inc. (雲賽智聯股份有限公司)	Research and development and system integration for internet of things technology; research and development and system integration for cloud computing technology; and research and development and system integration for big data technology, computer network communication products, equipment and software, computer information system integration, computer network services, intelligent construction products and engineering and intelligent traffic products and engineering	18.7%
10	603206	Shanghai Stock Exchange	Bestlink Technologies Co., Ltd. (嘉環科技股份有限公司)	Development of artificial intelligence application software; software outsourcing services; software development; software sales; information system integration services; intelligent control system integration; operational and maintenance services for information system; information technology and consulting services; data processing and storage support services; technology services for internet of things; internet data services; industrial internet data services, sales of information security equipment; and sales of digital video and surveillance systems	14.2%

Based on the above analysis, the market gross profit margin of the Integrated Intelligent Systems for 6M2023 ranges from approximately 12.6% to 32.1% with an average of approximately 21.5%.

LETTER FROM THE BOARD

The Company has identified the following comparable companies for the Metal Component Products and their respective gross profit margin for 6M2023:

No.	Stock Code	Stock Exchange	Name	Principal business	Gross profit margin of their Metal Component Products segment for 6M2023
1	300549	Shenzhen Stock Exchange	Jouder Precision Industry (Kunshan) Co., Ltd. (優德精密工業(崑山)股份有限公司)	Research and development, production and sales of precision moulds' parts and components, automation equipment and medical equipment's parts and components	27.2%
2	603159	Shanghai Stock Exchange	Shanghai Yahong Moulding Co., Ltd. (上海亞虹模具股份有限公司)	Research and development, design, processing of precision modules and products; injection moulding, plastic coating; metal product processing; and import and export of goods and technology	16.8%
3	002786	Shenzhen Stock Exchange	Shenzhen Yinbaoshan New Technology Co., Ltd. (深圳市銀寶山新科技股份有限公司)	Design and development of complex precision moulds for the manufacturing of plastic hardware products	12.3%
4	605286	Shanghai Stock Exchange	Jiangsu Tongli Risheng Machinery Co., Ltd. (江蘇同力日昇機械股份有限公司)	Research and development, production and sales of metal materials	16.1%
5	301022	Shenzhen Stock Exchange	Qingdao Hi-Tech Moulds & Plastics Technology Co. Ltd (青島海泰科模塑科技股份有限公司)	Manufacturing and sales of injection moulds and other products	24.6%
6	002514	Shenzhen Stock Exchange	Suzhou Boamax Technologies Group Co., Ltd. (蘇州寶馨科技實業股份有限公司)	Research and development, production and sales of metal plates, various precision metal plates' structural parts, charging piles, smart consumer equipment, communications and other electronic equipment, environmental protection equipment, energy equipment, rail transit equipment, transportation equipment, automation equipment and related parts and components	24.1%

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No.	Stock Code	Stock Exchange	Name	Principal business	Gross profit margin of their Metal Component Products segment for 6M2023
7	300709	Shenzhen Stock Exchange	Jiangsu Gian Technology Co., Ltd. (江蘇精研科技股份有限公司)	Design, manufacturing and sales of metal moulds; design, development, manufacturing and sales of automobile parts and components, general tools, metal parts and components, ceramic parts and components and polymer composite parts and components, and motors, gears and transmission parts	19.8%
8	603626	Shanghai Stock Exchange	Kunshan Kersen Science & Technology Co., Ltd. (崑山科森科技股份有限公司)	Research and development, design, manufacturing and sales of mechanical and electrical products and structural parts, precision metal structural parts, and precision moulds; leasing of machinery and equipment; and import and export of commodities and technology	14.6%
9	002965	Shenzhen Stock Exchange	Lucky Harvest Co., Ltd. (祥鑫科技股份有限公司)	Research and development, production and sales of precision stamping moulds and metal structural parts	17.6%
10	300998	Shenzhen Stock Exchange	Ningbo Fangzheng Automobile Mould Co. Ltd (寧波方正汽車模具股份有限公司)	Research, development, manufacturing and operation of moulds for automobile	15.0%

Based on the above analysis, the market gross profit margin of the Metal Component Products for 6M2023 ranges from approximately 12.3% to 27.2% with an average of approximately 18.8%.

Given the highly customised nature of the Systems and the Products, the Company cannot identify any suitable market research reports which could provide a reliable reference of the market gross profit margin for the Systems and the Products.

LETTER FROM THE BOARD

- (iv) adhering to the relevant internal control policy of the Group on connected transactions in monitoring the prices and terms of supply of the Systems and Products 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;
- (v) the management team of the Company will ensure that the actual transaction amounts will not exceed the relevant Annual Caps set out under the Master Procurement Agreement. The operation department of the Group will prepare and provide a designated management report on a monthly basis regarding the continuing connected transaction amounts under the Master Procurement Agreement. In the event that the transaction amounts of any continuing connected transaction expected to be incurred during the financial year will reach 70% of the relevant Annual Caps, the functional department shall report to the management of the Company and the Company will consider to take actions to ensure the compliance with the requirements under the Listing Rules, including obtaining the approval from Independent Shareholders, if necessary;
- (vi) 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
- (vii) 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, respectively.

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.

LETTER FROM THE BOARD

The sale of Integrated Intelligent Systems from the Group to the KCT Group pursuant to the One-off Procurement Agreement (i) in the Year 2022 amounted to approximately RMB2.04 million; and (ii) from 1 January 2023 up to the Latest Practicable Date 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 Latest Practicable Date amounted to approximately RMB1.28 million.

While the Annual Caps is higher than the historical sales amount of the Systems and Products 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 a result of the expansion of the production capabilities of the KCT Group and such expansion will require Metal Component Products such as tools, equipment, semi-finished components and various parts in the manufacturing process and therefore increase the demand for the Metal Component Products. In addition, KCT Group historically sourced the Metal Component Products from other suppliers and plans to expand its cooperation with the Group on the supply of the Metal Component Products in light of the established relationship and proven sales track record between the Group and KCT Group.

The Group received a procurement request letter from the KCT Group in late July 2023 in relation to its intended expansion of production capacities, which indicated that the total outstanding demand anticipated by the management of the KCT Group to be fulfilled for the Year 2023 in procuring highly-customised Systems and Products is expected to exceed RMB100.0 million.

To the best knowledge of the Company, the expansion and development in the manufacturing of metamaterials segment will continue to be the strategic focus of the management of the KCT Group in the future. The KCT Group owns the largest metamaterials production center in the PRC. In order to capture the fast-increasing customer demand in the metamaterials market for the potential applications of metamaterials, strategic expansion plans have been launched by the KCT Group (i) to further enhance the production capacities of its existing manufacturing units; and (ii) to acquire new production plants and facilities. Based on the public information issued by the KCT Group, the KCT Group has completed the first phase of its expansion plan in the first quarter of 2023, which resulted in a 50% increase in its designated production capacities from approximately 40 tons per year to approximately 60 tons per year. It is anticipated by the management of the KCT Group that the designated production capacity of its overall production facilities will further increase to approximately 100 tons per year, which represented a significant increase of approximately 66.7% upon the completion of the second phase of its expansion plans, which is expected to be by the end of Year 2024.

LETTER FROM THE BOARD

The Company noted that such production capability increase is substantiated by the high revenue growth of the KCT Group in Year 2022. As disclosed in the 2022 KCT Annual Report, the overall revenue of the KCT Group has substantially increased from approximately RMB859.4 million for the Year 2021 to approximately RMB1,167.6 million for the Year 2022, which represented an increase of approximately 35.9%. The revenue generated from the sale of metamaterials segment of the KCT Group has substantially increased for approximately 42.6% from approximately RMB612.1 million for the Year 2021 to approximately RMB873.1 million for the Year 2022, which accounted for approximately 74.8% of the total revenue of the KCT Group for the Year 2022. Furthermore, the KCT Group has entered into a material sales contract for the provision of massive metamaterial products during the Year 2022, with the consideration amounted to approximately RMB2.0 billion. As disclosed in the 2023 KCT Interim Report, the overall revenue of the KCT Group has substantially increased from approximately RMB466.2 million for the 6M2022 to approximately RMB843.0 million for the 6M2023, which represented an increase of approximately 80.8%. The revenue generated from the sale of metamaterials segment of the KCT Group has substantially increased for approximately 91.5% from approximately RMB357.6 million for 6M2022 to approximately RMB685.0 million for 6M2023, which accounted for approximately 81.3% of the total revenue of the KCT Group for 6M2023.

