



RAINBOW CAPITAL (HK) LIMITED
溢博資本有限公司

15 July 2025

To: the Independent Board Committee

Dear Sirs,

**MANDATORY UNCONDITIONAL CASH OFFER BY
EMPEROR CORPORATE FINANCE LIMITED
FOR AND ON BEHALF OF THE OFFEROR TO ACQUIRE ALL THE
ISSUED SHARES IN
HOME CONTROL INTERNATIONAL LIMITED
(OTHER THAN THOSE ALREADY OWNED OR AGREED TO BE
ACQUIRED BY THE OFFEROR)**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee in respect of the Offer, details of which are set out in the "Letter from the Board" of this Composite Document to the Offer Shareholders dated 15 July 2025, of which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in this Composite Document.

On 24 June 2025, the Offeror (as purchaser) and the Seller (as seller) entered into the SPA, pursuant to which the Offeror had conditionally agreed to purchase, and the Seller had conditionally agreed to sell, the Sale Shares, being 375,000,000 Shares, representing approximately 74.02% of the total number of issued Shares as at the date of Joint Announcement. The total Consideration for the Sale Shares is HK\$230,000,000, representing approximately HK\$0.6133 per Sale Share, subject to the Consideration Adjustment. Completion took place on 24 June 2025.

Immediately before Completion, the Offeror and the Offeror Concert Parties did not hold, own, have control or direction over any Shares or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company. Immediately after Completion and as at the Latest Practicable Date, the Offeror owns 375,000,000 Shares, representing approximately 74.02% of the total number of issued Shares. The Offeror is accordingly required to make a mandatory unconditional general offer for all the issued Shares (other than those already owned or agreed to be acquired by the Offeror) pursuant

to Rule 26.1 of the Takeovers Code. Emperor Corporate Finance is, for and on behalf of the Offeror and in compliance with the Takeovers Code, making the Offer at the Offer Price of HK\$0.616 per Offer Share in cash.

Pursuant to Rule 2.1 of the Takeovers Code, the Independent Board Committee, comprising all the independent non-executive Directors, being Mr. Werner Peter VAN ECK, Dr. Shou Kang CHEN and Ms. Keet Yee LAI, has been established to make a recommendation to the Offer Shareholders as to whether the terms of the Offer are fair and reasonable and as to acceptance of the Offer. Mr. Alain PERROT, being a non-executive Director, has a cash-settled derivative interest in NHPEA IV Home Control Netherlands B.V. by way of an agreement between him and Morgan Stanley Private Equity Asia IV, L.L.C. Accordingly, Mr. Alain PERROT is not considered independent to be a member of the Independent Board Committee. Mr. Wei ZHOU and Mr. Ewing FANG, being non-executive Directors, are currently employed for private equity investment business by Morgan Stanley Asia Limited, which is the Asian branch of Morgan Stanley. Meanwhile, the Seller is held by a fund managed by the private equity arm of Morgan Stanley. Accordingly, each of Mr. Wei ZHOU and Mr. Ewing FANG is not considered independent to be a member of the Independent Board Committee. We, Rainbow Capital, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee in the same regard and such appointment has been approved by the Independent Board Committee in accordance with Rule 2.1 of the Takeovers Code.

We are not associated or connected financially or otherwise with the Company, the Seller, the Offeror, the Offeror Concert Parties, their respective substantial shareholders and professional advisers, or any party acting, or presumed to be acting, in concert with any of them. In the last two years prior to the commencement of the Offer Period, there was no engagement or connection between the Group, the Seller, the Offeror, or the Offeror Concert Parties on one hand and us on the other hand. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, the Seller, the Offeror, the Offeror Concert Parties, their respective substantial shareholders and financial or other professional advisers, or any party acting, or presumed to be acting, in concert with any of them. Accordingly, we are considered eligible to give independent advice to the Independent Board Committee in respect of the Offer.

BASIS OF OUR OPINION

In formulating our opinion and advice, we have considered, among other things, (i) the information and facts contained or referred to in this Composite Document; (ii) the annual reports of the Company for the two years ended 31 December 2024 (the “**2023 Annual Report**” and “**2024 Annual Report**”, respectively); (iii) the information and opinions provided by the Directors and the management of the Group; and (iv) our review of the relevant public information. We have assumed that all the information provided and representations and opinions expressed to us or contained or referred to in this Composite Document were true, accurate and complete in all material respects as at the date thereof and may be relied upon. We have also assumed that all statements contained and representations made or referred to in this Composite Document are true in all material respects at the time they were made and continue to be true in all material

respects as at the Latest Practicable Date and all such statements of belief, opinions and intentions of the Directors and the management of the Group and those as set out or referred to in this Composite Document were reasonably made after due and careful enquiry. We have no reason to doubt the truth, accuracy and completeness of such information and representations provided to us by the Directors and the management of the Group. We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided and referred to in this Composite Document and that all information or representations provided to us by the Directors and the management of the Group are true, accurate, complete and not misleading in all material respects at the time they were made and continued to be so until the Latest Practicable Date.

