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 *RMB'000* (audited)	**FY2022** *RMB'000* (audited)	**FY2023** *RMB'000* (audited)	**1H2023** *RMB'000* (unaudited)	**1H2024** *RMB'000* (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.

1H2024 vs 1H2023

The Group recorded revenue of approximately RMB31.1 million for 1H2024, representing a decrease of approximately 82.4% as compared to that of RMB176.7 million for 1H2023. Such decrease was mainly due to (i) the Group's clients in the IoT industry having delayed their projects taking into consideration of their concerns in cash flows and uncertainty in macroeconomic condition; and (ii) lack of customer demand for telecommunication equipment.

The Group's gross profit decreased by approximately 95.1% to approximately RMB1.3 million for 1H2024 from approximately RMB27.2 million for 1H2023. The Group's gross profit margin decreased by 11.1 percentage points to approximately 4.3% for 1H2024 from approximately 15.4% for 1H2023. Such decrease in gross profit margin was mainly attributable to (i) intensified market competition and uncertainty in macroeconomic conditions; (ii) a decrease in exports of IoT antennas to the United States, which had a high gross profit margin of approximately 34.9% in the 1H2023; and (iii) offering a relatively low price to new customers, which accounted for approximately 66.7% of the total number of customers in 1H2024.

The Group recorded loss for the period of approximately RMB30.7 million for 1H2024 as compared to profit for the period of approximately 10.3 million for 1H2023. The loss for the period was mainly due to (i) decrease in gross profit as mentioned above; (ii) increase in administrative expenses as a result of increase in research and development expenses and staff costs; and (iii) increase in impairment losses on financial assets as a result of the increase of the trade receivables aged over one years as at 30 June 2024 as compared to that of 31 December 2023. The industries in which the Group operates are subject to rapid technological changes and are evolving quickly in terms of technological innovation. Since the inception, the Group has continuously invested in research and development. Recently, the Group has focused on improving the 5G network services, researching and developing industrial WLAN and upgrading the Group's self-developed centralized data platform to enhance functionality and add new features to services and products to its customers.

According to the Profit Warning Announcements, the Group is expected to record a net loss for the year ended 31 December 2024 ("**FY2024**") of approximately RMB68.0 million to approximately RMB83.0 million as compared to a net profit of approximately RMB25.5 million for the year ended 31 December 2023. Such decrease was mainly due to (i) a decrease of revenue by approximately 75.0% to approximately 85.0% as a result of (a) 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 (b) a decrease in revenue from sales of telecommunication equipment due to the lack of customer demand in 2024; (ii) a decrease in gross profit margin as a result of the intensified market competition; and (iii) an increase in impairment losses on trade receivables due to slower collection.

Financial Position

Set out below is a summary of the consolidated statement of financial position of the Group as at 31 December 2021, 2022 and 2023 and 30 June 2024 as extracted from the 2022 Annual Report, 2023 Annual Report and 2024 Interim Report:

	As at 31 December			As at 30 June
	2021	**2022**	**2023**	**2024**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(audited)	(audited)	(audited)	(unaudited)
Non-current assets	13,352	13,034	28,147	24,860
Current assets	339,345	345,652	322,622	287,710
Current liabilities	197,880	102,388	81,465	70,274
Non-current liabilities	1,783	214	927	466
Net current assets	141,465	243,264	241,157	217,436
Net assets	153,034	256,084	268,377	241,830
Equity attributable to owners of the Company	153,034	256,084	268,377	241,830
Gearing ratio (%) *(Note 1)*	4.1	4.7	2.6	2.6
Current ratio (times) *(Note 2)*	1.7	3.4	4.0	4.1

Notes:

1. Gearing ratio was calculated by total debt (including interest-bearing bank borrowings and lease liabilities) divided by total equity.

2. Current ratio was calculated by current assets divided by current liabilities.

As shown in the table above, the net current assets of the Group increased from approximately RMB141.5 million as at 31 December 2021 to approximately RMB243.3 million as at 31 December 2022. Such increase was primarily due to (i) increase in trade and notes receivables from approximately RMB140.8 million to approximately RMB214.0 million; and (ii) decrease in other payables and accruals from approximately RMB161.8 million to approximately RMB29.8 million, as at 31 December 2021 and 2022, respectively. The net current assets of Group recorded a decreasing trend since 2022. The Group's net current assets decreased from approximately RMB243.3 million as at 31 December 2022 to approximately RMB241.2 million as at 31 December 2023, mainly as a result of (i) decrease in cash and cash equivalent from approximately RMB47.3 million to RMB27.5 million; (ii) decrease in time deposits from approximately RMB73.4 million to approximately RMB5.7 million; and partially offset by (iii) increase in trade and note receivables from approximately RMB214.0 million to approximately RMB279.8 million; (iv) decrease in other payables and accruals from approximately RMB29.8 million to approximately RMB9.9 million; and (v) decrease in interest-bearing bank from approximately RMB10.4 million to approximately RMB5.0 million, as at 31 December 2022 and 2023, respectively. The Group's net current assets further to decrease approximately RMB217.4 million as at 30 June 2024, which primarily due to (i) decrease in cash and cash equivalents of approximately from RMB27.5 million to RMB14.1 million; (ii) decrease in trade and note receivables from approximately RMB279.8 million to RMB263.4 million; and (iii) decrease in time deposits from approximately RMB5.7 million to nil, as at 31 December 2023 and 30 June 2024, respectively.

