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SMIT HOLDINGS LIMITED

國微控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2239)

MAJOR TRANSACTION

**DISPOSAL OF EQUITY INTEREST IN SMIT XINTECH
AND
INTRODUCTION OF THE EMPLOYEE SHAREHOLDING PLATFORMS
BY SMIT XINTECH**

Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed “Definitions” in this circular.

A letter from the Board is set out on pages 4 to 16 of this circular.

The Equity Transfers have been approved by way of written shareholders’ approval pursuant to Rule 14.44 of the Listing Rules in lieu of a general meeting of the Company. This Circular is being despatched to the Shareholders for information only.

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DEFINITIONS

This document has both English and Chinese versions. Should there be any inconsistency between the Chinese and English versions, the English version shall prevail.

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

“Board”	the board of Directors
“Business Day(s)”	a day other than a Saturday, Sunday or public holiday in Hong Kong, when banks in Hong Kong are generally open for business
“Company”	SMIT Holdings Limited (國微控股有限公司), a 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: 2239)
“Completion”	the completion of the Equity Transfer Agreements including the completion of the relevant company registration process in the PRC, which took place on 14 October 2022
“Director(s)”	the director(s) of the Company from time to time
“EDA”	electronic design automation
“Equity Transfers”	the transfer of a total of RMB420 million of Non-paid-up Equity Interest in SMIT Xintech from SMIT Shenzhen to the Investors and the Employee Shareholding Platforms in accordance with the terms of the Equity Transfer Agreements
“Equity Transfer Agreements”	the seven equity transfer agreements dated 23 September 2022 entered into by SMIT Shenzhen with each of the Investors and the Employee Shareholding Platforms respectively in relation to the Equity Transfers
“Employee Shareholding Platforms”	Employee Shareholding Platform A, Employee Shareholding Platform B and Employee Shareholding Platform C
“Employee Shareholding Platform A”	Shenzhen Xinsheng Software Limited Partnership* (深圳芯盛軟件合夥企業(有限合夥)), a limited partnership established in the PRC
“Employee Shareholding Platform B”	Shenzhen Xinqi Software Limited Partnership* (深圳芯啟軟件合夥企業(有限合夥)), a limited partnership established in the PRC
“Employee Shareholding Platform C”	Shenzhen Xincheng Software Limited Partnership* (深圳芯承軟件合夥企業(有限合夥)), a limited partnership established in the PRC

DEFINITIONS

“Ever Expert”	Ever Expert Holdings Limited, a company incorporated in British Virgin Islands with limited liability
“Gaowu Tianxuan”	Guangdong Gaowu Tianxuan Equity Investment Limited Partnership* (廣東高梧天璇股權投資合夥企業(有限合夥)), a limited partnership established in the PRC, one of the Investors
“Group”	the Company and its subsidiaries
“Guangdong Lifeng Boxin”	Guangdong Lifeng Boxin VC Limited Partnership* (廣東立豐博芯創業投資合夥企業(有限合夥)), a limited partnership established in the PRC, one of the Investors
“Independent Third Party”	a party who is not connected person of the Company and is a third party independent of the Company and the connected persons of the Company
“Investors”	Guangdong Lifeng Boxin, Shunzhitong, Gaowu Tianxuan and Xinqihang
“Latest Practicable Date”	26 October 2022 being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Huang”	Mr. Huang Xueliang (黃學良), the chairman, chief executive officer, executive Director and controlling shareholder of the Company
“PRC”	the People’s Republic of China, which for the purpose of this circular excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“PRC GAAP”	the generally accepted accounting principles in the PRC
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	shareholder(s) of the Company
“Shareholders’ Agreement”	a shareholders’ agreement dated 23 September 2022 entered into by the parties to the Equity Transfer Agreements to govern in relation to, among other matters, the affairs, business and management of SMIT Xintech, the relationship, the rights and obligations among the shareholders of SMIT Xintech

DEFINITIONS

“Shunzhitong”	Gongqingcheng Shunzhitong VC Limited Partnership* (共青城順之通創業投資合夥企業(有限合夥)), a limited partnership established in the PRC, one of the Investors
“SMIT Shenzhen”	SMIT Group Limited (國微集團(深圳)有限公司), a company established under the laws of the PRC with limited liability and a wholly-owned subsidiary of the Company
“SMIT Xintech”	Shenzhen SMIT Xintech Co., Ltd.* (深圳國微芯科技有限公司), a company established under the laws of the PRC with limited liability and, immediately prior to Completion, a wholly-owned subsidiary of the Company
“SMIT Xintech Group”	SMIT Xintech and its subsidiaries and associated company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Xinqihang”	Shenzhen Xinqihang VC Limited Partnership* (深圳芯起航創業投資合夥企業(有限合夥)), a limited partnership established in the PRC, one of the Investors
“%”	per cent.