Despite the expected completion of the designated production capacity expansion by the end of Year 2024, the Company expects that the demand of KCT Group in the Systems and Products will continue to increase in Year 2025. It is expected that there will be a time gap of around at least one year between the expansion of the designated capacity and the full ramp-up of production as the KCT Group will need time to engage in, among others, commissioning and optimization of equipment, training of personnel and supply chain planning. As the Integrated Intelligent Systems under the Master Procurement Agreement will play a crucial role in its production process management, detection and inspection control and daily management of industrial parks, the Group will further customise the Integrated Intelligent Systems based on the actual production experience and specific requirements of the KCT Group, ensuring they align seamlessly with the new production needs of the KCT Group. This ongoing customization and optimization will enhance efficiency, productivity and overall operational effectiveness of our Integrated Intelligent Systems and continue to drive the demand for our Integrated Intelligent Systems. In addition, the expanded production capabilities of the KCT Group will result in an increase in its demand for our Metal Component Products, which includes tools, equipment and various parts which will be used in the manufacturing process of metamaterials by the KCT Group.

LETTER FROM THE BOARD

In view of the above, the Directors (including the independent non-executive Directors) 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.

3. 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 Latest Practicable Date, 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 Latest Practicable Date, Kuang-Chi Technology is owned as to (i) 2.07% by 深圳光啟空間技術有限公司 (*Shenzhen Kuang Chi Space Technology Limited), a wholly-owned subsidiary of the Company; (ii) 36.00% by 西藏映邦實業發展有限公司 (*Tibet Yingbang Industrial Development Co., Ltd) 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; and (iii) 61.93% by other shareholders, amongst which, none of the other individual shareholders hold more than 3.47% in Kuang-Chi Technology.

LETTER FROM THE BOARD

4. 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 the collaboration 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 for our customers.

Accordingly, the Directors (including the independent non-executive Directors) 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.

5. IMPLICATIONS UNDER THE LISTING RULES

As at the Latest Practicable Date, (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.

LETTER FROM THE BOARD

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 resolution 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 resolution.

6. SGM

The notice of the SGM is set out on pages SGM-1 to SGM-2 of this circular. At the SGM, resolution will be proposed for the Shareholders to consider and, if thought fit, among other things, to approve the Master Procurement Agreement, the continuing connected transactions contemplated thereunder and the Annual Caps.

In accordance with the Listing Rules, any connected person or Shareholders with a material interest in the Master Procurement Agreement, the transactions contemplated thereunder and the Annual Caps must abstain from voting on the relevant resolution at the SGM.

As Dr. Liu, Dr. Zhang, Dr. Luan and Dr. Ji were interested in the Master Procurement Agreement and the continuing connected transactions contemplated thereunder given their interest in Kuang-Chi Technologies, they and their respective associates shall abstain from voting at the SGM to approve the resolution in respect of the Master Procurement Agreement, the continuing connected transactions contemplated thereunder and the Annual Caps. Given that New Horizon Wireless Technology Limited ("**New Horizon**") and Sky Asia Holdings Limited ("**Sky Asia**") are controlled as to more than 30% by Dr. Liu, New Horizon and Sky Asia (the "**Interested Shareholders**") are associates of Dr. Liu and shall abstain from voting at the SGM to approve the resolution in respect of the Master Procurement Agreement, the continuing connected transactions contemplated thereunder and the Annual Caps. As at the Latest Practicable Date, the Interested Shareholders held 2,618,500,000 Shares. To the best knowledge, belief and information of the Directors, save for the Interested Shareholders who shall abstain from voting at the SGM to approve the resolution in respect of the Master Procurement Agreement, the continuing connected transactions contemplated thereunder and the Annual Caps, no Shareholder is required to abstain from voting at the SGM.

LETTER FROM THE BOARD

A form of proxy for use at the SGM is sent to the Shareholders together with this circular. Whether or not the Shareholders are able to attend the SGM, the Shareholders are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the Company's share registrar and transfer office in Hong Kong, Tricor Secretaries Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, by 11:00 a.m. on Saturday, 28 October 2023 or not less than 48 hours before the time for holding of any adjournment of the SGM. Completion and return of the form of proxy will not preclude the Shareholders from attending and voting at the SGM or any adjournment thereof should the Shareholders so wish. If the Shareholders attend and vote at the SGM, the authority of the Shareholders' proxy shall be deemed to be revoked.

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of the Shareholders at a general meeting must be taken by poll. Therefore, all resolutions put to the vote at the SGM will be taken by way of poll. An announcement on the results of the poll will be published by the Company after the SGM in the manner prescribed under the Listing Rules.

7. 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 Company. 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.

8. RECOMMENDATION

Your attention is drawn to (i) the letter from the Independent Board Committee set out on pages 22 to 23 of this circular which contains its recommendation to the Independent Shareholders in relation to the Master Procurement Agreement, the continuing connected transactions contemplated thereunder and the Annual Caps; and (ii) the letter from the Independent Financial Adviser set out on pages 24 to 45 of this circular which contains their advice to the Independent Board Committee and the Independent Shareholders in relation to the Master Procurement Agreement, the continuing connected transactions contemplated thereunder and the Annual Caps and the principal factors and reasons considered by them in formulating their advice.

LETTER FROM THE BOARD

The Independent Board Committee, having taken into account the recommendation of the Independent Financial Adviser, considers that (i) the continuing connected transactions contemplated under the Master Procurement Agreement are 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; (ii) the terms of the Master Procurement Agreement are on normal commercial terms and are fair and reasonable; and (iii) the Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolution which will be proposed at the SGM relating to the Master Procurement Agreement, the continuing connected transactions contemplated thereunder and the Annual Caps.

9. GENERAL

The Board confirm that to the best of their knowledge, information and belief having made all reasonable enquiries, as at the Latest Practicable Date, there was no voting trust or other agreement or arrangement or understanding (other than an outright sale) entered into by or binding upon any Shareholder and there was no obligation or entitlement of any Shareholder whereby he/she has or may have temporarily or permanently passed control over the exercise of the voting right in respect of his/her Shares to a third party, either generally or on a case-by-case basis.

10. CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 25 October 2023 to Monday, 30 October 2023 (both days inclusive) in order to determine the entitlement of the Shareholders to attend the SGM, during which period no transfer of the Shares will be effected. All transfers, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Secretaries Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, not later than 4:30 p.m. on Tuesday, 24 October 2023.

11. MISCELLANEOUS

Your attention is also drawn to the information set out in the appendix to this circular.

Yours faithfully,
For and on behalf of the Board
KuangChi Science Limited
Cheng Chi Chung Kevin
Company Secretary



KUANGCHI SCIENCE LIMITED

光啟科學有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 439)

12 October 2023

To the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

We refer to this circular dated 12 October 2023 of the Company of which this letter forms part. Terms defined in this circular bear the same meanings herein unless the context otherwise requires.

We have been appointed to form the Independent Board Committee to advise you in connection with the Master Procurement Agreement, the continuing connected transactions contemplated thereunder and the Annual Caps, details of which are set out in this circular.

Lego Corporate Finance Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Master Procurement Agreement, the continuing connected transactions contemplated thereunder and the Annual Caps.

We wish to draw your attention to the letter from the Board set out on pages 4 to 21 of this circular which contains, among others, information on the Master Procurement Agreement, the continuing connected transactions contemplated thereunder and the Annual Caps as well as the letter from the Independent Financial Adviser set out on pages 24 to 45 of this circular which contains its advice in respect of the terms of the Master Procurement Agreement, the continuing connected transactions contemplated thereunder and the Annual Caps.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having taken into account the advice of the Independent Financial Adviser as set out in its letter of advice, we concur with the view of the Independent Financial Adviser and consider that (i) the Master Procurement Agreement is on normal commercial terms and is fair and reasonable so far as the Company and the Independent Shareholders are concerned; (ii) the Annual Caps are fair and reasonable so far as the Company and the Independent Shareholders are concerned; and (iii) the transactions contemplated under the Master Procurement Agreement are in the interests of the Company and the Shareholders as a whole and conducted in the ordinary and usual course of business of the Group.

Accordingly, we recommend you to vote in favour of the resolution to be proposed at the SGM to approve the Master Procurement Agreement, the continuing connected transactions contemplated thereunder and the Annual Caps.

