

7 March 2025

To the Offer Shareholders and the Optionholders

Dear Sir or Madam,

**MANDATORY UNCONDITIONAL CASH OFFERS BY
LEGO SECURITIES LIMITED
FOR AND ON BEHALF OF HOME OFFICE DEVELOPMENT LIMITED
TO ACQUIRE ALL 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

References are made to the Joint Announcement and the announcement dated 27 January 2025 jointly issued by the Offeror and the Company in relation to, among others, the SPAs and the Offers. Unless otherwise specified, capitalised terms used in this letter shall have the same meanings as those defined in this Composite Document.

As disclosed in the Joint Announcement, 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 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. Pursuant to Rule 26.1 and Rule 13.5 of the Takeovers Code, the Offeror is required to make 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.

The purpose of this Composite Document is to provide you with, among others, details of the Offers, the recommendation from the Independent Board Committee to the Offer Shareholders and the Optionholders, and the advice from the Independent Financial Adviser in respect of the Offers, together with the Form(s) of Acceptance.

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, has been established to make recommendations to the Offer Shareholders and the Optionholders as to whether the Share Offer and the Option Offer are fair and reasonable and as to the acceptance of the Share Offer and the Option Offer.

The Independent Financial Adviser has been appointed to advise the Independent Board Committee in respect of the Offers and as to whether the Offers are fair and reasonable and as to acceptance of the Offers pursuant to Rule 2.1 of the Takeovers Code. Such appointment has been approved by the Independent Board Committee pursuant to Rule 2.1 of the Takeovers Code.

You are advised to read the “Letter from the Independent Board Committee” addressed to the Offer Shareholders and the Optionholders, the “Letter from the Independent Financial Adviser” and the additional information contained in the appendices to this Composite Document before taking any actions in respect of the Offers.

MANDATORY UNCONDITIONAL CASH OFFERS

Immediately prior to Completion, the Offeror, its ultimate beneficial owner or parties acting in concert with any of them did not own, control or have direction over any Shares or any outstanding options, derivatives, warrants or relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company which are convertible and exchangeable into Shares. Immediately upon Completion, the Offeror and parties acting in concert with it are in aggregate 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.

Pursuant to Rule 26.1 and Rule 13.5 of the Takeovers Code, the Offeror is required to make 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.

As at the Latest Practicable Date, the Company had (i) a total of 233,974,000 Shares in issue; and (ii) 13,376,000 outstanding Share Options conferring rights to subscribe for 13,376,000 new Shares with an exercise price of HK\$1.56 per Share Option, all of which had been granted pursuant to the Share Option Scheme. Save for the Share Options mentioned above, the Company did not have any outstanding options, derivatives, warrants or relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) which are convertible or exchangeable into the Shares and had not entered into any agreement for the issue of such options, derivatives, warrants or securities which are convertible or exchangeable into Shares. The Company had no intention to grant any new share awards under the Share Award Scheme during the Offer Period.

Principal details 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.

The Share Offer is extended to all Offer Shareholders and the Option Offer is extended to all Optionholders (whether their respective Share Options are vested or not) in accordance with the Takeovers Code. Following acceptance of the Option Offer, the Share Options together with all rights attaching thereto will be entirely cancelled and renounced.

The Offers are unconditional in all aspects when being made, and will not be conditional upon any minimum level of acceptances being received or any other conditions.

Comparison of value

The Share Offer Price of HK\$0.889 per Offer Share represents:

- (i) a discount of approximately 71.32% to the closing price of HK\$3.10 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a premium of approximately 8.41% over the closing price of HK\$0.820 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a premium of approximately 19.81% over the average closing price of HK\$0.742 per Share based on the daily closing prices as quoted on the Stock Exchange for the five consecutive trading days immediately prior to and including the Last Trading Day;
- (iv) a premium of approximately 28.84% over the average closing price of HK\$0.690 per Share based on the daily closing prices as quoted on the Stock Exchange for the 10 consecutive trading days immediately prior to and including the Last Trading Day;
- (v) a premium of approximately 19.17% over the average closing price of approximately HK\$0.746 per Share based on the daily closing prices as quoted on the Stock Exchange for the 30 consecutive trading days immediately prior to and including the Last Trading Day;

- (vi) a discount of approximately 27.01% to the audited consolidated net asset value of the Company attributable to the Shareholders of approximately HK\$1.218 per Share as at 31 December 2023, calculated by dividing the audited consolidated net asset value of the Company attributable to the Shareholders of approximately RMB268,377,000 (equivalent to approximately HK\$285,043,212) as at 31 December 2023 by 233,974,000 Shares in issue as at the Latest Practicable Date; and
- (vii) a discount of approximately 19.03% to the unaudited consolidated net asset value of the Company attributable to the Shareholders of approximately HK\$1.098 per Share as at 30 June 2024, calculated by dividing the unaudited consolidated net asset value of the Company attributable to the Shareholders of approximately RMB241,830,000 (equivalent to approximately HK\$256,847,643) as at 30 June 2024 by 233,974,000 Shares in issue as at the date of the Latest Practicable Date.