Shareholders will be informed by the Company and us as soon as possible if there is any material change to the information disclosed in this Composite Document during the Offer Period, in which case we will consider whether it is necessary to revise our opinion and inform the Independent Board Committee and the Shareholders accordingly.

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

We have not considered the tax and regulatory implications on the Offer Shareholders of acceptance or non-acceptance of the Offer since these depend on their individual circumstances. In particular, the Offer Shareholders who are residents overseas or subject to overseas taxes or Hong Kong taxation on securities dealings should consider their own tax positions and, if in any doubt, should consult their own professional advisers.

PRINCIPAL TERMS OF THE OFFER

Emperor Corporate Finance is, for and on behalf of the Offeror and in compliance with the Takeovers Code, making the Offer to acquire all the Offer Shares (other than those already owned or agreed to be acquired by the Offeror, its ultimate beneficial owners and parties acting in concert with any of them) on the following basis:

Offer Price for each Offer Share HK\$0.616 in cash

The Offer Price of HK\$0.616 per Offer Share under the Offer is no less favourable than the Consideration per Sale Share of approximately HK\$0.6133 paid by the Offeror under the SPA. For the avoidance of doubt, the Offer Price will not be affected by any deduction to the Consideration that may be made pursuant to the Consideration Adjustment.

The Offer is unconditional in all respects, and is extended to all Offer Shareholders. The Offer Shares to be acquired under the Offer shall be fully paid and free from all Encumbrances and together with all rights and benefits attaching to them as at the date of the Composite Document or subsequently becoming attached to them, including but not limited to the right to receive all dividends, distributions and any return of capital, if any, which may be paid, made or declared or agreed to be made or paid thereon or in respect thereof on or after the date on which the Offer are made, being the date of the Composite Document.

The Company confirms that as at the Latest Practicable Date, save for the 2024 Final Dividend, (i) it has not declared any dividend which is outstanding and not yet paid; and (ii) it does not have any intention to make, declare or pay any future or make other distributions until the close of the Offer. The record date for the 2024 Final Dividend was 8 July 2025 and its expected payment date is on or around 22 August 2025. The Offeror will not reduce the Offer Price per Offer Share by the 2024 Final Dividend per Share.

The Offeror will not increase the Offer Price as set out above. Shareholders and potential investors should be aware that, following the making of this statement, the Offeror will not be allowed to increase the Offer Price and the Offeror does not reserve the right to increase the Offer Price.

Further details of the Offer including, among other things, the expected timetable and the terms and procedures for acceptance of the Offer are set out in the sections headed “Expected timetable”, “Letter from Emperor Corporate Finance” and “Further Terms and Procedures for Acceptance of the Offer” to this Composite Document and the Form of Acceptance.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation with regard to the Offer, we have taken into account the following principal factors and reasons:

1. Background information of the Group

The Group is a globally leading home control solution provider headquartered in Singapore with worldwide presence in North America, Europe, Asia and Latin America. Under the brand “Omni Remotes”, the Group is principally engaged in the provision of solutions for sensing and control technologies marketed in the smart home automation, consumer electronics and set-top-box segments.

Set out below is a summary of the consolidated financial information of the Group for the years ended 31 December 2022, 2023 and 2024 (“FY2022”, “FY2023” and “FY2024”, respectively) as extracted from the 2023 Annual Report and the 2024 Annual Report:

(i) *Financial performance*

	FY2022 <i>US\$'000</i> <i>(audited)</i>	FY2023 <i>US\$'000</i> <i>(audited)</i>	FY2024 <i>US\$'000</i> <i>(audited)</i>
Revenue	126,560	101,008	107,452
Cost of sales	(98,942)	(77,697)	(76,601)
Gross profit	27,618	23,311	30,851
Other income	286	153	253
Selling and distribution expenses	(7,184)	(6,432)	(7,297)
Administrative expenses	(10,869)	(12,026)	(12,027)
(Provision for)/reversal of impairment loss:			
– Trade receivables	(248)	(192)	77
– Financial asset at amortised cost	(208)	–	(3,229)
Other expenses	(1,988)	(4,274)	(3,561)
Finance costs – net	(1,272)	(2,103)	(853)
Profit/(loss) before tax	6,135	(1,563)	4,214
Income tax expense	(1,560)	(56)	(1,706)
Profit/(loss) attributable to the Shareholders	4,575	(1,619)	2,508

FY2023 as compared to FY2022

The Group's revenue decreased by approximately 20.2% from approximately US\$126.6 million for FY2022 to approximately US\$101.0 million for FY2023, primarily attributable to the high customer inventories as a result of slower-than-expected economic recovery worldwide.