Yours faithfully

The Independent Board Committee

DR. WONG KAI KIT

*Independent
non-executive Director*

MR. CHOI WING KOON

*Independent
non-executive Director*

DR. WU ZHILI

*Independent
non-executive Director*

LETTER FROM INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter of advice from Lego Corporate Finance Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, in relation to the Master Procurement Agreement, the transactions contemplated thereunder and the Annual Caps for the procurement of the Systems and Products, which has been prepared for the purpose of inclusion in this circular.



12 October 2023

To the Independent Board Committee and the Independent Shareholders

Dear Sirs or Madams,

CONTINUING CONNECTED TRANSACTIONS – MASTER PROCUREMENT AGREEMENT

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Master Procurement Agreement and the adoption of the relevant annual caps for the three years ending 31 December 2025, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular issued by the Company to the Shareholders dated 12 October 2023 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

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 and (ii) Metal Component Products.

As at the Latest Practicable Date, (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 at 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.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

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.

The Independent Board Committee comprising all of the independent non-executive Directors, namely Dr. Wong Kai Kit, Mr. Choi Wing Koon and Dr. Wu Zhili, has been established to consider and advise the Independent Shareholders as to whether the terms of the Master Procurement Agreement, the transactions contemplated thereunder and the Annual Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders as to how to vote at the SGM. As the Independent Financial Adviser, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders in such regards.

OUR INDEPENDENCE

As at the Latest Practicable Date, we were independent from the Company in accordance with Rule 13.84 of the Listing Rules. We did not have any relationships with or interests in the Company or any other parties that could reasonably be regarded as relevant to our independence. In the last two years prior to the Latest Practicable Date, there was no engagement between the Company and us. Apart from normal professional fees paid or payable to us in connection with this appointment, no arrangement exists whereby we had received or will receive any fees or benefits from the Company. Accordingly, we consider that we are eligible to give independent advice to the Independent Board Committee and the Independent Shareholders in respect of the Master Procurement Agreement, the transactions contemplated thereunder and the Annual Caps.

BASIS OF OUR OPINION

In formulating our opinion and advice, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the information supplied by the Group and its advisers; (iii) the opinions expressed by and the representations of the Directors and the management of the Group (the "**Management**"); and (iv) our review of the relevant public information. We have assumed that all the information provided and representations and opinions expressed to us or contained or referred to in the Circular were true, accurate and complete in all respects as at the date thereof and may be relied upon. We have also assumed that all statements contained and representations made or referred to in the Circular are true at the time they were made and continue to be true as at the date of the Circular and all such statements of belief, opinions and intention of the Directors and the Management and those as set out or referred to in the Circular were

LETTER FROM INDEPENDENT FINANCIAL ADVISER

reasonably made after due and careful enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors, the Management, and/or the advisers of the Company. We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided and referred to in the Circular and that all information or representations provided to us by the Directors and the Management are true, accurate, complete and not misleading in all respects at the time they were made and continued to be so until the date of the Circular.

Should there be any subsequent material changes which occur during the period from the Latest Practicable Date up to the date of the SGM, we will notify the Independent Board Committee and the Independent Shareholders as soon as practicable.

We consider that we have reviewed the relevant information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided, representations made or opinion expressed by the Directors and the Management, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of the Group, or any of their respective subsidiaries or associates.

This letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Master Procurement Agreement, the continuing connected transactions contemplated thereunder and the Annual Caps, except for its inclusion in the Circular and for the purpose of the SGM, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation in respect of the Mater Procurement Agreement and the Annual Caps, we have taken into consideration the following principal factors and reasons.

Background information of the Group

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. The Group mainly focuses on the development and manufacturing of Artificial Intelligent (“AI”) technology and related innovative products based on a big data analysis platform, and the provision of AI-empowered terminal products and integrated technical services and solutions in various vertical fields.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

Financial information of the Group

The following table summarises the consolidated financial information of the Group for the three years ended 31 December 2022 (“FY2020”, “FY2021” and “FY2022”) and the six months ended 30 June 2022 and 2023 (“6M2022” and “6M2023”) as extracted from the Company’s annual reports for FY2021 (the “2021 Annual Report”), the Company’s annual report for FY2022 (the “2022 Annual Report”) and the Company’s interim report for 6M2023 (the “2023 Interim Report”).

	FY2020 <i>HK\$’000</i> <i>(Audited)</i>	FY2021 <i>HK\$’000</i> <i>(Audited)</i>	FY2022 <i>HK\$’000</i> <i>(Audited)</i>	6M2022 <i>HK\$’000</i> <i>(Unaudited)</i>	6M2023 <i>HK\$’000</i> <i>(Unaudited)</i>
Revenue	99,478	113,972	52,523	30,931	33,461
Gross profit	38,576	41,730	10,826	6,377	4,673
Loss before tax	(77,218)	(40,608)	(67,912)	(38,471)	(9,099)
Loss for the year/period	(79,369)	(40,608)	(67,912)	(38,471)	(9,099)
					As at 30
		As at 31 December			June
		2020	2021	2022	2023
		<i>HK\$’000</i> <i>(Audited)</i>	<i>HK\$’000</i> <i>(Audited)</i>	<i>HK\$’000</i> <i>(Audited)</i>	<i>HK\$’000</i> <i>(Unaudited)</i>
Cash and cash equivalents		147,812	297,190	72,700	93,229
Total assets		2,843,044	2,769,720	1,979,687	1,808,151
Total liabilities		904,759	545,674	362,690	342,072
Net assets		1,938,285	2,224,046	1,616,997	1,466,079

For 6M2022 and 6M2023

The Group’s revenue increased by approximately 8.4% from approximately HK\$30.9 million for 6M2022 to approximately HK\$33.5 million for 6M2023. As stated in the 2023 Interim Report, such increase was mainly attributable to the increase in revenue generated from the sale of AI system and related products of approximately 44.0% during the period. The net loss of the Group decreased by approximately 76.4% from approximately HK\$38.5 million for 6M2022 to approximately HK\$9.1 million for 6M2023, which was mainly attributable to (i) the decrease in fair value losses on financial assets at fair value through profit or loss of approximately 80.7% arising from the change in fair value of the Group’s investment in an overseas listed company; (ii) the decrease in selling and distribution expenses of approximately 90.1%; and (iii) the decrease in administrative expenses of approximately 36.0%.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

As at 30 June 2023, total asset of the Group amounted to approximately HK\$1,808.2 million, which mainly comprised (i) the Group's financial assets at fair value through other comprehensive income of approximately HK\$750.8 million, which represented the investments in listed equity securities, accounting for approximately 41.5% of the Group's total assets; and (ii) property, plant and equipment of the Group of approximately HK\$429.5 million, which represented approximately 23.8% of the total assets. As at 30 June 2023, total liabilities of the Group amounted to approximately HK\$342.1 million, of which the Group's trade and other payables amounted to approximately HK\$71.7 million, representing approximately 21.0% of the total liabilities; whilst the Group's bank and other borrowings amounted to approximately HK\$135.2 million, representing approximately 39.5% of the total liabilities.

The total assets of the Group decreased by approximately 8.7% from approximately HK\$1,979.7 million as at 31 December 2022 to approximately HK\$1,808.2 million as at 30 June 2023. Such decrease was mainly attributable to the combined effects of (i) the decrease in financial assets at fair value through other comprehensive income of approximately HK\$329.8 million; (ii) the increase in trade and other receivables of approximately HK\$16.0 million; and (iii) the increase in bank and cash balances of approximately HK\$158.2 million.

The total liabilities of the Group decreased by approximately 5.7% from approximately HK\$362.7 million as at 31 December 2022 to approximately HK\$342.1 million as at 30 June 2023. Such decrease was mainly attributable to the combined effects of (i) the decrease in deferred tax liabilities of approximately HK\$17.1 million; (ii) the decrease in bank borrowings of approximately HK\$6.2 million; and (iii) the increase in trade and other payables of approximately HK\$3.8 million.

