創陞融資
Innovax Capital

創陞融資有限公司
Innovax Capital Limited
Unit B / 13/F / Neich Tower
128 Gloucester Road / Wanchai / Hong Kong

7 March 2025

To: Independent Board Committee

Dear Sirs,

MANDATORY UNCONDITIONAL CASH OFFERS BY LEGO SECURITIES LIMITED FOR AND ON BEHALF OF HOME OFFICE DEVELOPMENT LIMITED TO ACQUIRE ALL OF THE ISSUED SHARES OF AND TO CANCEL ALL OUTSTANDING SHARE OPTIONS OF HOWKINGTECH INTERNATIONAL HOLDING LIMITED (OTHER THAN THOSE ALREADY OWNED AND/OR AGREED TO BE ACQUIRED BY HOME OFFICE DEVELOPMENT LIMITED AND/OR PARTIES ACTING IN CONCERT WITH IT)

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee in respect of the Offers, details of which are set out in the Composite Document dated 7 March 2025 jointly issued by the Company and the Offeror, of which this letter forms part. Terms used herein shall have the same meanings as defined in the Composite Document unless the context otherwise stated.

On 17 January 2025 (after trading hours), the Selling Shareholders, the corresponding Guarantors (where applicable in respect of the Controlling Shareholder SPA, the Other SPA 1, the Other SPA 3, the Other SPA 4, the Other SPA 7 and the Other SPA 8 only) and the Offeror entered into the respective SPAs, pursuant to which the Selling Shareholders have conditionally agreed to sell and the Offeror has conditionally agreed to purchase an aggregate of 157,755,400 Sale Shares, representing approximately 70.11% of the entire issued share capital of the Company as at the date of the SPAs, for a total consideration of HK$140,244,550.2 (equivalent to approximately HK$0.889 per Sale Share). Completion took place on 27 January 2025.

Immediately prior to the Completion, none of the Offeror and the Offeror's Concert Parties owned, controlled or had direction over any Shares or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company. Immediately upon Completion, the Offeror and parties acting in concert with it became interested in a total of 157,755,400 Shares, representing approximately 70.11% of the total issued share capital of the Company immediately upon Completion or approximately 67.42% of the total issued share capital of the Company as at the Latest Practicable Date.

Accordingly, immediately upon the Completion, the Offeror is required to make the mandatory unconditional cash offers (i) to acquire all the issued Shares (other than those already owned and/or agreed to be acquired by the Offeror and/or parties acting in concert with it) and (ii) to cancel all the outstanding Share Options pursuant to Rule 26.1 and Rule 13.5 of the Takeovers Code.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

Pursuant to Rule 2.1 and Rule 2.8 of the Takeovers Code, the Independent Board Committee, comprising all the independent non-executive Directors (namely, Mr. Gu Jiong, Mr. Yang Hai and Mr. Fong Wo, Felix) who have no direct or indirect interest in the Offers, has been established to make recommendations to the Offer Shareholders and the Optionholders as to whether the Offers (including the Share Offer and the Option Offer) are fair and reasonable and as to the acceptance of the Offers.

We, Innovax Capital Limited, have been appointed as the independent financial adviser to the Independent Board Committee and the Offer Shareholders and the Optionholders in respect of the Offers, and in particular, as to whether the Share Offer and the Option Offer are fair and reasonable and as to acceptance of the Share Offer and the Option Offer. The appointment of the Independent Financial Adviser has been approved by the Independent Board Committee.