The net assets of the Group increased significantly from approximately RMB153.0 million as at 31 December 2021 to approximately RMB256.1 million as at 31 December 2022, primarily due to successfully listing on the Stock Exchange in December 2022. The net assets of the Group decreased from approximately RMB268.4 million as at 31 December 2023 to RMB241.8 million as at 30 June 2024, which primarily due to the net loss recorded for 1H2024.

The gearing ratio of the Group remained relatively low. The significantly decrease in gearing ratio from approximately 4.7% as at 31 December 2022 to approximately 2.6% as at 31 December 2023, primarily due to decrease in total debt.

The current ratio of the Group increased from 1.7 times as at 31 December 2021 to 3.4 times as at 31 December 2022, which primarily due to (i) increase in time deposits; (ii) increase in trade and note receivables and (iii) decrease in other payables and accruals. The current ratio of the Group further increased to 4.0 time as at 31 December 2023, which primarily due to (i) decrease in other payables and accruals and (ii) repayment of interest-bearing bank borrowings.

1.3 *Historical dividend payout*

During the three years ended 31 December 2023 and the six months ended 30 June 2024, no dividend had been declared.

1.4 *Business prospect of the Group*

With reference to the 2023 Annual Report and the 2024 Interim Report, the majority of the Group's revenue is derived from the provision of data transmission and processing services for IoT applications, which accounted for approximately 86.3% and 100.0% of its total revenue for FY2023 and 1H2024, respectively.

According to an article entitled "Forecast for 2024: Market Size, Competitive Landscape, and Development Outlook of China's IoT Industry" (https://bg.qianzhan.com/trends/detail/506/231128-8f903ca8.html) by QianZhan Industrial Research Institute, a leading PRC-based industry research and market consultancy institute established in 1998, the IoT industry in China is poised for rapid growth. The market size is projected to surpass RMB7.5 trillion by 2028 with a CAGR exceeding 15% from 2023 to 2028, driven by China's emphasis on improving economic quality and living standards through the adoption of new technologies like IoT. This advancement is expected to improve industrial efficiency, smart public services and home automation.

The Chinese government has played a pivotal role in fostering IoT development through key policies such as the Made in China 2025 initiative, which was implemented by the State Council of the People's Republic of China in May 2015, and the 14th Five-Year Plan (2021-2025), which was officially adopted by the National People's Congress in March 2021. Made in China 2025 emphasizes the integration of IoT, artificial intelligence, and big data into smart manufacturing, driving the adoption of Industrial IoT across sectors such as automotive, electronics, and machinery. It has driven the establishment of smart factories, where IoT-enabled systems optimize production and reduce costs, while also encouraging domestic research and development investments in IoT components like sensors and chips to enhance technological self-reliance. Meanwhile, the 14th Five-Year Plan has reinforced IoT's importance by prioritizing 5G deployment, which provides the connectivity backbone for IoT applications. The plan also supports the development of smart cities, where IoT technologies enhance urban management, transportation, and energy efficiency, contributing to sustainable urban development.

These policies have fostered a thriving IoT ecosystem, enabling China to become a global leader in IoT innovation and adoption. Government funding, standardization efforts, and public-private partnerships have accelerated digital transformation across industries such as healthcare, agriculture, and logistics. Additionally, IoT applications in environmental monitoring and smart transportation align with China's sustainability goals. In particular, the rise of smart factories and digitalized supply chains has spurred investment in private 5G networks, enabling real-time data transmission, enhanced automation, and improved operational resilience. According to the China Academy of Information and Communications Technology, which is a leading research institute under the Ministry of Industry and Information Technology, China's private 5G network market is expected to reach RMB80.2 billion by 2027, growing at a remarkable CAGR of 42% in the next five years, reflecting increasing demand for high-speed, low-latency connectivity in industrial applications.

Despite its promising outlook, the IoT industry faces several challenges. Market fragmentation and intense competition remain significant concerns. According to an article entitled "2024 IoT Industry Chain Analysis and Competitive Landscape Research Report" (https://baijiahao.baidu.com/s?id=1792647298890362713&wfr=spider&for=pc) published by chyxx.com (智研諮詢), a Chinese website that provides market research, industry analysis, and data reports across a wide range of sectors in China since 2008, the IoT industry in the PRC spans a wide range of fields, attracting a large number of participants despite its rapid growth. While companies specialize in different areas, competition within the same sector remains intense due to product similarities. As noted in the industry overview of the Group's prospectus, Frost & Sullivan, an independent market research consultant commissioned by the Group in connection with the global offering in November 2022, there were over 30,000 players operating across various IoT ecosystem layers, from perception to application services in 2021. Technological innovation, service integration, and industry expertise are key to maintaining a competitive edge. Data security and privacy risks are also escalating, requiring companies to invest in secure data transmission, encryption, and regulatory compliance. Moreover, interoperability and standardization issues continue to hinder seamless device connectivity and integration across diverse platforms. To address this, companies are increasingly adopting cloud-based solutions and standardized protocols.