For FY2021 and FY2022

The Group's revenue decreased by approximately 53.9% from approximately HK\$114.0 million for FY2021 to approximately HK\$52.5 million for FY2022. As stated in the 2022 Annual Report, such decrease was mainly attributable to the delayed order and delivery cycle of certain projects of the Group due to the epidemic prevention and control in the PRC during the year. The net loss of the Group increased by approximately 67.2% from approximately HK\$40.6 million for FY2021 to approximately HK\$67.9 million for FY2022, which was mainly attributable to the combined effects of (i) the decrease in gross profit as a result of the decrease in revenue due to the abovementioned reasons; (ii) the fair value loss on financial assets at fair value through profits or loss of approximately HK\$19.5 million arising from the change in fair value of the Group's investment in an overseas listed company; (iii) the decrease in other income of approximately HK\$9.4 million, which was mainly due to the decrease in government grants for FY2022; (iv) the decrease in selling and distribution expenses of approximately HK\$12.6 million; and (v) the decrease in administrative expenses of approximately HK\$17.0 million.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

As at 31 December 2022, total asset of the Group amounted to approximately HK\$1,979.7 million, which mainly comprised (i) the Group's financial assets at fair value through other comprehensive income of approximately HK\$1,080.6 million, which represented the investments in listed equity securities, accounting for approximately 54.6% of the Group's total assets; and (ii) property, plant and equipment of the Group of approximately HK\$437.6 million, which represented approximately 22.1% of the total assets. As at 31 December 2022, total liabilities of the Group amounted to approximately HK\$362.7 million, of which the Group's trade and other payables amounted to approximately HK\$67.8 million, representing approximately 18.7% of the total liabilities; whilst the Group's bank and other borrowings amounted to approximately HK\$141.4 million, representing approximately 39.0% of the total liabilities.

The total assets of the Group decreased by approximately 28.5% from approximately HK\$2,769.7 million as at 31 December 2021 to approximately HK\$1,979.7 million as at 31 December 2022. Such decrease was mainly attributable to (i) the decrease in financial assets at fair value through other comprehensive income of approximately HK\$574.1 million; (ii) the decrease in trade and other receivables of approximately HK\$42.7 million; and (iii) the decrease in bank and cash balances of approximately HK\$134.2 million.

The total liabilities of the Group decreased by approximately 33.5% from approximately HK\$545.7 million as at 31 December 2021 to approximately HK\$362.7 million as at 31 December 2022. Such decrease was mainly attributable to (i) the decrease in deferred tax liabilities of approximately HK\$82.7 million; (ii) the decrease in trade and other payables of approximately HK\$60.5 million; and (iii) the decrease in bank borrowings of approximately HK\$36.6 million.

For FY2020 and FY2021

The Group's revenue increased by approximately 14.6% from approximately HK\$99.5 million for FY2020 to approximately HK\$114.0 million for FY2021. As stated in the 2021 Annual Report, such increase was mainly attributable to Group's AI technology terminal products integration and analysis services.

The net loss of the Group decreased by approximately 48.9% from approximately HK\$79.4 million for FY2020 to approximately HK\$40.6 million for FY2021, which was mainly attributable to the repayment of bank and other borrowings of the Group through the disposal of the shares of Kuang-Chi Technologies and the capitalisation of the borrowing costs for FY2021, which resulted in a significant decrease in finance costs of approximately HK\$32.8 million as compared to that of FY2020.

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As at 31 December 2021, total asset of the Group amounted to approximately HK\$2,769.7 million, which mainly comprised (i) the Group's financial assets at fair value through other comprehensive income of approximately HK\$1,654.7 million, which represented the investments in listed equity securities, accounting for approximately 59.7% of the Group's total assets; and (ii) property, plant and equipment of the Group of approximately HK\$449.4 million, which represented approximately 16.2% of the total assets. As at 31 December 2021, total liabilities of the Group amounted to approximately HK\$545.7 million, of which the Group's trade and other payables amounted to approximately HK\$128.3 million, representing approximately 23.5% of the total liabilities; whilst the Group's bank and other borrowings amounted to approximately HK\$178.0 million, representing approximately 32.6% of the total liabilities.

The total assets of the Group decreased by approximately 2.6% from approximately HK\$2,843.0 million as at 31 December 2020 to approximately HK\$2,769.7 million as at 31 December 2021. Such decrease was mainly attributable to (i) the decrease in financial assets at fair value through other comprehensive income of approximately HK\$242.2 million; and (ii) the decrease in trade and other receivables of approximately HK\$74.0 million.

The total liabilities of the Group decreased by approximately 39.7% from approximately HK\$904.8 million as at 31 December 2020 to approximately HK\$545.7 million as at 31 December 2021. Such decrease was mainly attributable to the decrease in bank borrowings of approximately HK\$318.8 million.

Background information of Kuang-Chi Technologies

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 Latest Practicable Date, 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 Latest Practicable Date, Kuang-Chi Technology is owned as to (i) 2.07% by 深圳光啟空間技術有限公司 (*Shenzhen Kuang Chi Space Technology Limited), a wholly-owned subsidiary of the Company; (ii) 36.00% by 西藏映邦實業發展有限公司 (*Tibet Yingbang Industrial Development Co., Ltd), 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; and (iii) 61.93% by other shareholders, amongst which, none of the other individual shareholders hold more than 3.47% in Kuang-Chi Technology.

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Reasons for and benefits of the continuing connected transaction under the Master Procurement Agreement

As disclosed in the Letter from the Board, 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 will 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.

Furthermore, as disclosed in the Letter from the Board, the Group has 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 the Group 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 the collaboration 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 the product line of the Group to offer a comprehensive one-stop solution for its customers.

Taking into consideration that (i) the sale and supply of the Systems and Products by the Group to the KCT Group are considered in line with the principal business of the Group; (ii) the Group may supply and provide the Systems and Products to other third parties pursuant to the Master Procurement Agreement; (iii) the price of the Systems and Products and payment terms pursuant to the Master Procurement Agreement should be no less favourable to the Group than those offered by the Group to independent third parties of the Group in comparable transactions of the same period (i.e. at the time when the KCT Group intends to purchase the Systems and Products from the Group); and (iv) the mutual beneficial relationship between the Group and the KCT Group with the stable supply of the Group's quality Systems and Products to the KCT Group to achieve their strategic development needs and long-term profitability goals, the Directors are of the view, and we concur, that the entering into of the Master Procurement Agreement is in line with the principal businesses of the Group.

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In addition, as enquired with and advised by the Management, we are given to understand that the Group will continue with its efforts to develop and roll out new products and services for its business of sale of AI coverage systems and related metal component products, and it is expected that similar transactions will occur on a continuing basis. As such, it would (i) incur additional costs such as professional fees when it comes to making a regular disclosure for each of the related transaction and require to obtain approval from the Independent Shareholders under the Listing Rules; and (ii) experience a practical difficulty if the Group has to comply with the Listing Rules in respect of the continuing connected transaction each time a transaction is proposed. Accordingly, providing a framework for the negotiation of individual transactions under the agreement is necessary for the continued smooth operation of the Group and beneficial to the Company and the Independent Shareholders.

Having considered the abovementioned factors, the Directors are of the opinion, and we concur, that the entering into of the Master Procurement Agreement is conducted in the ordinary course of business of the Group and in the interests of the Group and the Shareholders as a whole.

Principal terms of the Master Procurement Agreement

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 and (ii) Metal Component Products. The principal terms of the Master Procurement Agreement are summarised below:

- Date** : 9 August 2023
- Parties** : (1) the Company (for itself and on behalf of its subsidiaries) (as vendor); and
(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 party not less than three months' prior written notice.

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If either party is in breach of any obligation under the Master Procurement Agreement, then the non-breaching party 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 the said period, the non-breaching party 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 the KCT Group shall purchase (i) the Integrated Intelligent Systems; and (ii) the Metal Component Products, provided that the Group may supply and provide the Systems and Products 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 the 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.

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 has been signed;

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- (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 in respect 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 that the 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 party save for claim (if any) in respect of any antecedent breach thereof.

Pricing

As disclosed in the Letter from the Board, pursuant to the Master Procurement Agreement, the Group shall sell the Systems and Products to the KCT Group upon request by the KCT Group, on terms and conditions (including the price of the Systems and Products) to be agreed by the Group and the KCT Group on arm's length basis and normal commercial terms and fair and reasonable market trading rules. The price of the Systems and Products 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 for 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 most recent half-year or full year review period (the "**Review Period**") as detailed in the paragraphs headed "Internal Control" in the Circular;

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- (ii) where no same or similar products and services are available from the Group to independent third parties, based on the expected cost of providing the Systems and Products (such as raw material cost, labour cost, subcontracting cost and manufacturing expenses) plus a reasonable profit margin as determined with reference to the prevailing market gross profit margin in the same industry for the most recent Review Period as detailed in the paragraphs headed “Internal Control” in the Circular; and
- (iii) in any event no less favourable to the Group than those offered by the Group to independent third parties in comparable transactions for the same period.

