SMC ELECTRIC LIMITED
蜆壳電業有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 2381)

Executive Directors:
Mr. LEUNG Chun Wah
Mr. TANG Che Yin
Mr. CHOW Kai Chiu David

Non-executive Directors:
Mr. YUNG Kwok Kee Billy *(Chairman)*
Ms. LI Pik Mui Cindy

Independent Non-executive Directors:
Mr. LEUNG Man Chiu Lawrence
Mr. POON Chak Sang Plato
Mr. HO Chi Sing Spencer

Registered Office:
Windward 3,
Regatta Office Park,
PO Box 1350,
Grand Cayman KY1-1108,
Cayman Islands

Head office and principal place of business in Hong Kong:
1/F, Shell Industrial Building,
12 Lee Chung Street,
Chai Wan,
Hong Kong

15 September 2026

To the Independent Shareholders,

Dear Sir or Madam,

MANDATORY UNCONDITIONAL CASH OFFER BY CLSA LIMITED FOR AND ON BEHALF OF MEGA NOVA HOLDINGS LIMITED TO ACQUIRE ALL THE ISSUED SHARES OF SMC ELECTRIC LIMITED (OTHER THAN THOSE SHARES ALREADY OWNED AND/OR AGREED TO BE ACQUIRED BY THE OFFEROR AND OFFEROR CONCERT PARTIES)

INTRODUCTION

References are made to (i) the Joint Announcement in relation to, among other things, the Sale and Purchase Agreement and the Offer; (ii) the Special Dividend Announcement in relation to, among other things, the declaration and payment of the Special Dividend; and (iii) the Completion Announcement in relation to, among other things, the Completion.

On 31 July 2026, the Offeror and the Seller entered into the Sale and Purchase Agreement, pursuant to which the Offeror conditionally agreed to purchase, and the Seller conditionally agreed to sell, the Sale Shares, being 1,400,000,000 Shares (representing 70% of the total issued Shares), for a total Consideration of HK$154,000,000, equivalent to HK$0.11 per Sale Share. As disclosed in the Special Dividend Announcement, the Record Date of the Special Dividend was 31 August 2026. Completion took place on 8 September 2026 after the Record Date. Payment of the Special Dividend was made on 14 September 2026.

Immediately following the Completion, the Offeror and Offeror Concert Parties (other than the Seller) own 1,400,000,000 Shares (representing 70% of the total issued Shares), and the Seller owns 100,000,000 Retained Shares (representing 5% of the total issued Shares). Pursuant to Rule 26.1 of the Takeovers Code, the Offeror is therefore required to make a mandatory unconditional cash offer for all the issued Shares (other than those already owned and/or agreed to be acquired by the Offeror and Offeror Concert Parties).

The purpose of this Composite Document (of which this letter forms part) is to provide you with, among other things, (i) information relating to the Group, the Offeror and the Offer; (ii) the Letter from CLSA containing details of the Offer; (iii) the letter from the Independent Board Committee containing its recommendations to the Independent Shareholders in relation to the Offer; and (iv) the letter from the Independent Financial Adviser containing its advice to the Independent Board Committee in respect of the Offer, in particular, as to whether the Offer is fair and reasonable so far as the Independent Shareholders are concerned and as to acceptance of the Offer.

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 non-executive Directors who have no direct or indirect interest in the Offer, namely Ms. Li Pik Mui Cindy, a non-executive Director, and Mr. Leung Man Chiu Lawrence, Mr. Poon Chak Sang Plato and Mr. Ho Chi Sing Spencer, each an independent non-executive Director, has been established to advise the Independent Shareholders as to whether the Offer is fair and reasonable and as to acceptance of the Offer. Mr. Yung, a non-executive Director, is the ultimate beneficial owner of the Seller and therefore he is not a member of the Independent Board Committee.

Red Sun Capital Limited has been appointed as the Independent Financial Adviser with the approval of the Independent Board Committee pursuant to Rule 2.1 of the Takeovers Code to advise the Independent Board Committee in respect of the Offer and, in particular, as to whether the Offer is fair and reasonable and as to the acceptance of the Offer.

The full texts of the letter from the Independent Board Committee addressed to the Independent Shareholders and the letter from the Independent Financial Adviser addressed to the Independent Board Committee are set out in this Composite Document. **You are advised to read both letters and the additional information contained in the appendices to this Composite Document carefully before taking any action in respect of the Offer.**

PRINCIPAL TERMS OF THE OFFER

CLSA is making the Offer on behalf of the Offeror in compliance with the Takeovers Code on the following basis:

For each Offer Share .... HK$0.11 in cash

Pursuant to the Takeovers Code, the Offer Price must not be lower than the purchase price per Sale Share payable by the Offeror to the Seller under the Sale and Purchase Agreement. The Offeror has therefore decided to set the Offer Price at HK$0.11 (which is the same as the Consideration per Sale Share).