Macroeconomic conditions further complicate the landscape. According to an article entitled "National Economy Witnessed Steady Progress amidst Stability with Major Development Targets Achieved Successfully in 2024"(https://www.stats.gov.cn/english/PressRelease/202501/t20250117_1958330.html) released by the National Bureau of Statistics of China, while the national economy remained stable in 2024, external challenges are mounting. Domestic demand remains weak, businesses face operational difficulties, and the economy is still facing difficulties and challenges. Reduced consumer and business spending could dampen IoT investment, particularly among small and medium-sized enterprises (SMEs). Additionally, global supply chain disruptions and escalating trade tensions may increase costs for IoT hardware components, such as semiconductors, thereby impacting profitability. As of February 2025, trade tensions between the United States and China have intensified. The U.S. recently imposed a 10% tariff on all Chinese imports, prompting China to retaliate with tariffs on U.S. goods, including a 15% duty on coal and liquefied natural gas and a 10% duty on oil and agricultural machinery, effective 10 February 2025. Export restrictions may force more businesses to shift their focus inward, the IoT industry may experience more intense competition and increased pricing pressure in the domestic market. Given the current economic climate, businesses in China are already facing challenges, including weak demand and operational difficulties, this could further influence investment in IoT solutions.

Our view

As detailed in the section "1.2 Historical Financial Information of the Group", the Group's financial performance has significantly deteriorated in FY2024, primarily due to weak customer demand and delays in spending. The Group's 2024 Interim Report also highlights a high customer concentration, with its five largest customers contributing approximately 97.2% of total revenue in the first half of 2024. Any reduction in spending by these key customers could materially impact revenue, particularly in a cautious economic environment.

Although the proportion of new customers increased from 63.6% in FY2023 to 66.7% in the first half of 2024, customer acquisition remains slow and challenging amid economic uncertainty. To attract new clients, the Group may need to offer competitive pricing, free trials, or flexible terms, which could further pressure margins.

Considering (i) the Group's deteriorating financial performance in FY2024, (ii) its high customer concentration, (iii) the cautious spending environment despite economic recovery, and (iv) trade tensions and the imposition of tariffs, we believe the Group's outlook remains uncertain in the near future despite government support.

2 Information on the Purchasers

2.1 *Background information of the Offeror*

As stated in the Letter from Lego Securities, the Offeror is an investment holding company incorporated in the British Virgin Islands with limited liability, and is directly wholly owned by Mr. Chan Chin Ching. The directors of the Offeror are Mr. Chan Chin Ching and Mr. Chan Chin Chun, who are brothers of each other. Mr. Chan Chin Ching (Ray), aged 41, is a technology entrepreneur and investor born and raised in Hong Kong. He is the CEO and co-founder of Memeland, a Web3 venture studio building and investing in content, community, and culture. He is also the CEO and co-founder of 9GAG, currently one of the world's top three social media platforms in the humor category based on traffic share, according to similarweb.com, which is a publicly traded company on the NYSE (ticker: SMWB) since 2021, is a leading provider of digital intelligence and web analytics, widely trusted by global businesses including Fortune 500 companies for market insights.

Ray's entrepreneurial journey began in 2008 when he and his co-founders launched 9GAG. Today, the platform has a global audience of 200 million across various social media channels, including Instagram (56 million), Facebook (40 million), X (16 million), Threads (6.5 million), Pinterest (3.9 million), TikTok (2.8 million), and WhatsApp (1.8 million). 9GAG, with a global user base and influence on internet culture, serves as an example of a technology company from Hong Kong achieving global reach. Driven by his vision and passion for blockchain technology, Ray founded Memeland in

2022. Despite turbulent market conditions, Ray has quickly led Memeland to become a leader in Web3, creating Asia's No. 1 digital collectible brand, according to nftnow.com, by adopting a new paradigm of building blockchain-enabled social products that embrace internet culture and real-world utilities. Memeland has attracted major brand partnerships and, in turn, enhanced community engagement and fueled business growth. Ray's X account (account name 9GAGCEO) has 1.9 million followers. He has been selected as one of the 50 most influential people in crypto by CoinDesk in 2024. He has also been named NFT Now's NFT-100 in 2023, Prestige's 40 Under 40 in 2021, and Tatler's Gen.T Leaders of Tomorrow in 2018, among other accolades. He frequently shares his insights and experiences at universities and global conferences. Ray has been featured in top international media outlets, including CNN, CNBC, Forbes, and The Wall Street Journal. The City University of Hong Kong Press has recently published a book titled "Innovative Attitude: 6+ Trailblazing Startup Founders", which chronicles Ray's startup journey. Ray currently serves as an honorary advisor to the World Vision Hong Kong, a board member of the Hong Kong Genome Institute, and a member of the HKSAR Government's Steering Committee on Prevention and Control of Non-Communicable Diseases. Ray graduated from The University of Hong Kong with a Bachelor of Laws degree.