As disclosed in the Letter from the Board and advised by the Management, where no reference price can be obtained, the price of the Integrated Intelligent Systems and the Metal Component Products shall be determined on a basis that allows the Group to sell the Integrated Intelligent Systems and the Metal Component Products at a gross profit margin within a range from 15% to 30% and from 15% to 25%, respectively (the “**Integrated Intelligent Systems Margin**” and the “**Metal Component Products Margin**”, respectively). Such target margins may be adjusted based on the market gross profit margin for the most recent Review Period as detailed in the paragraphs headed “Internal Control” in the Circular.

We noted that the Group’s overall gross profit margins for FY2020, FY2021, FY2022 and 6M2023 ranged from approximately 14.0% to 38.8% (the “**Range**”). Based on the annual reports and the 2023 Interim Report of the Company and the financial records provided by the Management, we noted that the Group’s gross profit margin decreased from approximately 38.8% for FY2020 to approximately 36.6% for FY2021, which further decreased to approximately 20.6% for FY2022 and approximately 14.0% for 6M2023. Such decrease was mainly attributable to the substantial decline in the revenue generated from the Group’s sales of wearable smart helmets business segment during the periods, which had a relatively higher gross profit margin that ranged from approximately 31% to 40%. The contribution from the sales of wearable smart helmets to the Group’s total revenue decreased from approximately 63.8% for FY2020 to approximately 11.5% for FY2021, which further decreased to approximately 9.8% for FY2022 and approximately 1.2% for 6M2023. Since FY2020, the sales of AI coverage system and related products segment which offers customised AI coverage systems and integrated intelligent systems has gradually become the main source of the Group’s revenue, which had a gross profit margin that ranged from approximately 13% to 34%. Thus, lower overall gross profit margins for FY2022 and 6M2023 have been resulted. Since (i) the Systems and Products provided by the Group are highly-customised based on the required needs and specifications of the customers; and (ii) the gross profit margins of each of the business segments of the Group varied in light of the difference in the nature of business among the

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segments, the Range should merely be used as a reference to illustrate the profitability of the Systems and Products instead of a direct comparison as to the Group's overall profitability in recent years. In view of the Integrated Intelligent Systems Margin and the Metal Component Products Margin are generally in line with the Range, we concur with the Management's view that the Integrated Intelligent Systems Margin and the Metal Component Products Margin are considered fair and reasonable and no less favourable to the Group than those offered by the Group to the independent third parties.

In addition, as disclosed in the Letter from the Board, the One-Off Procurement Agreement in FY2022 was the only procurement agreement of Integrated Intelligent Systems entered into between the KCT Group and the Group. We have obtained and reviewed (i) the corresponding procurement agreement; (ii) the corresponding sales invoices of the Integrated Intelligent Systems completed and delivered to the KCT Group up to the Latest Practicable Date; and (iii) the breakdown of the direct costs incurred and expected to be incurred by the Group in respect of such Integrated Intelligent Systems, and noted that the gross profit margin of the One-Off Procurement Agreement was estimated to be approximately 30.1%. Based on the estimation of the Management, the remaining parts of the Integrated Intelligent Systems under the One-Off Procurement Agreement is expected to be completed by the end of the Year 2023.

For due diligence purpose, we have also sample checked five sales agreements of Integrated Intelligent Systems entered into between the Group and independent third-party customers from FY2020 to 6M2023, the corresponding sales invoices and the breakdown of the direct costs incurred by the Group. The samples were selected out of an exhaustive list of 11 sales agreements from FY2020 to 6M2023 on a random basis, which accounted for approximately 70% of the total sales amount for the 11 sales agreement and are considered sufficient and representative. Based on the samples obtained, we noted that (i) the payment terms offered by the Group to the KCT Group under the Master Procurement Agreement is similar to those offered to independent third-party customers as stated in such sample agreements in which the payment terms of the Integrated Intelligent Systems ranged from 15 days to 20 days; and (ii) the target range of Integrated Intelligent Systems Margin (i.e. 15% to 30%) is within the range of that offered by the Group to the independent third-party customers, being from approximately 12.3% to approximately 54.8%, with an average of approximately 26.4%. Based on the abovementioned sales agreements of Integrated Intelligent Systems entered into between the Group and independent third-party customers from FY2020 to 6M2023 we have obtained, it is noted that only one of the sales agreements has recorded a gross profit margin of over 30% (i.e. 54.8%). As enquired with and understood from the Management, the exceptionally higher gross profit margin of the sales agreement was attributable to multiple reasons, in particular, the high level of complexity of the customisation of the Integrated Intelligent Systems required by the customer. By excluding the abovementioned exceptional sales agreement, the range of gross profit margins of the sample sales agreements would ranged from approximately 12.3% to 26.4%, which is lower than the target range of the Integrated Intelligent Systems Margin (i.e. 15% to 30%). As such, we concur with the Management's view that the target range of Integrated Intelligent Systems Margin is no less favourable to the Group than those offered by the Group to independent third parties.

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As disclosed in the Letter from the Board and advised by the Management, we were given to understand that the Group began to sell Metal Component Products to the KCT Group as a new area of business from the Year 2023 onwards. The sale of Metal Component Products from the Group to the KCT Group from 1 January 2023 up to the Latest Practicable Date amounted to approximately RMB1.28 million. We have obtained and reviewed 20 sales orders entered into between the Group and the KCT Group and the corresponding breakdown of the direct costs incurred by the Group, which are exhaustive samples given they were all the sales of Metal Component Products from the Group to the KCT Group since 1 January 2023, and noted that the gross profit margins of the corresponding sales of the Metal Component Products ranged from approximately 15.0% to 32.4%. We were further advised by the Management that the Group has not sold any Metal Component Products to independent third-party customers up to the Latest Practicable Date, thus there were no identical or substantially similar comparable transactions.

As an alternative approach to assess the fairness and reasonableness of the pricing terms of the Metal Component Products, we evaluate whether the Group is able to achieve reasonable profitability from the sale of the Metal Component Products to the KCT Group. As advised by the Management and as abovementioned, we understand that when there is no reference price can be obtained by the Group from its sales orders to independent third parties to determine the prevailing market price or the gross profit margin of the Metal Component Products, the Metal Component Products Margin shall be adopted to achieve a gross profit margin with a range from 15% to 25%. For due diligence purpose, we have conducted independent research on Refinitiv Eikon database to compare the gross profit margins of companies which offer metal component products of similar nature in the PRC. We identified comparable companies based on the following criteria: (i) listed on the Stock Exchange, Shenzhen Stock Exchange or Shanghai Stock Exchange; (ii) mainly engaged in business operations in the industrial machinery and equipment industry in the PRC; and (iii) with over 50% of their total revenue derived from the sale of metal component products of similar nature. Based on the abovementioned criteria, we have identified, an exhaustive list of three comparable companies from Refinitiv Eikon database (the “**Comparable Companies**”), which are considered sufficient to illustrate the market practice regarding the pricing of metal component products. The table below sets forth the summary of the gross profit margins of the Comparable Companies:

Stock Code	Company Name	Principal Business	Gross Profit Margin <i>(Note)</i>
300549.SZ	Jouder Precision Industry (Kunshan) Co., Ltd.	Research, development, production and sales of precision moulds’ parts and components, automation equipment and medical equipment’s parts and components.	28.6%

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Stock Code	Company Name	Principal Business	Gross Profit Margin (Note)
301022.SZ	Qingdao Hi-Tech Moulds & Plastics Technology Co., Ltd.	Manufacturing and sales of injection moulds and other products.	22.5%
300998.SZ	Ningbo Fangzheng Automobile Mould Co., Ltd.	Research, development, manufacturing and operation of moulds for automobile.	15.5%
		<i>Maximum</i>	28.6%
		<i>Minimum</i>	15.5%
		<i>Average</i>	22.2%

Source: Refinitiv Eikon

Note: Gross profit margins for the latest financial year of the Comparable Companies are extracted from the Refinitiv Eikon database.

Based on the data of the Comparable Companies' latest financial year as extracted from Refinitiv Eikon database, the gross profit margins of the Comparable Companies ranged from approximately 15.5% to 28.6%, with an average of approximately 22.2%. It is noted that the gross profit margins range of the sales orders of Metal Component Products entered into between the Group and the KCT Group (i.e. 15.0% to 32.4%) was in line with the range of that of the Comparable Companies. We further discussed with the Management and were given to understand that the costs incurred in the manufacturing and sale of the Metal Component Products mainly comprised the costs of raw materials, processing and labor, which may vary in accordance to the complexity of the customisation of the Metal Component Products required by customers, and will inevitably affect the gross profit margin. As advised by the Management, leveraging on the experience, techniques and the developed craftsmanship of the Group, the improved efficiency and functionality of the Metal Component Products are expected to satisfy the procurement requirements of the KCT Group and be able to achieve the Metal Component Products Margin.