In this circular, unless the context requires otherwise, the terms “associate(s)”, “connected person(s)”, “percentage ratio(s)”, “substantial shareholder(s)” and subsidiary(ies)”, shall have the meaning given to such terms in the Listing Rules.

* for identification purpose only

LETTER FROM THE BOARD



SMIT HOLDINGS LIMITED

國微控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2239)

Executive Directors:

Mr. Huang Xueliang (*Chairman and
chief executive officer*)

Mr. Loong, Manfred Man-tsun

Non-executive Directors:

Mr. Kwan, Allan Chung-yuen

Mr. Cai Jing

Independent Non-executive Directors:

Mr. Zhang Junjie

Mr. Woo Kar Tung, Raymond

Mr. Jin Yufeng

Registered office:

Maples Corporate Services Limited

PO Box 309, Umland House

Grand Cayman, KY1-1104

Cayman Islands

*Headquarters and principal place of
business in Hong Kong*

1/F, Harbour View 2

16 Science Park East Avenue

Hong Kong Science Park Shatin

New Territories

Hong Kong

31 October 2022

To the Shareholders

Dear Sir or Madam,

**MAJOR TRANSACTION
DISPOSAL OF EQUITY INTEREST IN SMIT XINTECH
AND INTRODUCTION OF THE EMPLOYEE SHAREHOLDING
PLATFORMS BY SMIT XINTECH**

INTRODUCTION

The Board is pleased to announce that on 23 September 2022, SMIT Shenzhen (a wholly-owned subsidiary of the Company) and SMIT Xintech (a wholly-owned subsidiary of the SMIT Shenzhen), entered into the Equity Transfer Agreements with each of the Investors and the Employee Shareholding Platforms, pursuant to which SMIT Shenzhen would conditionally transfer an aggregate of approximately 51.22% equity interest of SMIT Xintech to the Investors and the Employee Shareholding Platforms.

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THE EQUITY TRANSFER AGREEMENTS

The principal terms of the Equity Transfer Agreements are set out as follows:

1. Date: 23 September 2022
2. Parties:
 - (i) SMIT Xintech (as the target company);
 - (ii) SMIT Shenzhen (as transferor); and
 - (iii) the Investors and the Employee Shareholding Platforms (each as transferee)

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, the Investors, the Employee Shareholding Platforms and their respective ultimate beneficial owners are Independent Third Parties.

Equity Transfers

Immediately prior to Completion, the registered capital of SMIT Xintech was RMB820 million, of which SMIT Shenzhen had (i) paid up RMB400 million in registered capital (representing approximately 48.78% equity interest) in SMIT Xintech (the "**Paid-up Equity Interest**"); and (ii) yet to pay up the remaining RMB420 million in registered capital (representing approximately 51.22% equity interest) in SMIT Xintech (the "**Non-paid-up Equity Interest**"). All of the equity interest subject to the Equity Transfers were Non-paid-up Equity Interest.

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Pursuant to the Equity Transfer Agreements, SMIT Shenzhen would, conditional upon the terms of the said agreements, transfer the Non-paid-up Equity Interest of RMB420 million (representing approximately 51.22% of the entire equity interest of SMIT Xintech) to the Investors and the Employee Shareholding Platforms as follows:

Transferees	Amount of Non-paid-up Equity Interest in SMIT Xintech (RMB)	Approximate equity interest of SMIT Xintech
Guangdong Lifeng Boxin	100 million	12.20%
Shunzhitong	15 million	1.83%
Gaowu Tianxuan	25 million	3.05%
Xinqihang	50 million	6.10%
Employee Shareholding Platform A	66.8 million	8.14%
Employee Shareholding Platform B	66.8 million	8.14%
Employee Shareholding Platform C	96.4 million	11.76%

Consideration

The aggregate consideration for the Equity Transfers is RMB420 million (the “**Consideration**”), which is payable by the Investors and the Employee Shareholding Platforms in the following manner:

- (i) Guangdong Lifeng Boxin shall assume the payment obligation of RMB100 million in registered capital payable to SMIT Xintech, corresponding to approximately 12.20% equity interest in SMIT Xintech to be acquired by Guangdong Lifeng Boxin;
- (ii) Shunzhitong shall assume the payment obligation of RMB15 million in registered capital payable to SMIT Xintech, corresponding to approximately 1.83% equity interest in SMIT Xintech to be acquired by Shunzhitong;
- (iii) Gaowu Tianxuan shall assume the payment obligation of RMB25 million in registered capital payable to SMIT Xintech, corresponding to approximately 3.05% equity interest in SMIT Xintech to be acquired by Gaowu Tianxuan;
- (iv) Xinqihang shall assume the payment obligation of RMB50 million in registered capital payable to SMIT Xintech, corresponding to approximately 6.10% equity interest in SMIT Xintech to be acquired by Xinqihang;

LETTER FROM THE BOARD

- (v) Employee Shareholding Platform A shall assume the payment obligation of RMB66.8 million in registered capital payable to SMIT Xintech, corresponding to approximately 8.14% equity interest in SMIT Xintech to be acquired by Employee Shareholding Platform A;
- (vi) Employee Shareholding Platform B shall assume the payment obligation of RMB66.8 million in registered capital payable to SMIT Xintech, corresponding to approximately 8.14% equity interest in SMIT Xintech to be acquired by Employee Shareholding Platform B; and
- (vii) Employee Shareholding Platform C shall assume the payment obligation of RMB96.4 million in registered capital payable to SMIT Xintech, corresponding to approximately 11.76% equity interest in SMIT Xintech to be acquired by Employee Shareholding Platform C.

SMIT Shenzhen would not receive any cash consideration pursuant to the Equity Transfers.

Pursuant to the Equity Transfer Agreements:

- (a) each Investor agrees to fully pay up its portion of the Consideration within three days after Completion for the relevant Equity Transfer;
- (b) in respect of their respective portion of the Consideration, each of Employee Shareholding Platform A and Employee Shareholding Platform B agrees to pay up (i) RMB50 million within three days after Completion for the relevant Equity Transfer; and (ii) the remaining amount of RMB16.8 million within one (1) year after Completion for the relevant Equity Transfer; and
- (c) in respect of its portion of the Consideration, Employee Shareholding Platform C agrees to pay up (i) RMB40 million within three days after Completion for the relevant Equity Transfer; and (ii) the remaining amount of RMB56.4 million within one (1) year after Completion for the relevant Equity Transfer.

In the event that any Employee Shareholding Platform fails to fully pay up its portion of the Consideration within the above timing as prescribed in the relevant Equity Transfer Agreement, Xinqihang has, pursuant to the Equity Transfer Agreement between SMIT Xintech, SMIT Shenzhen and Xinqihang, contractually undertaken to receive the relevant portion of the Non-paid-up Equity Interest at nil consideration whereby Xinqihang will assume the payment obligation for the portion of the Consideration relating to such overdue Non-paid-up Equity Interest. In the event of breach or default by Xinqihang of the said contractual undertaking in the Equity Transfer Agreement, each of SMIT Xintech and SMIT Shenzhen is entitled to take legal action to enforce Xinqihang's obligation to assume the above payment obligation. Furthermore, based on the Company's assessment of the financial condition of Xinqihang, and taking into account that Xinqihang is managed by ABC Yueke Investment Management (Shenzhen) Co., Ltd.* (前海亞商粵科投資管理(深圳)有限公司) (“**ABC Yueke**”), the venture capital and equity investment arm of ABC Capital, as its general partner, the Company is of the view that Xinqihang has the requisite capacity to assume the payment obligation relating to the said overdue Non-paid-up Equity Interest, if any.

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Basis for determining the consideration of the Equity Transfers

The Consideration to be paid by each of the Investors is arrived at after arm's length negotiations between the Group and the Investors taking into account, among other things, the amount of payment obligation for the Non-paid-up Equity Interest, the historical and current loss making position of SMIT Xintech Group, and the future business plan of SMIT Xintech Group. The Consideration to be paid by the Employee Shareholding Platforms are set at the same basis.