2.2 *Intentions of the Offeror in relation to the Group*

As stated in the Letter from Lego Securities, it is the intention of the Offeror to continue with the Group's existing principal business activities. In particular, the Offeror intends to expand the existing businesses of the Group through, among others, exploring business opportunities related to artificial intelligence, digital assets and Web3. The convergence of IoT (existing business) and nextgen technologies (i.e. artificial intelligence, digital assets, and Web3) would create Decentralized Physical Infrastructure Networks ("**DePIN(s)**") that could potentially unlock new economies and tap into new markets geographically, i.e. outside of the PRC. DePINs enhance the interconnectivity of physical infrastructures, such as IoT devices, internet networks and cloud computing, and can be used to automate processes, manage data and ensure secure peer-to-peer interactions. It is intended that the Offeror's expansion plan shall be achieved through seizing business opportunities including but not limited to the enablement of peer-to-peer applications that run on blockchain networks such as Ethereum, the integration of artificial intelligence and machine learning, and the expansion of decentralised networks. An imminent use case of DePIN is smart cities that are adopting a Web3 strategy. The Offeror is optimistic about the convergence of IoT and Web3, which paves the way for innovative real world use cases across various industries, enhancing security, efficiency, user control and scalability. As the Company has been engaged in the businesses of provision of data transmission and processing services for IoT applications for years, the Offeror is of the view that the Company has established an extensive network and reputation in the IoT industry, and that the Offeror will be able to grow the Company's business under its direction upon becoming the controlling Shareholder through the acquisition of the Sale Shares. In addition, independent due diligence has been conducted prior to the acquisition of the Sale Shares, where no material issues were revealed by both financial and legal due diligence of the Company, and the Offeror has reasonably satisfied with the results.

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. In view of the aforesaid, the Offeror is of the view that the Offers are in its long-term commercial interest.

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" stated in the Letter from Lego Securities); (ii) to introduce any major changes to the existing operations and business of the Group; and (iii) to downsize, cease, or dispose of any of the existing businesses, operations and assets of the Group (including but not limited to 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. As at the Latest Practicable Date, no investment or business opportunity had been identified nor had the Offeror entered into any agreement, arrangement, understanding or negotiation in relation to the injection of any assets or business into the Group, nor any business opportunities in relation to the injection of any assets or business into the Group were under consideration or negotiation.

Our view

While Mr. Ray Chan has a strong background in digital media, Web3, and community engagement, his experience does not directly align with the Group's core business in the provision of data transmission and processing for IoT applications and telecommunication equipment. His past success in scaling 9GAG and pioneering blockchain initiatives demonstrates entrepreneurial vision, but without a concrete business plan for the Group, it remains uncertain how his expertise would translate into driving the Group's growth or addressing its current challenges. While his presence may bring fresh perspectives and potential strategic opportunities, there is no clear evidence that he possesses the industry-specific knowledge or leadership experience necessary to execute a turnaround for the Group. Therefore, we are of the view that the extent of his contribution to the Group's long-term success remains to be seen.

3 The Share Offer Price

3.1 *The Share Offer Price comparison*

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;

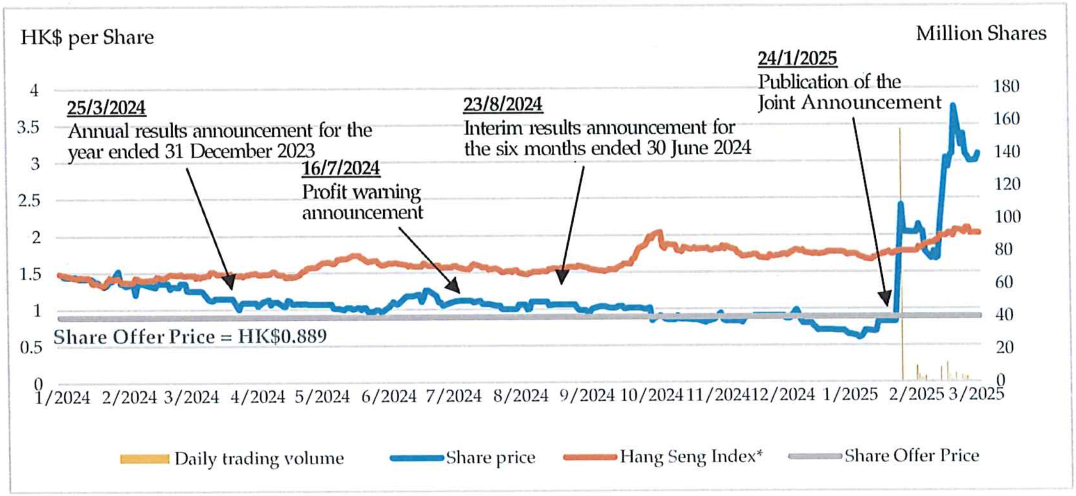
(v) a premium of approximately 19.17% over the average closing price of approximately HK$0.746 per Share based on the daily closing prices as quoted on the Stock Exchange for the 30 consecutive trading days immediately prior to and including the Last Trading Day;

(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.

3.2 *Historical price performance of the Shares*

The graph below illustrates the historical closing prices of the Shares as quoted on the Stock Exchange during the period from 1 January 2024 and up to and including the Latest Practicable Date (the "**Review Period**"), which covers an approximate one-year period prior to the Last Trading Day and the period up to the Latest Practicable Date, to illustrate the general trend and level of movement of the closing prices of the Shares. We consider that the duration of the Review Period of approximately one year period prior to the Last Trading Day would be a reasonable and sufficient period to illustrate the recent closing price movement of the Shares:



Source: the website of the Stock Exchange (www.hkex.com.hk)

Notes:

1. *Trading in the Shares was halted from 20 January 2025 to 24 January 2025*

2. *Hang Seng Index is rebased to the closing price of the Shares as at 2 January 2024*

As shown in the graph above, the closing prices of the Shares during the Review Period have fluctuated, ranging from the lowest closing price of approximately HK$0.60 per Share recorded in January 2025 to the highest closing price of approximately HK$3.74 per Share in February 2025. The average closing price during the Review Period was approximately HK$1.17 per Share.