Based on the abovementioned factors, we concur with the Management that (i) the pricing basis under the Master Procurement Agreement is fair and reasonable; and (ii) the target range of Integrated Intelligent Systems Margin and the Metal Component Products Margin are (a) no less favourable to those offered by the Group to the independent third parties; (b) fair and reasonable so far as the Independent Shareholders are concerned; and (c) in the interest of the Company and the Shareholders as a whole.

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Historical transaction amount

As the Systems and Products were newly developed and first brought to the market since FY2022, the Group did not have respective sales with the KCT Group in FY2020 and FY2021.

The sale of Integrated Intelligent Systems from the Group to the KCT Group amounted to (i) approximately RMB2.04 million in FY2022; and (ii) approximately RMB2.82 million for the period from 1 January 2023 up to the Latest Practicable Date.

The sale of Metal Component Products from the Group to the KCT Group from 1 January 2023 up to the Latest Practicable Date amounted to approximately RMB1.28 million.

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, respectively.

As disclosed in the Letter from the Board, while the Annual Caps are higher than the historical sales amount of the Systems and Products 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 a result of the expansion of the production capabilities of the KCT Group and such expansion will require Metal Component Products such as tools, equipment, semi-finished components and various parts in the manufacturing process, and therefore increase the demand for the Metal Component Products. In addition, the KCT Group historically sourced Metal Component Products from other suppliers and plans to expand its cooperation with the Group on the supply of Metal Component Products.

In assessing the fairness and reasonableness of the Annual Caps, we have discussed with the Management regarding the bases for determining the Annual Caps and reviewed the 2022 KCT Annual Report and the 2023 KCT Interim Report. As disclosed in the 2022 KCT Annual Report, the overall revenue of the KCT Group has substantially increased from approximately RMB859.4 million for FY2021 to approximately RMB1,167.6 million for FY2022, which represented an increase of approximately 35.9%. The revenue generated from the sale of metamaterials segment of the KCT Group has substantially increased for approximately 42.6% from approximately RMB612.1 million for FY2021 to approximately RMB873.1 million for FY2022, which accounted for approximately 74.8% of the total revenue of the KCT Group for FY2022. Furthermore, the KCT Group has entered into a material sales contract for the provision of massive metamaterials products during FY2022, with the consideration amounted to approximately RMB2.0 billion. As disclosed in the 2023 KCT Interim Report, the overall revenue of the KCT Group has substantially increased from approximately RMB466.2 million for 6M2022 to approximately RMB843.0 million for 6M2023, which represented an increase of approximately 80.8%. The revenue

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generated from the sale of metamaterials segment of the KCT Group has substantially increased for approximately 91.5% from approximately RMB357.6 million for 6M2022 to approximately RMB685.0 million for 6M2023, which accounted for approximately 81.3% of the total revenue of the KCT Group for 6M2023. The expansion and development in the manufacturing of metamaterials segment will continue to be the strategic focus of the management of the KCT Group in the future.

Based on the 2022 KCT Annual Report and the 2023 KCT Interim Report, it is noted that the KCT Group owns the largest metamaterials production center in the PRC. In order to capture the fast-increasing customer demand in the metamaterials market for the potential applications of metamaterials in artificial intelligence technology and related innovative products, strategic expansion plans have been launched by the KCT Group (i) to further enhance the production capacities of its existing manufacturing units; and (ii) to acquire new production plants and facilities. As advised by the Management and based on the 2023 KCT Interim Report, we are given to understand that the KCT Group has completed the first phase of its expansion plan in the first quarter of 2023, which resulted in a 50% increase in its designated production capacities from approximately 40 tons per year to approximately 60 tons per year. It is anticipated by the management of the KCT Group that the designated production capacity of its overall production facilities will further increase to approximately 100 tons per year, which represented a significant increase of approximately 66.7% upon the completion of the second phase of its expansion plans, which is expected to be by the end of Year 2024.

As disclosed in the Letter from the Board and advised by the Management, despite the expected completion of the designated production capacity expansion by the end of Year 2024, the Company expects that the demand of the KCT Group in the Systems and Products will continue to increase in Year 2025. It is expected that there will be a time gap of around at least one year between the expansion of the designated capacity and the full ramp-up of production as the KCT Group will need time to engage in, among others, commissioning and optimisation of equipment, training of personnel and supply chain planning. As the Integrated Intelligent Systems under the Master Procurement Agreement will play a crucial role in its production process management, detection and inspection control and daily management of industrial parks, the Group will further customise the Integrated Intelligent Systems based on the actual production experience and specific requirements of the KCT Group, ensuring they align seamlessly with the new production needs of the KCT Group. This ongoing customisation and optimisation will enhance efficiency, productivity and overall operational effectiveness of the Group's Integrated Intelligent Systems and continue to drive the demand for the Group's Integrated Intelligent Systems. In addition, the expanded production capabilities of the KCT Group will result in an increase in its demand for the Group's Metal Component Products, which includes tools, equipment and various parts which will be used in the manufacturing process of metamaterials by the KCT Group.

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Furthermore, we have obtained and reviewed the KCT Group's total procurement demand for Metal Component Products sourced from other suppliers in the past few years, and noted that the annual growth rate of the procurement demand was in line with the annual growth of revenue generated from the sale of metamaterials segment of the KCT Group over the years and the annual growth rate of the Annual Caps. We have also obtained and reviewed a procurement request letter provided by the KCT Group to the Group in late July 2023 in relation to its intended expansion of production capacities, which indicated that the total outstanding demand anticipated by the management of the KCT Group to be fulfilled for the Year 2023 in procuring highly-customised integrated intelligent systems and metal component products will exceed RMB100.0 million. Considering the abovementioned and in particular (i) the significant increase in revenue generated from the sale of metamaterials segment of the KCT Group of approximately 42.6% for FY2022 and approximately 91.5% for 6M2023; (ii) the significant increase in the production capacity of the KCT Group during the Year 2023 and its on-going expansion plans in its production plants; (iii) as disclosed in the 2022 KCT Annual Report and the 2023 KCT Interim Report, the KCT Group's total procurement demand for Metal Component Products and other related materials sourced from suppliers for the development of its metamaterials segment has demonstrated significant period-to-period growth of over the 90% for FY2022 and over 130% for 6M2023; and (iv) total procurement demand of the KCT Group for the Year 2023 and its intention in developing a long-term business relationship with the Group for the continuous provision of Systems and Products in the foreseeable future, the Directors are of the view, and we concur, that the amounts and the annual growth rate of the Annual Caps for the Year 2024 and the Year 2025, being approximately 30%, to be prudently estimated and justifiable.

Based on the abovementioned factors, the Directors are of the opinion, and we concur, that the Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned. However, as the Annual Caps are related to future events and are based upon assumptions that may or may not remain valid for three years ending 31 December 2025, we express no opinion as to how closely the actual revenue to be generated pursuant to the Master Procurement Agreement shall correspond to the Annual Caps.