In line with the decrease in revenue, the Group's gross profit decreased by approximately 15.6% from approximately US\$27.6 million for FY2022 to approximately US\$23.3 million for FY2023.

The Group recorded a change from profit attributable to the Shareholders of approximately US\$4.6 million for FY2022 to loss attributable to the Shareholders of approximately US\$1.6 million for FY2023. Such change was primarily attributable to (a) the decrease in revenue and gross profit as mentioned above; (b) the increase in administrative expenses by approximately US\$1.2 million mainly due to the reversal of IT service accrual of approximately US\$1.1 million for FY2022 that did not recur for FY2023; (c) the increase in other expenses by approximately US\$2.3 million as a result of the incurrence of restructuring and severance losses of approximately US\$2.5 million in 2023; and (d) the increase in net finance costs by approximately US\$0.8 million mainly due to the increase in interest on bank loans and the increase in modification loss on financial assets at amortised cost.

FY2024 as compared to FY2023

The Group's revenue increased by approximately 6.4% from approximately US\$101.0 million for FY2023 to approximately US\$107.5 million for FY2024, primarily attributable to an increase in revenue from the Europe and North America regions, driven by the Group's growing sales efforts.

In line with the increase in revenue and the sales of products with higher margins, the Group's gross profit increased by approximately 32.3% from approximately US\$23.3 million for FY2023 to approximately US\$30.9 million for FY2024.

The Group recorded a turnaround from loss attributable to the Shareholders of approximately US\$1.6 million for FY2023 to profit attributable to the Shareholders of approximately US\$2.5 million for FY2024. Such turnaround was primarily attributable to (a) the increase in revenue and gross profit as mentioned above; and (b) the decrease in net finance costs by approximately US\$1.3 million mainly due to the decrease in interest on bank loans and the decrease in modification loss on financial assets at amortised cost, which was partially offset by the increase in provision for impairment loss of financial asset at amortised cost of approximately US\$3.2 million.

(ii) *Financial position*

	As at 31 December		
	2022	2023	2024
	US\$'000	US\$'000	US\$'000
	(audited)	(audited)	(audited)
Non-current assets, including:	16,475	12,509	11,356
– Property, plant and equipment and right-of-use assets	4,338	2,775	2,255
– Goodwill	8,877	8,877	8,877
– Financial asset at amortised costs	3,229	–	–
Current assets, including:	63,892	58,227	57,135
– Financial asset at amortised cost	–	3,229	–
– Inventories	17,466	11,135	13,371
– Trade receivables	30,338	26,251	23,575
– Cash and cash equivalents	15,317	16,872	19,443
Total assets	80,367	70,736	68,491
Current liabilities, including:	39,010	36,363	42,808
– Trade payables	24,572	27,711	28,656
– Other payables and accruals	3,772	4,152	6,325
– Interest-bearing bank loans	8,534	3,834	6,171
Net current assets	24,882	21,864	14,327
Non-current liabilities, including:	17,053	11,562	510
– Interest-bearing bank loans	16,006	11,171	–
– Lease liabilities	397	114	165
Total liabilities	56,063	47,925	43,318
Equity attributable to the Shareholders	24,304	22,811	25,173

As at 31 December 2024, total assets of the Group amounted to approximately US\$68.5 million, mainly consisting of (a) goodwill of approximately US\$8.9 million; (b) inventories of approximately US\$13.4 million, which represented raw materials, work-in-progress and finished goods of the Group's home control solution products; (c) trade receivables of approximately US\$23.6 million; and (d) cash and cash equivalents of approximately US\$19.4 million.

As at 31 December 2024, total liabilities of the Group amounted to approximately US\$43.3 million, mainly consisting of (a) trade payables of approximately US\$28.7 million; (b) other payables and accruals of approximately US\$6.3 million, which primarily represented payroll and welfare accruals and other accrued operating expenses; and (c) interest-bearing bank loans of approximately US\$6.2 million which were secured, bear interest at SOFR plus 2.5% and will be matured on March and September 2025.