During the Review Period, the closing prices of the Shares were largely in a prolonged and sustained downward trend, continuing for an extended period from the start of the Review Period in January 2024 and reaching their lowest point in January 2025 at approximately HK$0.60 and as confirmed by the Directors, the Directors were not aware of any happening which might have caused the prolonged downtrend in the closing prices of the Group. Notably, the closing price largely remained below HK$1.0 since October 2024, which, based on discussions with Management, they were not aware of any matters which caused the closing price to dip below HK$1.0.

Following the Joint Announcement on the Offers, we observed a sharp increase in trading, with the closing price of the Shares surging from HK$0.82 on 17 January 2025 to HK$2.40 on 27 January 2025. The closing prices remain above the Share Offer Price of HK$0.889 as of the Latest Practicable Date. We attribute this price spike to market reactions and anticipation of favorable effects from the change in the controlling Shareholder. However, there is no guarantee that the closing price will remain above the Share Offer Price after the Latest Practicable Date or upon the close of the Share Offer. Aside from this brief spike, the overall performance of the closing prices was predominantly downward, even during periods when the Hang Seng Index was trending upwards.

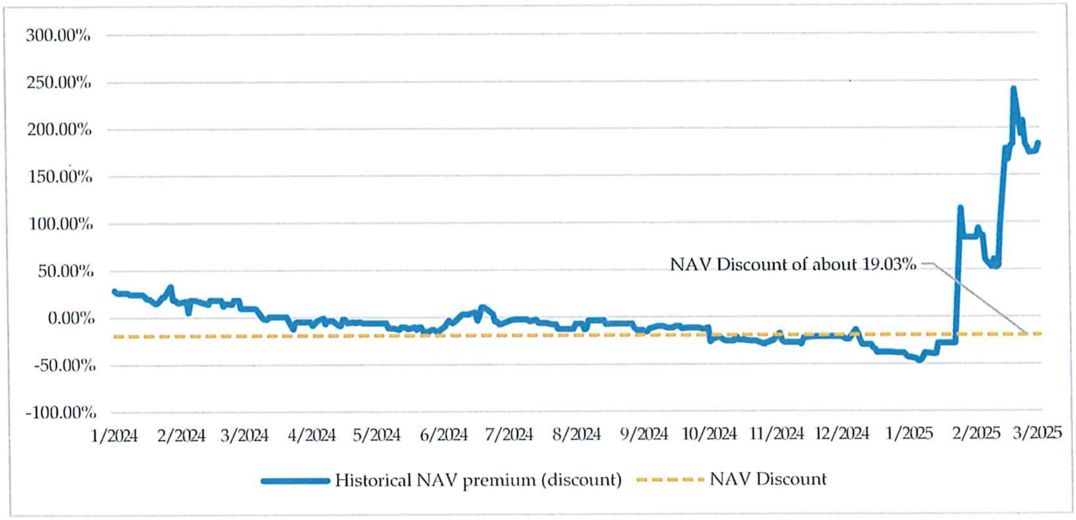
As set out in the section headed "3.1 The Share Offer Price Comparison," we also noted that the Share Offer Price represents (i) a 71.32% discount to the closing price on the Latest Practicable Date, (ii) a 27.01% discount to the audited consolidated net assets value of the Company attributable to Shareholders as of 31 December 2023, and (iii) a 19.03% discount to the unaudited consolidated net assets value of the Company attributable to Shareholders as of 30 June 2024. Nevertheless, in evaluating the fairness and reasonableness of the Share Offer Price and our recommendation to Offer Shareholders regarding the acceptance of the Share Offer, we believe it is important to consider several factors, including (i) the prolonged downward trend in the Share price since May 2023, (ii) the fact that the Share Offer Price represents a premium over the closing price on the Last Trading Day and the average closing prices for the five, 10, and 30 consecutive trading days immediately prior to and including the Last Trading Day, and (iii) the limited liquidity of the Shares prior to the Joint Announcement, which creates uncertainty regarding the sustainability of the recently elevated share price levels and trading volumes.

Offer Shareholders should note that the information set out above is not an indicator of the future performance of the Shares and that the price of the Shares may increase or decrease from its closing price after the Latest Practicable Date.

Offer Shareholders who wish to accept the Share Offer or realise their investments in the Group are reminded that they should carefully and closely monitor the trading price of Shares during the Offer Period.

3.3 *Historical trading price against net asset value per Share*

As aforementioned, the Share Offer Price represented a discount of approximately 19.03% (i.e. the "**NAV Discount**") to the unaudited consolidated net asset values attributable to the owner of the Company per Share as at 30 June 2024 (the "**NAV**"). Accordingly, we also reviewed the discounts of the closing prices of Shares to the latest prevailing NAV (the "**Historical NAV Discounts**") during the Review Period as set out in the chart below:



As shown in the graph above, the closing prices of the Shares were at discounts to the NAV during the majority of Review Period and the Historical NAV Discounts ranged from a discount of approximately 1.01% to approximately 47.44% during the Review Period. Specifically, among the total 287 trading days during the Review Period, 199 trading days were trading at discounts to the NAV, representing approximately 69.34% of the total trading days in the Review Period. Given that the historical closing prices in the Review Period have largely been traded at discounts to the NAV during the Review Period, we consider the NAV Discount to be acceptable.