Internal Controls

According to the Letter from the Board, the Group will undertake, among other things, 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 the 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 systems and products to the Systems and Products in the market;

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- (ii) comparing the prices and terms of the supply of the Systems and Products by the Group to the KCT Group with the prices and terms of alternative or similar products and services (if any) offered by the Group to independent third parties at least semi-annually. The Company considered that such frequency of comparison is appropriate to ensure that the pricing in relation to the supply of the Systems and Products to the KCT Group is fair and reasonable and no less favourable to the Company than terms available to independent third parties as it strikes a balance between operational feasibility (such as creating administrative burden on the business, requiring frequent adjustments and communications after each price review) and the need for timely adjustments in response to the market conditions;

- (iii) as the Systems and Products are highly customised in nature and the Company is not allowed to share the specification of the Systems and Products with any third-party vendors due to confidentiality reasons, it will not be feasible for the Company to obtain references of the prevailing market price of the same customised Systems and Products through requesting for quotations of the same customised Systems and Products from at least two independent third-party vendors. Instead, the Company adopts a cost-plus approach for the determination of the pricing of the Systems and Products. The Company will review the prevailing cost of providing the Systems and Products and the prevailing market gross profit margin from time to time, at least semi-annually. For instance, the Company will review the quotation and price record from at least two independent third-party suppliers for the provision of the Systems and Products (including raw material suppliers, subcontractors and manufacturers) from the supplier list maintained by the Company. Also, the Company will review the annual reports and interim reports of comparable companies of its industry peers which are listed on the Stock Exchange and the stock exchanges in the PRC in order to determine the prevailing market gross profit margin. In particular, the Company will identify such comparable companies based on the following criteria: (i) the total number of such comparable companies should not be less than three; (ii) such comparable companies must be companies listed on the stock exchanges in the PRC with a principal business including the supply of the Integrated Intelligent Systems or the Metal Component Products (as the case may be); and (iii) the total operating revenue of the Integrated Intelligent Systems or the Metal Component Products (as the case may be) shall constitute not less than 25% of the total operating revenue of such comparable companies;

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- (iv) adhering to the relevant internal control policy of the Group on connected transactions in monitoring the prices and terms of supply of the Systems and Products by the Group to the KCT Group to ensure that they shall be no less favourable to the Group than those offered by the Group to independent third parties;
- (v) the management team of the Company will ensure that the actual transaction amounts will not exceed the relevant annual caps set out under the Master Procurement Agreement. The operation department of the Group will prepare and provide a designated management report on a monthly basis regarding the continuing connected transaction amounts under the Master Procurement Agreement. In the event that the transaction amounts of any continuing connected transaction expected to be incurred during the financial year will reach 70% of the relevant annual caps, the functional department shall report to the management of the Company and the Company will consider to take actions to ensure the compliance with the requirements under the Listing Rules, including obtaining the approval from Independent Shareholders, if necessary;
- (vi) 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
- (vii) 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.

We noted from the above that the Group will adopt a set of internal control measures to ensure the transactions under the Master Procurement Agreement to be conducted on normal commercial terms and are fair and reasonable. We have obtained the relevant internal control policy of the Company which stipulate the procedures to be complied with in conducting connected transactions and reviewed the pricing standard under the Master Procurement Agreement, and we noted that the relevant internal control measures as mentioned above are generally consistent with the internal control policies of the Group.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

In particular, we noted that the sales department and the finance department of the Group will (i) consider the availability of alternative products and services to the Systems and Products in the market; and (ii) compare and monitor the prices and terms of the supply of the Systems and Products by the Group to the 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 semi-annually basis to ensure that the pricing is fair and reasonable and shall be no less favorable to the Group than terms available to independent third parties. We noted that the audit committee of the Board will review the aforementioned internal control measure performed by the sales department and the finance department of the Group on a semi-annual basis. We also noted from the internal control policy of the Company that the procurement department of the Group will review the quotation and price record from at least two independent third-party suppliers for the provision of the Systems and Products (including raw material suppliers, subcontractors and manufacturers) from the supplier list maintained by the Company. Also, we noted that the Company will review the annual reports and interim reports of its industry peers which are listed on the Stock Exchange and the stock exchanges in the PRC in order to determine the prevailing market gross profit margin. We further noted that the operations department of the Group will prepare and provide a designated management report on a monthly basis regarding the continuing connected transaction amounts under the Master Procurement Agreement for the management team of the Group to ensure the actual transaction amounts will not exceed the relevant annual caps set out under the Master Procurement Agreement. Lastly, based on our due diligence work on the Group's historical transactions with independent third-party customers and our independent research on the Comparable Companies, we noted that the prices and terms of the supply of the Systems and Products by the Group to the KCT Group are no less favourable than those offered to the independent third parties and are in line with the prevailing market pricing.

Moreover, we noted that the independent non-executive Directors and the auditors of the Group will review and confirm of the pricing and terms of the transactions contemplated under the Master Procurement Agreement to ensure full compliance with the Listing Rules.

In light of the aforesaid, we concur with the Directors' view that there are adequate and effective internal control procedures and external supervision measures to ensure that (i) the terms (including the pricing terms) of the transactions contemplated under the Master Procurement Agreement will be conducted on normal commercial terms and no less favourable to the Group than those offered to the independent third parties, and not prejudicial to the interests of the Company and the Shareholders as a whole; and (ii) the Annual Caps will not be exceeded.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

RECOMMENDATION

Having considered the principal factors and reasons described above, we are of the opinion that (i) the transactions contemplated under the Master Procurement Agreement are conducted in the ordinary and usual course of business of the Group and on normal commercial terms, and together with the Annual Caps under the Master Procurement Agreement, are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole; and (ii) we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the ordinary resolutions to be proposed at the SGM to approve the Master Procurement Agreement and the Annual Caps.

Yours faithfully,
For and on behalf of
Lego Corporate Finance Limited
Kristie Ho
Managing Director

Ms. Kristie Ho is a licensed person registered with the Securities and Futures Commission and a responsible officer of Lego Corporate Finance Limited 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). She has over 15 years of experience in the securities and investment banking industries.

* For identification purpose only

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 Company. 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

(A) Directors' and Chief Executive's Interests

Saved as disclosed below, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company has or was deemed to have any interest and short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which would be required to be (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the Directors or chief executive of the Company would be taken or deemed to have under such provisions of the SFO); (ii) entered into the register kept by the Company pursuant to Section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

Long position/short position in Shares

Name of Director/Chief executive	Nature of interest	Number of Shares held	Approximate percentage of total issued Shares (note 4)
Dr. Liu	Interest of controlled corporations	2,618,500,000 (L) (note 2)	42.53%
Dr. Liu Weiwen	Interest in the share options	1,200,000 (L) (note 3)	0.019%

Notes:

1. "L" represents long position in Shares/underlying Shares and "S" represents short position in Shares.
2. This represents the interests in 2,618,500,000 Shares directly held by two companies: (1) 2,618,000,000 Shares held by New Horizon, being a wholly-owned subsidiary of Wireless Connection Innovative Technology Limited which is owned as to 51% by Kuang-Chi Innovative Technology Limited and as to 49% by Shenzhen Kuang-Chi Hezhong Technology Limited. Kuang-Chi Innovative Technology Limited is a subsidiary of Shenzhen Dapeng Kuang-Chi Technology Limited, which is in turn a subsidiary of Shenzhen Dapeng Kuang-Chi Lianzhong Technology Partnership (Limited Liability Partnership) of which Dr. Liu is the controlling shareholder, and Dr. Liu is the controlling shareholder of Shenzhen Kuang-Chi Hezhong Technology Limited; and (2) 500,000 Shares held by Sky Asia, being a wholly-owned subsidiary of Shenzhen KuangChi Youlu Technology Co., Ltd, which is wholly owned by Shenzhen Kuang-Chi Hezhong Technology Limited, and as mentioned above, Dr. Liu is the controlling shareholder. Accordingly, Dr. Liu is deemed to be interested in the Shares held by New Horizon and Sky Asia respectively.
3. This represents interests in the share options of the Company held by Dr. Liu Weiwen.
4. As of the Latest Practicable Date, the issued Shares were 6,156,928,860.

(B) Substantial Shareholders' Interests

Save as disclosed below, as at the Latest Practicable Date, so far as was known to any Director, there was no other person who had interest or a short position in the Shares, underlying Shares or debenture of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO and section 336 of the SFO or, who were expected, directly or indirectly, to be interested in 5% or more of the issued voting shares of any other member of the Company.