As the Group's bank loans come to its maturity (i.e. moving from non-current liabilities to current liabilities) with time, the Group's net current assets decreased from approximately US\$24.9 million as at 31 December 2022 to approximately US\$14.3 million as at 31 December 2024. Nevertheless, with the Group's improved profitability, its financial position has improved and its equity attributable to the Shareholders increased from approximately US\$24.3 million as at 31 December 2022 to approximately US\$25.2 million as at 31 December 2024.

(iii) Overall comment

As a result of the automation and improved cost management measures adopted by the Group as well as the greater efficiency and material savings and a product mix with higher margins, the Group's financial performance had improved in FY2024 as evidenced by the increased revenue and gross profit and the turnaround from net loss to net profit. In addition, the Group's total borrowings (i.e. interest-bearing bank loans) decreased from approximately US\$24.5 million as at 31 December 2022 to approximately US\$6.2 million as at 31 December 2024 while the Group's cash and cash equivalents increased from approximately US\$15.3 million as at 31 December 2022 to approximately US\$19.4 million as at 31 December 2024.

In addition, as disclosed in the 2024 Annual Report, while the Group will continue to take steps in cost management, it plans to expand its sales force to diversify into several adjacent spaces of the business, improve its supply chain to support the existing business and the ongoing diversification and continue to invest in research and development, particularly innovations in the areas of sustainability, Internet of Things, and other new business segments.

Given (a) the significant improvement in the Group's financial results for FY2024; and (b) the positive outlook for the global smart home automation market in the coming years as discussed in the section headed "2. Industry overview" below, we consider that the prospects of the Group's global home control solution services business remain positive and therefore we recommend the Independent Board Committee to advise, and we ourselves advise, the Offer Shareholders to not accept the Offer.

2. Industry overview

The Group is a globally leading home control solution provider headquartered in Singapore with worldwide presence in North America, Europe, Asia and Latin America. Under the brand "Omni Remotes", the Group is principally engaged in the provision of solutions for sensing and control technologies marketed in the smart home automation, consumer electronics and set-top-box segments. With reference to the 2024 Annual Report, North America and Europe are the two largest geographical locations of the Group's customers, which in aggregate accounted for approximately 66.8% and 79.9% of the Group's revenue for FY2023 and FY2024, respectively.

According to Precedence Research (source: <https://www.precedenceresearch.com/smart-home-automation-market>), a leading market intelligence, research, and consulting firm based in Canada and India, providing data-driven insights and strategic analysis across industries, the market size of global smart home automation market was approximately US\$104.4 billion in 2024, among which North America and Europe led the top two global smart home automation markets with market shares of approximately 37% and 29% in 2024, respectively. Primarily driven by (i) the rising consumers' demand for convenience, energy efficiency, enhanced security and overall quality of life; (ii) the advancements in wireless technologies and IoT connectively; and (iii) the growing adoption of voice assistant technology, the market size of global smart home automation market is expected to reach at approximately US\$1,149.0 billion by 2034, representing a cumulative annual growth rate of approximately 27.1% from 2024 to 2034.

In addition, the recent progress in artificial intelligence ("AI"), particularly through machine learning and computer vision, has shown great promise in enhancing the performance of the global smart home automation market. Technological trends, such as AI machine learning, computer vision, etc., are expected to study and improve building performance, optimise resource consumption, and increase comfort and cost efficiency for residents, therefore stimulating demand for production in the market.

Taking into account (i) the expected robust growth of the global smart home automation market from 2024 to 2034; and (ii) the two largest geographical locations of the Group's customers for FY2023 and FY2024 are the top two global smart home automation markets in 2024, we consider the global smart home automation market in the coming years to be positive.

3. Information on the Offeror and its intention regarding the Group

Details on the information on the Offeror and its intention regarding the Group are set out in the sections headed “Information on the Offeror” and “Intentions of the Offeror in relation to the Group” in the “Letter from Emperor Corporate Finance” in this Composite Document, which are summarised as follows:

(i) Information on the Offeror

The Offeror is incorporated in the BVI with limited liability on 26 April 2023. The Offeror is an investment holding company and its issued share capital is beneficially owned as to 1% by Wisdom Tech Innovation Limited and 99% by O-sycamore Holdings Limited.

Wisdom Tech Innovation Limited is an investment holding company wholly-owned by Mr. Yang.