The Offer will be extended to all Shareholders other than the Offeror and Offeror Concert Parties in accordance with the Takeovers Code.

The Offer Shares to be acquired under the Offer shall be fully paid and free from all encumbrances and together with all rights and interests attaching thereto, including all rights to receive any dividend or other distribution declared, made or paid on or after the date on which the Offer is made, being the date of the despatch of this Composite Document.

For the avoidance of doubt, the Special Dividend was paid on 14 September 2026 to Shareholders whose names appeared on the register of members of the Company on 31 August 2026 (i.e. the Record Date). The Company confirms that, as at the Latest Practicable Date, except for the Special Dividend which was paid before the date of this Composite Document, the Company did not have any dividend or distribution recommended, declared or made but unpaid and has no intention to make any distribution or declare dividends before the close of the Offer. No change has been or will be made to the Offer Price after the declaration and/or payment of the Special Dividend.

As at the Latest Practicable Date, the Company has 2,000,000,000 Shares in issue. There are no outstanding Shares, options, warrants, derivatives or securities convertible or exchangeable into Shares or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code).

The Offer is unconditional in all respects and is not conditional upon acceptances being received in respect of a minimum number of Offer Shares.

The Offer Price

The Offer Price of HK$0.11 per Share represents:

(a) a discount of approximately 69.44% to the closing price of HK$0.360 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(b) a discount of approximately 65.63% to the closing price of HK$0.320 per Share as quoted on the Stock Exchange on the Last Trading Day;

(c) a discount of approximately 66.36% to the average closing price of approximately HK$0.327 per Share as quoted on the Stock Exchange for the last five (5) consecutive trading days up to and including the Last Trading Day;

(d) a discount of approximately 65.08% to the average closing price of approximately HK$0.315 per Share as quoted on the Stock Exchange for the last ten (10) consecutive trading days up to and including the Last Trading Day;

(e) a discount of approximately 61.27% to the average closing price of approximately HK$0.284 per Share as quoted on the Stock Exchange for the last thirty (30) consecutive trading days up to and including the Last Trading Day;

(f) a premium of approximately 74.60% over the audited consolidated net asset value attributable to owners of the Company of approximately HK$0.063 per Share as at 31 December 2025 calculated based on the information as set out in the Company's annual report for the year ended 31 December 2025; and

(g) a premium of approximately 78.87% over the unaudited consolidated net asset value attributable to owners of the Company of approximately HK$0.0615 per Share as at 30 June 2026 calculated based on the information as set out in the Company's interim report for the six months ended 30 June 2026.

Highest and Lowest Closing Prices of Shares

During the Relevant Period, the highest and lowest closing prices of the Shares as quoted on the Stock Exchange were HK$0.395 per Share on 9 September 2026 and HK$0.127 per Share on 23 March 2026, respectively.

Value of the Offer

As at the Latest Practicable Date, there are 2,000,000,000 Shares in issue. Assuming that there is no change in the issued share capital of the Company and on the basis of the Offer Price of HK$0.11 per Offer Share and 600,000,000 Shares that will be subject to the Offer, the Offer would be valued at HK$66,000,000.

On the basis that: (i) the Sale Shares have been held by the Offeror since Completion; (ii) there is no change in the issued share capital of the Company from the Latest Practicable Date up to the close of the Offer; and (iii) the Retained Shares held by the Seller (which is presumed to be acting in concert with the Offeror) will not be tendered for acceptance under the Offer, the full acceptance of the Offer will involve 500,000,000 Shares, and on the basis of the Offer Price of HK$0.11 per Offer Share, the maximum consideration payable by the Offeror under the Offer would be HK$55,000,000.

Further Details of the Offer

Further details of the Offer, including, among other things, its extension to the Overseas Shareholders, information on taxation, the terms and conditions and the procedures for acceptance and settlement and acceptance period can be found in the "Letter from CLSA" to this Composite Document and the accompanying Form of Acceptance.

INFORMATION ON THE GROUP

The Company is an investment holding company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange (stock code: 2381). The Group is principally engaged in manufacturing and selling of electric tools and sourcing and selling of electric fans.

Set out below is certain financial information extracted from the audited consolidated results of the Group for each of the two financial years ended 31 December 2025 and the unaudited consolidated results for the six months ended 30 June 2026, as extracted from the annual reports of the Company for the year ended 31 December 2025 and the interim report for the six months ended 30 June 2026, respectively.