INDEPENDENCE

As at the Latest Practicable Date, we are not associated or connected with the Group or the Offeror, their respective substantial or controlling shareholders or any party acting, or presumed to be acting, in concert with any of them. During the past two years immediately preceding and up to the date of commencement of the Offer Period, there were no other engagements between Innovax Capital Limited and the Group or the Offeror or the parties acting in concert with any of them and us. Apart from normal professional fees paid or payable to us in connection with this appointment as the Independent Financial Adviser, no arrangement exists whereby we will receive any fees or benefits from the Group or the Offeror, their respective substantial or controlling shareholders or any party acting, or presumed to be acting, in concert with any of them. Accordingly, we are considered eligible to give independent advice in respect of the Offers.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee, we have reviewed, amongst others, the Joint Announcement, the annual reports of the Company for the years ended 31 December 2022 and 2023 and the interim report of the Company for the six months ended 30 June 2024 (the "**2022 Annual Report**", "**2023 Annual Report**", the "**2024 Interim Report**", respectively). We have also discussed with and reviewed the information provided by the management of the Group (the "**Management**") regarding the business and outlook of the Group.

We have relied on the statements, information, opinions and representations contained or referred to in the Composite Document and the information and representations as provided to us by the Directors and the Offeror (where applicable). We have assumed that all information and representations that have been provided by the Directors and the Offeror (where applicable), for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date, and should there be any material changes to our opinion after the Latest Practicable Date, Offer Shareholders and Optionholders would be notified as soon as possible in accordance with Rule 9.1 of the Takeovers Code. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors and the Offeror (where applicable) in the Composite Document were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Composite Document, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors and the Offeror (where applicable), which have been provided to us. Our opinion is based on the Directors' and the Offeror's representation and confirmation that there are no undisclosed private agreements/arrangements or implied understanding with anyone concerning the Offers. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules and Rule 2 of the Takeovers Code.

Your attention is drawn to the responsibility statements as set out in the sections headed "RESPONSIBILITY STATEMENT" of Appendix III and Appendix IV to the Composite Document. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Composite Document, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, the Offeror, or their respective subsidiaries or associates (if applicable), nor have we considered the taxation implication on the Group or the Offer Shareholders and Optionholders resulting from his or her acceptance or non-acceptance of the Offers. In particular, the Offer Shareholders and the Optionholders who are resident overseas or subject to overseas taxation or Hong Kong taxation on securities dealing should consider that their own tax position and, if in any doubt, should consult their own professional advisers.

We have assumed that the Offers will be consummated in accordance with the terms and conditions set forth in the Composite Document without any waiver, amendment, addition or delay of any terms or conditions. In addition, our opinion is necessarily based on the financial, market, economic, industry-specific and other conditions as they existed on, and the information made available to us as at the Latest Practicable Date.

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

PRINCIPAL TERMS OF THE OFFERS

Lego Securities is, on behalf of the Offeror and in compliance with the Takeovers Code, making the Offers on the following basis:

The Share Offer

For each Offer Share ..... HK$0.889 in cash

The Share Offer Price of HK$0.889 per Offer Share is marginally higher than the consideration of approximately HK$0.889 (after rounding up to 3 decimal places) per Sale Share under each of the SPAs. The Offer Shares to be acquired under the Share Offer shall be fully paid and free and clear of any Encumbrances together with all rights attaching thereto, including the right to receive all and any dividends, distribution and other rights declared, made, distributed or paid on or after the date on which the Share Offer is made, being the date of this Composite Document.

As at the Latest Practicable Date, no outstanding dividend declared by the Company remained unpaid, and the Board advised that the Company has no intention to make, declare or pay any future dividend or make other distributions until after the close of the Share Offer.

The Option Offer

For cancellation of each Share Option ..... HK$0.0001 in cash

Pursuant to Rule 13 of the Takeovers Code, the Offeror is making an appropriate cash offer to the Optionholders for the cancellation of the Share Options. The Option Offer Price would normally be the see-through price which represents the amount by which the Share Offer Price per Offer Share exceeds the exercise price of each Share Option. Under the Option Offer, as the exercise price of all outstanding Share Options exceeds the Share Offer Price, the "see-through" price is negative and the Option Offer Price is at the nominal amount of HK$0.0001 per Share Option.