3.4 *Historical trading liquidity of the Shares*

Apart from the analysis on the closing price of the Shares above, we have also conducted a review on the trading liquidity of the Shares. The table below sets out the average daily trading volume of the Shares on a monthly basis during the Review Period and the respective percentages of the average daily trading volume of the Shares as compared to the total number of issued Shares and Shares held by the public Shareholders:

Month	Total trading volume of the Shares	Number of trading days in the month	Average daily trading volume of the Shares	Percentage of average daily trading volume to total Shares *(Note 1)* *Approximate %*	Percentage of average daily trading volume to total number of Shares held by public Shareholders *(Note 2)* *Approximate %*
2024					
January	421,000	22	19,136	0.0085%	0.0184%
February	777,000	19	40,895	0.0182%	0.0394%
March	1,206,000	20	60,300	0.0268%	0.0581%
April	622,000	20	31,100	0.0138%	0.0299%
May	293,000	21	13,952	0.0062%	0.0134%
June	499,000	19	26,263	0.0117%	0.0253%
July	136,000	22	6,182	0.0027%	0.0060%
August	60,000	22	2,727	0.0012%	0.0026%
September	67,000	19	3,526	0.0016%	0.0034%
October	690,000	21	32,857	0.0146%	0.0316%
November	517,000	21	24,619	0.0109%	0.0237%
December	937,000	20	46,850	0.0208%	0.0451%
2025					
January	168,690,532	19	8,878,449	3.8391%	12.0786%
February	75,008,000	20	3,750,400	1.6029%	4.9206%
March	1,083,000	2	541,500	0.2314%	0.7105%

Source: the website of the Stock Exchange (www.hkex.com.hk)

Notes:

1. The percentage of average daily trading volume to total Shares is calculated based on the average daily trading volume of Shares divided by the total issued Shares of the Company at the end of each month or as at the Latest Practicable Date, as applicable.

2. The total number of Shares held by the public Shareholders is calculated based on the number of total Shares excluding those held by the Offeror and parties acting in concert with it and the Controlling Selling Shareholder and parties acting in concert with it as at the end of each month/period or as at the Latest Practicable Date, as applicable.

As depicted in the table above, during the Review Period, the average daily trading volume represented approximately (i) 0.0012% to 3.8391% of the total issued share capital; and (ii) 0.0026% to 12.0786% of the total number of Shares in issue held by public Shareholders at the end of the respective month. We note that the trading volume was significantly higher in January 2025 and February 2025, coinciding with the recent developments regarding the Offers, which likely stimulated investor interest and trading activities. This surge in trading liquidity on 27 January 2025 reflects market reaction and anticipation following the Joint Announcement. However, after this initial increase, trading activity has gradually declined by February 2025, although it remains relatively high compared to historical levels. There is no assurance that liquidity will continue to remain at a level equal to or above that observed after the Latest Practicable Date. In contrast, for most months in the Review Period, the average daily trading volume remained below 0.3% of the total issued share capital and below 0.80% of the total number of Shares held by public Shareholders, indicating generally low liquidity.

Before the surge in trading activity in January 2025 and February 2025, trading in the Shares had been particularly thin, with an average daily trading volume of below 0.1% of the total issued share capital in most months of 2024. Notably, in August 2024 and September 2024, the average daily trading volume fell to as low as 2,727 Shares and 3,526 Shares, representing only 0.0012% and 0.0016% of the total issued share capital, respectively, and 0.0026% and 0.0034% of the total number of Shares held by public Shareholders, respectively. Given this persistently thin liquidity, it is uncertain whether Offer Shareholders who wish to exit their investment in the open market would be able to do so without depressing the market price of the Shares.

Although the trading volume spiked in early 2025 following the publication of the Joint Announcement regarding the Offers, it remains uncertain whether such liquidity will be sustained in the foreseeable future. It is noted that there is a general decreasing trend in trading volume from 154,828,570 Shares on 27 January 2025 after the publication of Joint Announcement to 466,000 Shares as of the Latest Practicable Date. As such, for Offer Shareholders, particularly those holding sizeable shareholdings, the Share Offer presents a readily available exit opportunity to realize part or all of their investment in the Shares and redeploy the cash received from accepting the Share Offer into other investment opportunities, if they so choose.

However, Offer Shareholders who wish to realize their investment in the Shares may consider disposing of their Shares in the open market or to potential purchasers at a price higher than the Share Offer Price. In such cases, they may decide not to accept the Share Offer but instead sell their Shares in the market or to these purchasers, depending on their individual circumstances and if the net proceeds from the sales exceed the net amount receivable under the Share Offer.

Offer Shareholders should closely monitor the market price and liquidity of the Shares during the Offer Period and carefully assess the risks and uncertainties based on their individual risk preferences and tolerance. Those opting to retain part or all of their investment should also monitor the Group's financial performance and the Offeror's future intentions regarding the Company, as well as the potential challenges they may face in disposing of their Shares at the Share Offer Price after the close of the Share Offer.

3.5 *Market comparable analysis*

In assessing the fairness and reasonableness of the Share Offer Price, we have considered the price-to-earnings ratio (the "**P/E Ratio**"), the price-to-book ratio (the "**P/B Ratio**") and the price-to-sale ratio (the "**P/S Ratio**"), which are the most commonly adopted valuation benchmarks in comparing the valuation of a company's shares. However, given that the Company is principally engaged in provision of data transmission and processing services for IoT applications, which is not an asset-based business, P/B Ratio analysis may not yield any conclusive meaning and the comparison on P/B Ratio was not adopted.