	For the six months ended 30 June	For the year ended 31 December	
	2026	2025	2024
	HK$'000	*HK$'000*	*HK$'000*
	(unaudited)	*(audited)*	*(audited)*
Revenue	95,839	217,822	257,278
(Loss)/Profit before income tax	(3,325)	11,244	31,076
Income tax expense	(10)	(1,766)	(4,716)
(Loss)/Profit for the year attributable to owners of the Company	(3,335)	9,478	26,360

The audited consolidated net assets of the Group attributable to owners of the Company as at 31 December 2025 were approximately HK$125,348,000, equivalent to approximately HK$0.063 per Share. The unaudited consolidated net assets of the Group attributable to owners of the Company as at 30 June 2026 were approximately HK$122,995,000, equivalent to approximately HK$0.0615 per Share.

Further financial information and general information in relation to the Group are set out in Appendix II "Financial Information of the Group" and Appendix IV "General Information of the Group" to this Composite Document.

Shareholding Structure of the Company

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

	As of the date of the Joint Announcement and immediately prior to Completion		Immediately after Completion and as at the Latest Practicable Date	
Shareholders	*Number of Shares*	*Approximate %*	*Number of Shares*	*Approximate %*
Offeror and the Offeror Concert Parties (other than the Seller) *(Note 1)*	–	–	1,400,000,000	70
Seller *(Note 2)*	1,500,000,000	75	100,000,000	5
Sub-total of Offeror and the Offeror Concert Parties *(Note 3)*	**1,500,000,000**	**75**	**1,500,000,000**	**75**
Independent Shareholders	500,000,000	25	500,000,000	25
Total	2,000,000,000	100	2,000,000,000	100

Notes:

1. As the Retained Shares are subject to the Lock-up Undertaking under the Sale and Purchase Agreement, the Seller is presumed to be acting in concert with the Offeror under Note 8 to Rule 22 of the Takeovers Code for the period of the Lock-up Undertaking.

2. As at the Latest Practicable Date, the Seller is directly held as to 80.55% by Red Dynasty Investments Limited, which in turn is directly wholly owned by Mr. Yung. The remaining 19.45% interest in the Seller is owned as to (i) 12.9% in aggregate by the late Mrs. Yung Ho Wun Ching (being the late mother of Mr. Yung) (the "**Late Madam Yung**"), among which 10.2% is held by the executor(s) of the estate of the Late Madam Yung and the remaining 2.7% is directly owned by the Late Madam Yung; (ii) 4.7% by Mr. Yung Kwok Choi, Simon (brother of Mr. Yung); (iii) 0.0004% by Ms. Yung Claudia Natalie (daughter of Mr. Yung); and (iv) 1.8996% by over 60 individuals and entities that are third party(ies) independent of and not connected with the Company and any of its connected persons (within the meaning of the Listing Rules) and are not Offeror Concert Parties.

3. CITICS HK is the exclusive financial adviser to the Offeror in respect of the Offer. Accordingly, CITICS HK and persons controlling, controlled by or under the same control as CITICS HK (except exempt principal traders and exempt fund managers, in each case recognised by the Executive as such for the purpose of the Takeovers Code) are presumed to be acting in concert with the Offeror in relation to the Company in accordance with Class (5) of the definition of "acting in concert" under the Takeovers Code. As at the Latest Practicable Date, members of the CITICS HK group do not legally or beneficially own, control or have direction over any Shares (except in respect of Shares held by exempt principal traders or exempt fund managers, in each case recognised by the Executive as such for the purposes of the Takeovers Code and also excluding Shares held on behalf of non-discretionary investment clients of the CITICS HK group). Nor were there any borrowing or lending of, or dealing in, Shares (or options, rights over Shares, warrants or derivatives in respect of them) by any members of the CITICS HK group during the Relevant Period (except in respect of Shares held by exempt principal traders or exempt fund managers, in each case recognised by the Executive for such purposes of the Takeovers Code and also excluding the Shares held on behalf of non-discretionary investment clients of the CITICS HK group).

INFORMATION ON THE OFFEROR

Your attention is drawn to the section headed "Information on the Offeror" in the "Letter from CLSA" and Appendix III "General Information of the Offeror" to this Composite Document.