PRINCIPAL FACTORS AND REASONS CONSIDERED

1 Background information of the Group

1.1 Principal activities

The Company was incorporated in the Cayman Islands with limited liability and the Shares are listed on the Main Board (stock code: 2440). The Group is principally engaged in the provision of (i) data transmission and processing services for Internet of Thing (IoT) applications in the PRC; and (ii) telecommunication equipment in the PRC.

1.2 Historical Financial information of the Group

Set out below is a summary of the consolidated financial information of the Group for the three financial years ended 31 December 2021, 2022 and 2023 ("**FY2021**", "**FY2022**" and "**FY2023**", respectively) and for the six months ended 30 June 2023 and 2024 ("**1H2023**" and "**1H2024**", respectively) as extracted from the 2022 Annual Report, 2023 Annual Report and 2024 Interim Report:

	FY2021	**FY2022**	**FY2023**	**1H2023**	**1H2024**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(audited)	(audited)	(audited)	(unaudited)	(unaudited)
Revenue	189,552	323,964	440,550	176,744	31,050
– Data transmission and processing services	123,298	238,073	380,316	116,613	31,050
– Sales of telecommunication equipment	59,969	82,159	58,205	58,524	–
– Others	6,285	3,732	2,029	1,607	–
Gross profit	78,799	95,550	83,827	27,203	1,325
Profit/(Loss) for the year /period	34,380	28,504	25,493	10,291	(30,742)

FY2022 vs FY2021

The Group recorded revenue of approximately RMB324.0 million for FY2022, representing a significant increase of approximately 70.9% as compared to that of approximately RMB189.6 million for FY2021. Such significant increase was primarily due to a revenue growth of approximately 93.1% from data transmission and processing services, achieved by successfully capitalizing on the potential in the PRC IoT market.

The gross profit increased to a lesser extent by 21.3% as compared to revenue growth which was primarily due to repaid growth in material costs as a result of the change in revenue structure of the Group. The gross profit margin decreased by 12.1 percentage points to approximately 29.5% for FY2022 from 41.6% for FY2021.

The Group recorded a profit for the year of approximately RMB28.5 million, representing a decrease of approximately 17.1% as compared to that of approximately RMB34.4 million for FY2021. Such decrease was mainly due to increase in administrative expenses by approximately 69.8% as a result of increase in listing expenses which the Company was successfully listed on the Stock Exchange in December 2022. Without taking into account the listing expenses in FY2021 and FY2022, the adjusted profit for the year for FY2022 increased by approximately 22.2% as compared to that of FY2021.

FY2023 vs FY2022

The Group recorded revenue of approximately RMB440.6 million for FY2023, representing an increase of 36.0% as compared to that of approximately RMB324.0 million for FY2022. Such increase was primarily due to the increase in revenue generated from data transmission and processing services of approximately 59.7% to RMB380.3 million in FY2023 from RMB238.1 million in FY2022. Revenue from sales of telecommunication equipment decreased by approximately 29.2% to approximately RMB58.2 million in FY2023 from approximately RMB82.2 million in FY2022, which mainly because the Group ceased the sales of vehicle mounted antennas to a Russia distributor in December 2022 to avoid uncertain and potential risks in relation to international sanctions.

Despite increase in revenue of the Group, the gross profit for FY2023 decreased by 12.3% as compared to that for FY2022. The gross profit margin decreased by 10.5 percentage points to 19.0% for FY2023 from 29.5% for FY2022. Such decrease in gross profit margin is mainly attributable to (i) intensified market competition and uncertainty in macroeconomic conditions as the Group offered competitive prices to its existing customers to maintain customer relationships; (ii) the cessation of sales of vehicle mounted antennas to a Russia distributor in December 2022, which had a high gross profit margin of approximately 34.0% for FY2022; and (iii) offering a relatively low price to attract new customers, which accounted for approximately 63.6% of the total number of customers for FY2023 in order to broaden the customer base.

The Group's profit for the year further decreased to RMB25.5 million for FY2023 from RMB28.5 million for FY2022, which mainly due to decrease in gross profit as mentioned above.