O-sycamore Holdings Limited is an investment holding company wholly-owned by the Thomethan Settlement. The Thomethan Settlement is a discretionary trust established by Mr. Yang as settlor, the discretionary beneficiaries of which are family members of Mr. Yang. Trident Trust Company (HK) Limited, a professional trustee, and Mr. Peter Stocker, a professional trust protector, are the trustee and protector of the Thomethan Settlement, respectively.

Mr. Yang is the sole director of the Offeror.

The reason for the Offeror to acquire the Sale Shares is that Mr. Yang (an indirect shareholder and the sole director of the Offeror) is optimistic about the prospects of the Company and the business of the provision of solutions for sensing and control technologies marketed in the smart home automation, consumer electronics and set-top-box segment, and considered that the Transaction could improve his investment portfolio to achieve long-term value and returns.

(ii) Intention of the Offeror regarding the Group

(a) Business

As set out in the “Letter from Emperor Corporate Finance” in this Composite Document, the Offeror intends that the Group will continue to operate its existing business, subject to the detailed review of the financial position and business operations of the Group to be conducted by the Offeror after the close of the Offer for the purpose of formulating a long-term strategy for the Group and exploring other business/investment opportunities for enhancing its future development and strengthening its revenue bases.

The Offeror has no intention to make significant changes to the continued employment of the employees of the Group as a result of the Offer (save as disclosed in the sub-section headed “(b) Board composition” below) or to dispose of or redeploy the fixed assets of the Group other than in the ordinary course of business.

(b) Board composition

As at the Latest Practicable Date, the Board is made up of one executive Director, being Mr. Kwok Hoong SIU, three non-executive Directors, being Mr. Alain PERROT, Mr. Wei ZHOU and Mr. Ewing FANG, and three independent non-executive Directors, being Mr. Werner Peter VAN ECK, Dr. Shou Kang CHEN and Ms. Keet Yee LAI.

Pursuant to the SPA, the Seller had procured each of Mr. Wei ZHOU and Mr. Ewing FANG (together, the “**Resigning Directors**”) to give, and each of the Resigning Directors has given, notice to: (1) resign as non-executive Directors, with effect from the earliest time permitted under the Takeovers Code or by the SFC. Each of the Resigning Directors had confirmed that he had no disagreement with the Board and there was no matter relating to his resignation that needed to be brought to the attention of the Shareholders; and (2) resign as directors of HCIL Master Option Limited and Home Control Singapore Pte. Ltd., both being subsidiaries of the Company, with effect from the Completion Date.

As the Offer is unconditional in all respects, under Rule 7 of the Takeovers Code, except with the consent of the Executive, the earliest time permitted for the Resigning Directors’ resignations as non-executive Directors to take effect is after the publication of the closing announcement on the Closing Date of the Offer, which is currently expected to be published on the website of the Stock Exchange by no later than 7:00 p.m. on Tuesday, 5 August 2025.

To facilitate the business operation, management and strategy of the Group, the Offeror had nominated Mr. Yang as executive Director and Ms. Ma as non-executive Director. The Board had approved such nominations, and the aforesaid appointments of Mr. Yang and Ms. Ma shall take effect from the earliest time as permitted under the Takeovers Code or by the SFC. Under Rule 26.4 of the Takeovers Code, except with the consent of the Executive, the earliest time permitted for the appointments of Mr. Yang as executive Director and Ms. Ma as non-executive Director to take effect is after the Composite Document has been posted. A further announcement will be made after the appointments of Mr. Yang as executive Director and Ms. Ma as non-executive Director have taken effect.

The biographies of Mr. Yang and Ms. Ma are set out in the sub-section headed “Intention of the Offeror in relation to the Group – Changes to the composition of the Board – Appointment” in the “Letter from Emperor Corporate Finance” in this Composite Document. Taking into account (1) Mr. Yang’s knowledge and deep understanding in sensor technologies, artificial intelligence (AI)-driven data analytics, and Internet of Things (IoT) integration, which are directly applicable to smart home automation and connected devices and could provide valuation connections to the Group; and (2) Ms. Ma’s background as a research librarian (same level as professor) and involvement in investment activities which is expected to identify emerging trends in the Group’s businesses and bring financial acumen and business networks to the Group, we consider that Mr. Yang and Ms. Ma will bring complementary expertise and networks that can enhance the Group’s business.