INTENTIONS OF THE OFFEROR IN RELATION TO THE GROUP

Your attention is drawn to the section headed "Intentions of the Offeror in relation to the Group" in the "Letter from CLSA" of this Composite Document and the following disclosure as extracted therefrom:

Following the completion of the Offer, the Offeror intends to continue the existing businesses of the Group. As at the Latest Practicable Date, the Offeror has no plan to inject any assets or businesses into the Group or to procure the Group to acquire or dispose of any assets. The Offeror will conduct a detailed review of the existing principal business operations and financial position of the Group. Based on the review results, the Offeror will formulate business strategies together with the existing management of the Group, which may include exploring and developing new business opportunities with a view of achieving business growth of the Group.

Other than the proposed change of composition of the Board as set out below and subject to the terms and conditions of the Sale and Purchase Agreement, the Offeror has no intention to terminate any employment of the employees of the Group or to make significant changes to any employment or to dispose of or reallocate the Group's assets which are not in the ordinary and usual course of business of the Group. However, the Offeror reserves the right to make such changes that it deems necessary or appropriate to the Group's business and operations to optimise the value of the Group.

The Board has noted the intentions of the Offeror in respect of the Group and its employees and will render cooperation and support to the Offeror.

Proposed Change of Composition of the Board

Your attention is drawn to the section headed "PROPOSED CHANGE OF COMPOSITION OF THE BOARD" in the "Letter from CLSA" of this Composite Document.

As at the Latest Practicable Date, the Board is made up of eight Directors, comprising three executive Directors, namely, Mr. Leung Chun Wah, Mr. Tang Che Yin and Mr. Chow Kai Chiu David, two non-executive Directors, namely, Mr. Yung and Ms. Li Pik Mui Cindy, and three independent non-executive Directors, namely, Mr. Leung Man Chiu Lawrence, Mr. Poon Chak Sang Plato and Mr. Ho Chi Sing Spencer.

All Directors will resign from a date which is no earlier than such date as permitted under Rule 7 of the Takeovers Code (i.e. the first closing date of the Offer).

As at the Latest Practicable Date, the Offeror intends to nominate new Director(s) to the Board no earlier than the date of posting of this Composite Document. As at the Latest Practicable Date, the Offeror has not reached any final decision as to who will be nominated as new Director(s) and the timing for the nomination to take effect. Any changes to the members of the Board will be made in compliance with the Takeovers Code and the Listing Rules and further announcement(s) will be made as and when appropriate.

Further announcement(s) will be made by the Company in respect of the appointment of new Director(s) as and when appropriate.

Public Float and Maintaining the Listing Status of the Company

The Offeror has no intention to privatise the Company and intends the Company to remain listed on the Stock Exchange.

The Stock Exchange has stated that:

(a) if, upon closing of the Offer, the Stock Exchange believes that:

- a false market exists or may exist in the Shares; or

- an orderly market does not exist or may not exist,

it will consider exercising its discretion to suspend dealing in the Shares; and

(b) if, at the close of the Offer, the Company has a Significant Public Float Shortfall (as defined in Rule 13.32F of the Listing Rules), then:

- the Stock Exchange will add a designated marker to the stock name of the Shares; and

- the Stock Exchange will cancel the listing of the Shares if the Company fails to re-comply with Rule 13.32B of the Listing Rules for a continuous period of 18 months from the commencement of the Significant Public Float Shortfall until the prescribed level of public float is restored.

The sole director of the Offeror has, and the new Directors to be appointed no earlier than the posting of this Composite Document will, jointly and severally undertake to the Stock Exchange that if, at the close of the Offer, the Company fails to comply with the requirement of Rule 13.32B of the Listing Rules, they will take appropriate steps, which may include but not limited to placing down sufficient number of Shares, as soon as possible following the close of the Offer to ensure the Company's compliance with Rule 13.32B at the earliest possible moment.

RECOMMENDATION

Your attention is drawn to (i) "Letter from CLSA" as set out on pages 11 to 24 of this Composite Document, (ii) "Letter from the Independent Board Committee" as set out on pages 37 to 38 of this Composite Document, which contains its advice and recommendation to the Independent Shareholders in respect of the Offer and (iii) "Letter from the Independent Financial Adviser" as set out on pages 39 to 68 of this Composite Document, which contains, among other things, its advice to the Independent Board Committee in relation to the Offer and the principal factors considered by it before arriving at its recommendation.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information contained in the appendices to this Composite Document. You are also recommended to read carefully Appendix I "Further Terms and Procedures for Acceptance of the Offer" to this Composite Document and the accompanying Form of Acceptance for further details in respect of the procedures for acceptance of the Offer.

In considering what action to take in connection with the Offer, you should consider your own tax positions, if any, and, in case of any doubt, consult your professional advisers.

Yours faithfully,
For and on behalf of the Board of
SMC Electric Limited

Yung Kwok Kee Billy
Non-Executive Director and Chairman