Name of Substantial Shareholder	Nature of interest	Number of Shares held	Total	Approximate percentage of total issued Shares (note 11)
Ms. Huang Weizi (note 2)	Interest of spouse	2,618,500,000 (L)	2,618,500,000 (L)	42.53%
New Horizon (note 3)	Beneficial owner	2,618,000,000 (L)	2,618,000,000 (L)	42.52%
Wireless Connection Innovative Technology Limited (note 4)	Interest of controlled corporation	2,618,000,000 (L)	2,618,000,000 (L)	42.52%

Name of Substantial Shareholder	Nature of interest	Number of Shares held	Total	Approximate percentage of total issued Shares (note 11)
深圳大鵬光啟科技有限公司 (*Shenzhen Dapeng Kuang-Chi Technology Limited) (note 5)	Interest of controlled corporation	2,618,000,000 (L)	2,618,000,000 (L)	42.52%
深圳大鵬光啟聯眾科技 合夥企業(有限合夥) (*Shenzhen Dapeng Kuang-Chi Lianzhong Technology Partnership (Limited Liability Partnership) (note 6)	Interest of controlled corporation	2,618,000,000 (L)	2,618,000,000 (L)	42.52%
深圳光啟合眾科技有限公司 (*Shenzhen Kuang-Chi Hezhong Technology Limited) (note 7)	Interest of controlled corporation	2,618,500,000 (L)	2,618,500,000 (L)	42.53%
深圳光啟創新技術有限公司 (*Shenzhen Kuang-Chi Innovative Technology Limited) (note 8)	Interest of controlled corporation	2,618,000,000 (L)	2,618,000,000 (L)	42.52%
Central Faith International Ltd.	Beneficial owner Interest of controlled corporation	354,000,000 (L) 618,981,013 (L) (note 9)	972,981,013 (L)	15.80%
World Treasure Global Limited	Beneficial owner	618,981,013 (L)	618,981,013 (L)	10.05%
Ye Cheng (note 10)	Interest of controlled corporation	347,471,988 (L)	347,471,988 (L)	5.64%

* for identification purpose only

Notes:

1. "L" represents long position in Shares/underlying Shares and "S" represents short position in Shares.
2. This represents the interest in the Shares held by New Horizon and Sky Asia which Dr. Liu is deemed to be interested in. Ms. Huang Weizi, being the spouse of Dr. Liu, is deemed to be interested in the Shares held by New Horizon and Sky Asia.
3. Dr. Liu is a director of New Horizon.
4. Dr. Liu is a director of Wireless Connection Innovative Technology Limited.
5. Dr. Liu is an executive director and the legal representative of Shenzhen Dapeng Kuang-Chi Technology Limited. Dr. Zhang, Dr. Luan and Dr. Ji are directors of Shenzhen Dapeng Kuang-Chi Technology Limited.
6. Dr. Liu is the assigned representative of executive partner and the legal representative of Shenzhen Dapeng Kuang-Chi Lianzhong Technology Partnership (Limited Liability Partnership).
7. Dr. Liu is an executive director and the general manager of Shenzhen Kuang-Chi Hezhong Technology Limited. Dr. Zhang is a supervisor of Shenzhen Kuang-Chi Hezhong Technology Limited.
8. Dr. Liu is an executive director, the general manager and the legal representative of Shenzhen Kuang-Chi Innovative Technology Limited.
9. This represents the interest in the Shares held by World Treasure Global Limited which is a wholly owned subsidiary of Central Faith International Ltd. None of the Directors is an employee or a director of World Treasure Global Limited or Central Faith International Ltd.
10. Mr. Ye Cheng is the sole owner of Cutting Edge Global Limited which have direct interest in 206,818,877 Shares and Lucky Time Global Limited which have direct interest in 140,653,111 Shares. None of the Directors is an employee or a director of Cutting Edge Global Limited or Lucky Time Global Limited.
11. As of the Latest Practicable Date, the issued Shares were 6,156,928,860.

3. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or any of their respective close associates had interests in businesses, other than being a Director and their respective close associates, which compete or are likely to compete, either directly or indirectly, with the businesses of the Group which would be required to be disclosed under Rule 8.10 of the Listing Rules, as if the Directors were controlling Shareholders.

4. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2022, the date to which the latest published audited accounts of the Group were made up.

5. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with any member of the Group (excluding contracts expiring or determinable by the Company or any member of the Group within one year without payment of compensation (other than statutory compensation)).

6. ADDITIONAL DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, save for the Master Procurement Agreement and the transactions contemplated thereunder:

- (a) none of the Directors was materially interested in any contract or arrangement subsisting at the date of this circular which is significant in relation to the businesses of the Group; and
- (b) none of the Directors had any direct or indirect interest in any asset which, since 31 December 2022 (the date to which the latest published audited financial statements of the Group were made up), had been acquired or disposed of by or leased to any member of the Group or were proposed to be acquired or disposed of by or leased to any member of the Group.

7. QUALIFICATION AND CONSENT OF EXPERT

The following sets out the qualification of the expert who has given an opinion or advice which is included in this circular:

Name	Qualification
Lego Corporate Finance Limited	a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO

As at the Latest Practicable Date, the Independent Financial Adviser did not have any shareholding in any member of the Group nor any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, the Independent Financial Adviser did not have any interest, direct or indirect, in any assets which had been acquired or disposed of by or leased to any member of the Group, or which were proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2022, the date to which the latest published audited accounts of the Company were made up.

The Independent Financial Adviser has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which they respectively appear.

8. DOCUMENT ON DISPLAY

Electronic copy of the Master Procurement Agreement is published on the Stock Exchange's website (www.hkexnews.hk) and the Company's website (www.kuangchiscience.com) for a period of 14 days from the date of this circular (both days inclusive).

9. MISCELLANEOUS

The English text of this circular shall prevail over the Chinese text in case of inconsistency.

NOTICE OF SPECIAL GENERAL MEETING



KUANGCHI SCIENCE LIMITED 光啟科學有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 439)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting (“**Meeting**”) of KuangChi Science Limited (“**Company**”) will be held at 11:00 a.m. on Monday, 30 October 2023 at 2nd Floor, Software Building, No.9 Gaoxin Middle 1st Road, Nanshan District, Shenzhen, China for the purposes of considering and, if thought fit, passing (with or without modifications), the following resolution (“**Resolution**”) as ordinary resolution of the Company:

ORDINARY RESOLUTION

1. “**THAT:**
 - (a) the entering into of the Master Procurement Agreement (a copy of which has been produced to the meeting marked “A” and signed by the chairman of the Meeting for the purpose of identification) and the continuing connected transactions contemplated thereunder are hereby approved, ratified and confirmed and the Annual Caps set out in the circular (“**Circular**”) to the shareholders of the Company dated 12 October 2023 be and are hereby approved (terms as defined in the Circular having the same meanings when used in this resolution);
 - (b) the Directors acting together or by committee, or any Director acting individually, be and is/are hereby authorised to take all steps necessary on behalf of the Company whatever he or they may, in his/their absolute discretion, consider necessary, desirable or expedient for the purpose of, or in connection with, the implementing and/or to giving effect to the Master Procurement Agreement and the continuing connected transactions contemplated thereunder.”

On behalf of the Board
KuangChi Science Limited
Cheng Chi Chung Kevin
Company Secretary

12 October 2023

NOTICE OF SPECIAL GENERAL MEETING

Registered office:
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

*Head office and principal place
of business in Hong Kong:*
Unit 1104, 11/F.
Leighton Centre
77 Leighton Road
Causeway Bay
Hong Kong

Notes:

1. Any member of the Company entitled to attend and vote at the Meeting shall be entitled to appoint another person as his/her/its proxy to attend and vote instead of him/her/it. A member who is the holder of two or more shares may appoint more than one proxy to represent him/her/it and vote on his/her/its behalf at the Meeting. A proxy need not be a member of the Company but must attend the Meeting in person to represent you.
2. In the case of joint registered holders of shares of the Company (“Shares”), any one of such joint holders may vote at the Meeting, either in person or by proxy, in respect of such Share as if he/she/it were solely entitled thereto, but if more than one of such joint registered holders are present at the Meeting, personally or by proxy, that one of the said persons so present whose name stands first in the register of members of the Company in respect of such Shares, or his/her/its proxy, shall alone be entitled to vote in respect thereof.
3. In order to be valid, the form of proxy together with the power of attorney or other authority (if any) under which it is signed, or a certified copy thereof, must be deposited with the Hong Kong branch share registrar and transfer office of the Company, Tricor Secretaries Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, in accordance with the instructions printed thereon by 11:00 a.m. (Hong Kong time) on Saturday, 28 October 2023 or not later than 48 hours before the time for holding the adjourned meeting (if any).
4. In order to determine the right to attend the Meeting, the register of members of the Company will be closed from Wednesday, 25 October 2023 to Monday, 30 October 2023 (both days inclusive), during which period no transfer of the Shares will be effected. In order to be qualified for the attendance of the Meeting, all transfers of Shares accompanied by the relevant share certificates must be lodged with the Company’s branch share registrar and transfer office in Hong Kong, Tricor Secretaries Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, at the above address by no later than 4:30 p.m. on Tuesday, 24 October 2023.
5. A form of proxy for use at the Meeting is enclosed with the circular of the Company dated 12 October 2023. Completion and return of the form of proxy should not preclude a member from attending and voting in person at the Meeting or any adjournment thereof and in such event, the form of proxy shall be deemed to be revoked.
6. The Resolution will be voted by way of poll as required by the Listing Rules.

As at the date of this notice, the board of directors of the Company 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.