(c) Maintenance of the Company’s listing status

As stated in “Letter from Emperor Corporate Finance” in this Composite Document, the Offeror intends the Company to remain listed on the Stock Exchange. The sole director of the Offeror (namely Mr. Yang) and the new directors to be appointed to the Board (namely Mr. Yang and Ms. Ma) will jointly and severally undertake to the Exchange to take appropriate steps to ensure that sufficient public float as required under the Listing Rules exists in the Shares after the close of the Offer.

4. Offer Price comparison

The Offer Price of HK\$0.616 per Offer Share represents:

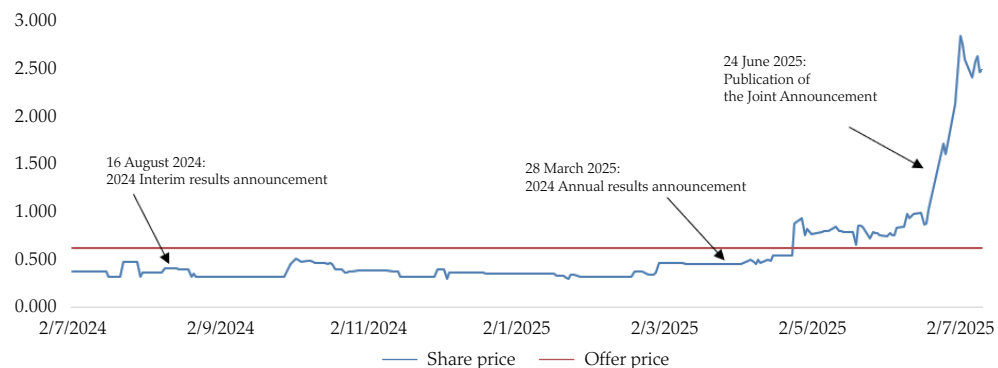
- (i) a discount of 75.16% to the closing price of HK\$2.480 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a discount of 39.61% to the closing price of HK\$1.020 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a discount of 35.02% to the average closing price of HK\$0.948 per Share as quoted on the Stock Exchange for the last five (5) consecutive trading days up to and including the Last Trading Day;
- (iv) a discount of 33.55% to the average closing price of HK\$0.927 per Share as quoted on the Stock Exchange for the last ten (10) consecutive trading days up to and including the Last Trading Day;

- (v) a discount of 25.87% to the average closing price of approximately HK\$0.831 per Share as quoted on the Stock Exchange for the last thirty (30) consecutive trading days up to and including the Last Trading Day; and
- (vi) a premium of 58.97% over the audited consolidated net asset value of the Company of US\$0.0497 (equivalent to approximately HK\$0.3875 based on an exchange rate of US\$1 to HK\$7.8) per Share as at 31 December 2024, being the date to which the latest audited consolidated annual results of the Group were made up and 506,650,000 Shares in issue as at the Latest Practicable Date.

5. Trading performance of the Shares

(i) *Historical Share price performance*

Set out below is a chart showing the movement of the closing prices of the Shares as quoted on the Stock Exchange from 1 July 2024 to the Last Trading Day (i.e. 19 June 2025) (the “**Review Period**”), being approximately one year preceding the Last Trading Day, and up to the Latest Practicable Date. We consider the Review Period is adequate to reflect the general market sentiment and illustrates the general trend and level of movement of the daily closing price of the Shares.



Source: the website of the Stock Exchange

As shown above, the closing prices of the Shares were below the Offer Price during the period from 2 July 2024 to 24 April 2025, ranging from HK\$0.295 to HK\$0.540. The closing price of the Shares surged to HK\$0.880 on 25 April 2025 and then fluctuated between HK\$0.65 and HK\$0.99 during the period from 25 April 2025 to 18 June 2025. The aforesaid increase in the closing price of the Shares may be caused by publication of the Group's annual results and the turnaround of the Group's financial performance for FY2024. The Share price closed at HK\$1.02 on the Last Trading Day, to which the Offer Price represents a discount of approximately 39.61%.

Following the publication of the Joint Announcement, the Share price surged to HK\$1.71 on 25 June 2025 and remained above the Offer Price as at the Latest Practicable Date. The Share price closed at HK\$2.480 as at the Latest Practicable Date, to which the Offer Price represents a discount of approximately 75.16%. We have made enquiries with the management of the Company and concur that save as the publication of the Joint Announcement, the Company and we are not aware of any information that caused the surge in the Share price between 25 June 2025 and up to the Latest Practicable Date.

Taking into account the discounts represented by the Offer Price to the closing prices of the Shares on the Last Trading Day and the Latest Practicable Date and the average closing prices of the Shares for the last 5, 10 and 30 consecutive trading days up to and including the Last Trading Day, we consider that the Offer Price is not fair and reasonable so far as the Offer Shareholders are concerned.