Highest and lowest Share prices

During the Relevant Period, the highest and lowest closing prices of the Shares as quoted on the Stock Exchange were HK\$3.74 per Share on 21 February 2025 and HK\$0.60 per Share on 7 January 2025, respectively.

Value of the Offers

Your attention is drawn to the section headed “Value of the Offers” in the “Letter from Lego Securities” contained in this Composite Document which sets out the value of the Offers.

INFORMATION ON THE GROUP

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

Your attention is drawn to Appendices II and IV to this Composite Document which contain financial information and general information of the Group.

LOSS ESTIMATE

Reference is made to the Profit Warning Announcements according to which, among others, based on a preliminary review of the management accounts of the Group for the year ended 31 December 2024 and the information currently made available to the Board, the Group is expected to record a net loss for the year ended 31 December 2024 of RMB68.0 million to RMB83.0 million compared to a net profit of approximately RMB25.5 million for the year ended 31 December 2023 (the “**Loss Estimate**”).

As disclosed in the Profit Warning Announcements, the Group is expected to record a decrease in its revenue for the year ended 31 December 2024 by 75% to 85% compared to approximately RMB440.6 million for the year ended 31 December 2023. Such estimated decrease in revenue during the year ended 31 December 2024 is mainly attributable to (i) a decrease in revenue from data transmission and processing services because the Group’s clients in the IoT industry have delayed their projects taking into consideration of their concerns in cashflows and uncertainty in macroeconomic condition; and (ii) a decrease in revenue from sales of equipment due to the lack of customer demand during the year ended 31 December 2024. The aforesaid estimated decrease in revenue, together with (i) a decrease in gross margin as a result of the intensified market competition; and (ii) an increase in impairment losses on trade receivables due to slower collection, resulted in the estimated net loss position of the Group for the year ended 31 December 2024.

The Loss Estimate constitutes a profit forecast for the purposes of Rule 10 of the Takeovers Code and as it is made during the Offer Period, the Company is required to comply with the requirements under Rule 10 of the Takeovers Code with respect to profit forecasts.

The Loss Estimate has been reported by Ernst & Young, the auditors of the Company, and Ernst & Young has reported that, so far as the accounting policies and calculations are concerned, the Loss Estimate has been properly compiled in accordance with the bases adopted by the Directors and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in the annual report of the Group for the year ended 31 December 2023. The Independent Financial Adviser is satisfied that the Loss Estimate has been made by the Directors with due care and consideration.

Your attention is drawn to the reports issued by Ernst & Young and the Independent Financial Adviser on the Loss Estimate as set out in Appendix V and Appendix VI to this Composite Document, respectively.

SHAREHOLDING STRUCTURE OF THE COMPANY

The following table sets out the shareholding structure of the Company (i) immediately prior to Completion; (ii) immediately after Completion; and (iii) as at the Latest Practicable Date.

Shareholders	Immediately prior to Completion		Immediately after Completion		As at the Latest Practicable Date		Immediately before the Offers are made (on the basis that all outstanding Share Options had been exercised)	
	Number of Shares (Approximate)	%	Number of Shares (Approximate)	%	Number of Shares (Approximate)	%	Number of Shares (Approximate)	%
The Offeror and parties acting in concert with it	-	-	157,755,400	70.11	157,755,400	67.42	157,755,400	63.78
The Controlling Selling Shareholder and parties acting in concert with it								
- Vendor	121,124,579	53.83	-	-	-	-	-	-
- Ms. Wang (Notes 1 and 2)	-	-	-	-	-	-	7,977,097	3.23
Sub-total	121,124,579	53.83	-	-	-	-	7,977,097	3.23
Other Selling Shareholders								
- Other Selling Shareholder 1	14,214,000	6.32	-	-	-	-	-	-
- Other Selling Shareholder 2	7,475,891	3.32	-	-	-	-	-	-
- Other Selling Shareholder 3	3,644,757	1.62	-	-	-	-	-	-
- Other Selling Shareholder 4	3,061,618	1.36	-	-	-	-	-	-
- Other Selling Shareholder 5	2,131,394	0.95	-	-	-	-	-	-
- Other Selling Shareholder 6 (Notes 1 and 2)	2,131,394	0.95	-	-	-	-	-	-
- Other Selling Shareholder 7	2,102,700	0.93	-	-	-	-	-	-
- Other Selling Shareholder 8	1,869,067	0.83	-	-	-	-	-	-
Sub-total	36,630,821	16.28	-	-	-	-	-	-
Other Directors								
- Mr. Feng (Notes 1 and 2)	-	-	-	-	-	-	1,500,416	0.61
- Mr. Wang (Notes 1 and 2)	-	-	-	-	-	-	2,610,487	1.06
Sub-total	-	-	-	-	-	-	4,110,903	1.67
Public Shareholders (Notes 1 and 2)	67,244,600	29.89	67,244,600	29.89	76,218,000	32.58	77,506,600	31.32
Total	225,000,000	100.00	225,000,000	100.00	233,974,000	100.00	247,350,000	100.00