To conduct a valuation benchmarking analysis, based on our search on the website of the Stock Exchange and on a best effort basis, we identified comparable companies based on the following criteria: (i) companies engaged in IT infrastructure solutions (including data transmission and processing services for IoT applications and telecommunication equipment) operating primarily in the PRC; (ii) companies with shares that were actively trading (i.e. not suspended) as at the Latest Practicable Date; (iii) companies with a market capitalisation lower than HK$1 billion; and (iv) companies that did not report net loss and/or net liabilities in their latest annual reports (the "**Market Comparables**").

To ensure meaningful comparison, we focused on companies with positive net asset positions, as companies with net liabilities may face going concern issues, which could distort valuation multiples. Additionally, the Group has consistently strengthened its net asset position in FY2021, FY2022, and FY2023, with auditors issuing unqualified opinions for these years, reinforcing its financial stability. Based on our screening criteria, we identified an exhaustive list of three Market Comparables.

While the Market Comparables do not have identical operations to the Group, they are engaged in broader segments, including enterprise IT solutions, cloud computing, and data processing services that facilitate communication between hardware and software systems. These companies may provide a wider range of IT infrastructure, integration services, and data management solutions that support various industries, including IoT-related applications. Given the limited number of listed companies focused solely on IoT data transmission and processing, we selected Market Comparables with overlapping business models and technological capabilities, making them a reasonable benchmark for valuation purposes.

The following table set out the details of the Market Comparables and that of the Company based on the Share Offer Price:

Company name (Stock code)	Principal business(es)	Market capitalization *(Note 1)* *HK$ million*	P/S Ratio *(Note 2)*	P/E Ratio *(Note 3)*
SIM Technology Group Limited (2000.HK)	Provision of handsets and Internet of Things (IOT) terminals in the PRC and globally.	814.47	1.50	2.36
Hengxin Technology Ltd. (1085.HK)	Provision of telecommunications and technological products, digital technology and digital security services, and telecommunications services in the PRC.	628.56	0.26	7.03
Maiyue Technology Limited (2501.HK)	Provision of integrated information technology (IT) solutions and services in the education and government markets in the PRC.	440.00	1.60	14.47
		Average	1.12	7.95
		Median	1.50	7.03
		Maximum	1.60	15.30
		Minimum	0.26	2.36
The Company		208.00	0.44	7.68
			(Note 4)	*(Note 5)*

Source: the website of the Stock Exchange (www.hkex.com.hk)

Notes:

1. Being the market capitalisations of the respective Market Comparables as at the Latest Practicable Date as extracted from the Stock Exchange.

2. The P/S Ratio of the Market Comparables are calculated by dividing the respective market capitalisation as at the Latest Practicable Date by their revenue as extracted from the respective latest annual report.

3. The P/E Ratio of the Market Comparables are extracted from the Stock Exchange.

4. Calculated based on (i) the Share Offer Price of HK$0.889 per Offer Share; (ii) 233,974,000 Shares in issue as at the Latest Practicable Date; and (iii) the revenue of the Group in FY2023.

5. Calculated based on (i) the Share Offer Price of HK$0.889 per Offer Share; (ii) 233,974,000 Shares in issue as at the Latest Practicable Date; and (iii) net income of the Group in FY2023.

As depicted from the above table, the P/S Ratio of the Market Comparables ranged from approximately 0.26 times to approximately 1.60 times, with a median and average of approximately 1.50 times and 1.12 times. Despite so, the implied P/S Ratio of the Company (based on the Share Offer Price) of approximately 0.44 times is below the median and average of the P/S Ratio of the Market Comparables and is within the range of the Market Comparables.

In respect of the P/E Ratio, the P/E Ratio of the Market Comparables ranged from approximately 2.36 times to approximately 14.47 times, with a median and average of approximately 7.03 times and 7.95 times. Despite so, the implied P/E Ratio of the Company (based on the Share Offer Price) of approximately 7.68 times is above the median and close to the average of the P/E Ratio of the Market Comparables and is within the range of the Market Comparables.

Despite the variations in valuation multiples among the Market Comparables, we believe they provide relevant insights into industry valuation trends and market perceptions of similar businesses. The fact that the implied P/S and P/E Ratios of the Company fall within the observed range suggests that the Share Offer Price is in line with market expectations. Given that the Market Comparables operate within the broader IT infrastructure industry rather than being identical to the Group's business, we consider that the P/S Ratio and P/E Ratio of the Market Comparables should serve as references rather than definitive valuation indicators.

4 The Option Offer

With reference to the section headed "2. Share Capital" in Appendix IV to the Composite Document, as at the Latest Practicable Date, save for the 13,376,000 outstanding Share Options granted pursuant to the Share Option Scheme, pursuant to the Share Option Scheme conferring rights to subscribe for 13,376,000 new Shares, the Company had no outstanding convertible securities, options, warrants, derivatives or any other conversion rights in issue affecting the Shares. The Company had no intention to grant any new share awards under the Share Award Scheme during the Offer Period.

Given that the exercise price of the outstanding Share Options (being HK$1.56 per Share Option) is higher than the Share Offer Price, the "see-through" price is negative and the outstanding Share Options are deeply out of the money. We consider that the Option Offer Price of a nominal value of HK$0.0001 for the cancellation of each Option is fair and reasonable as far as the Optionholders are concerned.