(ii) Liquidity of the Shares

The following table sets out the average daily trading volume of the Shares for each month or period and the percentages of such average daily trading volume to the total number of Shares in issue and held by the public during the Review Period and up to the Latest Practicable Date.

			Approximate percentage of average daily trading volume to total number of Shares held by the public (Note 3)
	Number of trading days (Note 1)	Approximate average daily trading volume	Approximate percentage of average daily trading volume to total number of Shares in issue (Note 2)
2024			
July	22	2,818	0.0006%
August	22	67,727	0.0134%
September	19	15,263	0.0030%
October	21	34,000	0.0067%
November	21	10,381	0.0020%
December	20	800	0.0002%
2025			
January	19	15,368	0.0030%
February	20	20,500	0.0040%
March	21	7,810	0.0015%
April	19	186,000	0.0367%
May	20	61,600	0.0122%
From 1 June to the Last Trading Day	14	290,286	0.0573%
From 25 June to 30 June	4	14,079,000	2.7788%
From 1 July to the Latest Practicable Date	8	3,245,463	0.6406%

Source: the website of the Stock Exchange

Notes:

1. Number of trading days of the Shares represents number of trading days during the month or period which excludes any trading day on which trading of the Shares on the Stock Exchange was suspended.
2. Based on the total number of the Shares in issue at the end of each month or period as disclosed in the monthly returns of the Company.
3. Based on the number of Shares held by public Shareholders as calculated by deducting the Shares held by the Seller and the Directors from the total number of the Shares in issue at the end of each month or period.

As illustrated in the table above, the trading of the Shares was generally inactive during the Review Period. The average daily trading volume for the respective month during the Review Period ranged from approximately 800 Shares in December 2024 to approximately 290,286 Shares in the period from 1 June 2025 to the Last Trading Day, representing approximately 0.0002% to 0.0573% of the total number of the Shares in issue and approximately 0.0006% to 0.2235% of the total number of the Shares held by the public, respectively.

Following the publication of the Joint Announcement, the average daily trading volume increased to approximately 14,079,000 Shares for the period from 25 June 2025 to 30 June 2025 and approximately 3,245,463 Shares for the period from 1 July 2025 to the Latest Practicable Date. Given the high trading volume of the Shares following the publication of the Joint Announcement, we consider that there is sufficient liquidity in the Shares for the Offer Shareholders who would like to dispose of the Shares on the open market.

6. Comparable analysis

The Group is principally engaged in the provision of solutions for sensing and control technologies marketed in the smart home automation, consumer electronics and set-top-box segments. For FY2024, the Group generated approximately 39.6% and 40.3% of its total revenue from North America and Europe, respectively.

Price-to-earnings (“**P/E(s)**”), price-to-book (“**P/B(s)**”) and price-to-sale (“**P/S(s)**”) are the three most commonly used benchmarks in valuing a company. Given (i) the Group was profit making for FY2024; (ii) the Group recorded net assets position as at 31 December 2024; and (iii) the Group’s revenue remained stable in FY2023 and FY2024, we consider that each of P/E, P/B and P/S is appropriate in valuing the Group. Based on (i) the Offer Price of HK\$0.616 per Offer Share; (ii) 506,650,000 Shares in issue on the Last Trading Day; (iii) the revenue of approximately US\$107.5 million and the net profit of approximately US\$2.5 million for FY2024, and the net assets of approximately US\$25.2 million as at 31 December 2024; and (iv) the exchange rate of US\$1 to HK\$7.8, the P/S, the P/E and the P/B implied by the Offer Price are approximately 0.4 time (the “**Implied P/S**”), 16.0 times (the “**Implied P/E**”) and 1.6 times (the “**Implied P/B**”), respectively.

In evaluating the fairness and reasonableness of the Offer Price, we have, based on our search on Bloomberg, identified an exhaustive list of company (the “Comparable Company”) which is principally engaged in sales of home remote control products in North America and Europe, which accounted for over 40% of its revenue, which is comparable to that of the Group for the most recent financial year. Based on the aforesaid criteria, we only identified one Comparable Company. We have tried to widen our selection criteria to include companies engaged in sales of home remote control products which generate revenue mainly from other regions, such as the PRC. In this regard, we have identified one more company, namely Guangdong Seneasy Intelligent Technology Co., Ltd. (301578.CH) (“Guangdong Seneasy”). Guangdong Seneasy is listed on the ChiNext market of the Shenzhen Stock Exchange, with a P/S, P/E and P/B ratio of approximately 3.1 times, 57.4 times and 2.9 times respectively on the Last Trading Day, which are far higher than those of the Company and the Comparable Company. We consider that it is mainly due to the high valuation of the ChiNext market of the Shenzhen Stock Exchange, where the listed manufacturing companies had a median P/E of approximately 49.3 times on the Last Trading Day (https://www.cnindex.com.cn/eng/analytics/sector_pe/index.html?act_menu=3). As such, we consider it inappropriate to include Guangdong Seneasy in our analysis.