Notes:

1. After Completion, 925,000 Share Options, 4,413,000 Share Options, 574,000 Share Options, 325,000 Share Options and 2,737,000 Share Options had been exercised by Ms. Wang, Mr. Feng, Mr. Wang, the Other Selling Shareholder 6 and certain remaining employees of the Group, respectively, upon which an aggregate of 8,974,000 Shares had been issued and sold in the market in full.
2. As at the Latest Practicable Date, 7,977,097 Shares Options, 1,500,416 Share Options and 2,610,487 Share Options granted respectively to Ms. Wang, Mr. Feng and Mr. Wang were outstanding, and an aggregate of 1,288,000 Share Options granted to three employee participants were outstanding.
3. The percentages presented above are subject to rounding.

INFORMATION ON THE OFFEROR

Your attention is drawn to the section headed “INFORMATION ON THE OFFEROR” in the “Letter from Lego Securities” contained in, and Appendix III to, this Composite Document.

INTENTION OF THE OFFEROR ON THE GROUP

Your attention is drawn to the section headed “INTENTION OF THE OFFEROR ON THE GROUP” in the “Letter from Lego Securities” contained in, and Appendix III to, this Composite Document.

The Board noted that it is the intention of the Offeror to continue with the Group’s existing principal business activities and expand the existing businesses of the Group through, among others, exploring business opportunities related to artificial intelligence, digital assets and Web3 after the close of the Offers. Following the close of the Offers, the Offeror will conduct a review on the operations and financial position of the Group for the purpose of formulating business plans and strategies for the Group’s long-term business development and will explore other business opportunities for the Group. Subject to the results of the review, and should suitable investment or business opportunities arise, the Offeror may consider whether any assets and/or business acquisitions or disposals by the Group will be appropriate in order to enhance its growth.

The Board is aware of the Offeror’s intentions in respect of the Group and its employees and is willing to cooperate with the Offeror and act in the best interests of the Company and the Shareholders as a whole.

Save for the Offeror’s intention as set out above, as at the Latest Practicable Date, the Offeror had no intention (i) to make any significant changes to the employment of any key employees of the Group (except for the proposed changes, if any, to the members of the Board at a time no earlier than that permitted under the Listing Rules and the Takeovers Code or such later time as the Offeror considers to be appropriate, as further disclosed in the paragraph headed “PROPOSED CHANGE TO THE BOARD COMPOSITION OF THE COMPANY” below); (ii) to introduce any major changes to the existing operations and business of the Group; and (iii) to dispose of the Group’s fixed assets which are not in the ordinary and usual course of business of the Group as a result of completion of the Offers. However, the Offeror reserved the right to make any changes that it deems necessary or appropriate to the Group’s business and operations to optimise the value of the Group.

PROPOSED CHANGE TO THE BOARD COMPOSITION OF THE COMPANY

Your attention is drawn to the section headed “PROPOSED CHANGE TO THE BOARD COMPOSITION OF THE COMPANY” in the “Letter from Lego Securities” contained in this Composite Document.

The Board notes that it is the intention of the Offeror to nominate new director(s) to the Board after the despatch of the Composite Document and with effect from the earliest time permitted under the applicable laws, rules and regulations, the Listing Rules and the Takeovers Code, whichever is the latest. As at the Latest Practicable Date, the Offeror had not reached any final decision as to who will be nominated as new director(s) of the Company. Any changes to the members of the Board will be made as and when appropriate.

PUBLIC FLOAT AND MAINTAINING THE LISTING STATUS OF THE COMPANY

Your attention is drawn to the section headed “PUBLIC FLOAT AND MAINTAINING THE LISTING STATUS OF THE COMPANY” in the “Letter from Lego Securities” contained in this Composite Document.

The Board notes that the Offeror intends to maintain the listing status of the Shares on the Main Board after the close of the Offers, and the directors of the Offeror have undertaken to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the Shares.

RECOMMENDATIONS

Your attention is drawn to the “Letter from the Independent Board Committee” and the “Letter from the Independent Financial Adviser” in this Composite Document, which contain, among others, the advice of the Independent Financial Adviser and the Independent Board Committee in relation to the Offers and the principal factors considered by them in arriving at their recommendations, and in particular, as to whether the terms of the Offers are fair and reasonable and as to the acceptance of the Offers.

ADDITIONAL INFORMATION

Your attention is drawn to additional information set out in the appendices to this Composite Document. You are also recommended to read carefully the “Letter from Lego Securities” in, and Appendix I to this Composite Document as well as and the accompanying Forms of Acceptance.

If you are in doubt about your position in connection with the Offers, you should consult a licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional advisers.

By order of the Board of
Howkingtech International Holding Limited



Chen Ping

Chairman and executive Director