RECOMMENDATION

Taking into consideration of the aforementioned principal factors and reasons, in particular, the following:

(i) the significant deterioration in the financial performance of the Group for the 1H2024, which marked a shift from profit-making in 1H2023 to a loss-making position in 1H2024 despite the significant growth of the IoT industry in the PRC. Based on the Group's Profit Warning Announcements, this downturn has persisted into the second half of 2024, indicating that its financial performance has not improved even as the industry continues to expand. While the Group was profitable from FY2021 to FY2023 and only turned loss-making in 2024, there remains uncertainty as to whether the Management will be able to restore profitability in the future;

(ii) as at the Latest Practicable Date, (i) no investment or business opportunities have been identified; and (ii) the Offeror is in the course of identifying candidates for the Board and has not reached any final decision as to who will be nominated and the final composition of the Board, we are of the opinion that there remains uncertainty in the future performance of the Group;

(iii) the closing prices of the Shares largely trended downward during the Review Period, only increasing significantly after the publication of the Joint Announcement and remaining above the Share Offer Price as of the Latest Practicable Date. Therefore, there is no guarantee that the Share price will remain above the Share Offer Price after the Latest Practicable Date or following the close of the Offer Period;

(iv) the historical closing prices in the Review Period have largely been traded at discounts to the NAV during the Review Period;

(v) the trading volume of the Shares was exceptionally thin during most of the Review Period, with a notable increase only after the publication of the Joint Announcement. However, it is uncertain whether such active trading volume will be sustained. There is also a general decreasing trend in trading volume from 154,828,570 Shares on 27 January 2025 to 466,000 Shares as of the Latest Practicable Date. Consequently, it remains uncertain whether there will be sufficient liquidity in the Shares in the foreseeable future for Offer Shareholders to dispose of their Shares in the open market without negatively impacting the market price. We therefore consider that the Share Offer provides Offer Shareholders, particularly those with sizeable shareholdings, with a readily available exit opportunity to realise part or all of their investment in the Shares and redeploy the cash received from accepting the Share Offer into other investment opportunities, if so they choose; and

(vi) the exercise prices of the outstanding Share Options are all greater than the Share Offer Price, the "see-through" price for the outstanding Share Options is therefore nil and the Share Options are out-of-money, the Option Offer Price at a nominal value of HK$0.0001 is considered to be fair and reasonable so far as the Optionholders are concerned,

we are of the view that the Offers (including the Share Offer Price and the Option Offer Price) are fair and reasonable so far as the Offer Shareholders and Optionholders are concerned. Accordingly, we recommend the Independent Board Committee to (1) advise the Offer Shareholders to accept the Share Offer; and (2) advise the Optionholders to accept the Option Offer.

Notwithstanding the above, we note that the Shares have traded above the Share Offer Price after the Joint Announcement was published, closing at HK$3.10 as at the Latest Practicable Date. In this connection, we would like to remind the Offer Shareholders to closely monitor the market price and liquidity of the Shares during the Offer Period and consider disposing of their Shares in the open market, where possible, instead of accepting the Share Offer, if the net proceeds from such sale of Shares would be higher than the receivable under the Share Offer, and only to accept the Share Offer if the Offer Shareholders (especially those with relatively sizeable shareholdings) encounter difficulties to dispose of their Shares in the open market due to the liquidity issue at the Share Offer Price or a price higher than the Share Offer Price. In any event, the Offer Shareholders should note that there is no guarantee that the current market price of the Shares will or will not sustain and will or will not be higher than the Share Offer Price during and after the period for the acceptance of the Share Offer.

As for the Optionholders, as the exercise price of the outstanding Share Options (HK$1.56) is above the Share Offer Price (HK$0.889), the Share Options are out of the money with reference to the Share Offer Price. However, we note that the Shares have traded above the exercise price of HK$1.56 of the outstanding Share Options after the Joint Announcement was published, closing at HK$3.10 as at the Latest Practicable Date. In this connection, we recommend the Optionholders to closely monitor market price movement and consider to exercise their Share Options and sell those Shares in the open market, instead of accepting the Option Offer, if the sale proceeds (after deducting transaction costs and exercise price) exceed the amount receivable under the Option Offer. However, if the market price of Shares falls below the exercise price toward the end of the Offer Period, they may consider tendering all or part of their holdings for cancellation under the Option Offer, should they wish to realize their investment. The Optionholders should note that the Share Options will expire after the Offer Period, if no action (exercising the Share Options or accepting the Option Offer) is taken, their Share Options will lapse automatically.

As different Offer Shareholders and Optionholders would have different investment criteria, objectives and/or circumstances, we would recommend any Offer Shareholders and Optionholders who may require advice in relation to any aspect of the Composite Document, or as to the action to be taken, to consult a licensed securities dealer, bank manager, solicitor, professional accountant, tax adviser or other professional adviser.

Yours faithfully,
For and on behalf of
Innovax Capital Limited

Alvin Kam	**Erica Ling**
Managing Director	*Director*

Notes: Mr. Alvin Kam is a Responsible Officer under the SFO to engage in Type 6 (advising on corporate finance) regulated activity and has around 22 years of experience in investment banking and corporate finance.

Ms. Erica Ling is a Responsible Officer under the SFO to engage in Type 6 (advising on corporate finance) regulated activity and has around 14 years of experience in investment banking and corporate finance.