The following table set out the details of the Comparable Company:

Company name (stock code)	Principal activities	Market capitalisation as at the Last Trading Day (HK\$ million)	P/S (times)	P/E (times)	P/B (times)
Universal Electronics Inc. (UEIC.US)	Universal Electronics Inc. manufactures and markets preprogrammed universal wireless remote controls, wireless keyboards, and gaming controls principally for home video and audio entertainment equipment.	697.5	0.2 (Note 1)	Not applicable (Note 1)	0.6 (Note 1)
The Company		516.8	0.4 (Note 2)	16.0 (Note 2)	1.6 (Note 2)

Source: Bloomberg and financial reports of the Comparable Company

Notes:

1. Being the P/S and the P/B of the Comparable Company on the Last Trading Day. The Comparable Company recorded net loss for FY2024;
2. Being the Implied P/S, the Implied P/E and the Implied P/B.

As shown in the table above, the Implied P/S of 0.4 time and the Implied P/B of 1.6 times are higher than those of the Comparable Company. However, the Offer Shareholders should note that the Comparable Company recorded net loss for FY2023 and FY2024 and its share price decreased from US\$22.36 on 2 January 2023 to US\$6.79 on the Last Trading Day, which we consider to be mainly due to its deteriorating financial performance in the past three years. As such, we consider that the comparison of the P/S and the P/B may not accurately reflect the Group's profitability of which the Offer Shareholders are concerned. Additionally, since only one Comparable Company is included in the above analysis, the trading multiples of the Comparable Company are displayed for illustrative purposes only. Offer Shareholders should place more weight on our other analysis in this letter.

RECOMMENDATION

We consider that the Offer, including the Offer Price of HK\$0.616 per Offer Share, is not fair and reasonable so far as the Offer Shareholders are concerned after taking into account the above principal factors and reasons as a whole, in particular:

- (i) as a result of the automation and improved cost management measures adopted by the Group as well as the greater efficiency and material savings and a product mix with higher margins, the Group's financial performance had improved in FY2024 as evidenced by the increased revenue and gross profit and the turnaround from net loss to net profit. In addition, the Group's total borrowings (i.e. interest-bearing bank loans) decreased from approximately US\$24.5 million as at 31 December 2022 to approximately US\$6.2 million as at 31 December 2024 while the Group's cash and cash equivalents increased from approximately US\$15.3 million as at 31 December 2022 to approximately US\$19.4 million as at 31 December 2024. Given (a) the significant improvement in the Group's financial results for FY2024; and (b) the positive outlook for the global home control solution services market in the coming years as discussed in the section headed "2. Industry overview" above, we consider that the prospects of the Group's global home control solution services business remain positive;
- (ii) the Offer Price represents the discounts of 39.61%, 75.16%, 35.02%, 33.55% and 25.87% to the closing prices of the Shares on the Last Trading Day and the Latest Practicable Date and the average closing prices of the Shares for the last 5, 10 and 30 consecutive trading days up to and including the Last Trading Day, respectively; and
- (iii) the high trading volume of the Shares following the publication of the Joint Announcement provides sufficient liquidity in the Shares for the Offer Shareholders who would like to dispose of the Shares on the open market.

Accordingly, we recommend the Independent Board Committee to advise, and we ourselves advise, the Offer Shareholders to not accept the Offer. However, in the event that the market price of the Shares drops below the Offer Price during the Offer Period and the sale proceeds (net of transaction costs) drops below the net proceeds receivable under the Offer, the Offer Shareholders who wish to realise their investments in the market should consider accepting the Offer.

Yours faithfully,
For and on behalf of
Rainbow Capital (HK) Limited

A handwritten signature in black ink, appearing to read 'Danny Leung', with a stylized, cursive script.

Danny Leung
Managing Director

Mr. Danny Leung is a licensed person and a responsible officer of Rainbow Capital (HK) Limited registered with the Securities and Futures Commission to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO. He has over 10 years of experience in the corporate finance industry.