Conditions of the Equity Transfers

Completion is conditional upon the satisfaction of the following conditions precedent:

- (a) the Company has obtained all relevant board, shareholders and other required approvals for the Equity Transfers and relevant matters (including the Equity Transfer Agreements, the Shareholders' Agreement and other ancillary documents and the terms and conditions therein) and the compliance of applicable requirements from the Stock Exchange or other regulators;
- (b) the execution of the Shareholders' Agreement by SMIT Xintech, SMIT Shenzhen, the Investors and the Employee Shareholding Platforms; and
- (c) the delivery of each of the other Equity Transfer Agreements at the same time.

All of the above conditions precedent had been satisfied and the Completion took place on 14 October 2022.

THE SHAREHOLDERS' AGREEMENT

On 23 September 2022, the Shareholders' Agreement was also entered into by SMIT Shenzhen, SMIT Xintech, the Investors and the Employee Shareholding Platforms to govern matters in relation to, among others (A) the affairs, business and management of SMIT Xintech; and (B) the relationships, rights and obligations amongst the parties.

FINANCIAL EFFECT OF THE EQUITY TRANSFERS

Immediately prior to Completion, SMIT Xintech was an indirect wholly-owned subsidiary of the Company, and the financial results and financial position of the SMIT Xintech Group were consolidated in the consolidated financial statements of the Company.

LETTER FROM THE BOARD

Immediately after Completion, SMIT Xintech ceases to be a subsidiary, and has become an indirectly held associated company, of the Company. Accordingly, the financial results and financial position of the SMIT Xintech Group ceases to be consolidated in the consolidated financial statements of the Company after Completion. Further, all assets and liabilities of SMIT Xintech Group will be derecognized, and the indirect interest held by the Company in SMIT Xintech Group as an associated company will be recognized as investments accounted for using the equity method on the consolidated financial statements of the Company (i) initially according to its fair value on the date of Completion; and (ii) subsequently measured by using equity method.

The estimated pre-tax gain on deemed disposal will be approximately US\$52 million, subject to the finalized net assets amount of SMIT Xintech Group as at the Completion date and final transaction expenses, without taking into consideration of any tax associated with the internal reorganization of SMIT Xintech Group and Equity Transfers which are still subject to the negotiation and finalization by the tax authority. The estimated pre-tax gain on deemed disposal is mainly derived from the difference between the fair value of associated company recognized by the Company and net assets of SMIT Xintech Group derecognized upon Completion, adjusted by the cumulative other comprehensive income of SMIT Xintech Group that are eligible to be reclassified to profit or loss and the transaction expenses directly attributable to the transaction.

In addition, based on the unaudited financial information of SMIT Xintech Group as at 31 August 2022, as a result of the Equity Transfers, the Group's total assets would be increased by approximately US\$44.5 million, mainly attributable to the offsetting impact of the investment in SMIT Xintech Group as an associated company recognized according to its fair value and the assets of SMIT Xintech Group derecognized; and the Group's total liabilities would be reduced by approximately US\$19.3 million, mainly attributable to the liabilities of SMIT Xintech Group derecognized.

USE OF PROCEEDS

As detailed in the paragraph headed "Consideration" above, the Consideration would be paid by the Investors and the Employee Shareholding Platforms through their respective payment of unpaid registered capital in SMIT Xintech, and the Group would not receive any cash consideration from the Equity Transfers. SMIT Xintech intends to apply (i) RMB190 million of the proceeds on research and development projects related to EDA system design back-end and manufacturing-end tool development; (ii) RMB70 million of the proceeds on the potential acquisition of intellectual properties; (iii) RMB90 million of the proceeds on strategic mergers and acquisitions; (iv) RMB40 million on marketing expenses; and (v) RMB30 million on general work capital expenditures. As SMIT Xintech is still in the early research and development stage, the above plan is subject to change and may be adjusted in accordance with the future capital needs of SMIT Xintech.

LETTER FROM THE BOARD

SHAREHOLDING STRUCTURE OF SMIT XINTECH

Set out below is the shareholding structure of SMIT Xintech immediately before and after Completion:

Shareholders	Immediately before Completion		Immediately after Completion	
	Amount of capital contribution (RMB)	Approximate equity interest percentage of SMIT Xintech (%)	Amount of capital contribution (RMB)	Approximate equity interest percentage of SMIT Xintech (%)
SMIT Shenzhen	820,000,000	100.00	400,000,000	48.78
Guangdong Lifeng Boxin	–	–	100,000,000	12.20
Shunzhitong	–	–	15,000,000	1.83
Gaowu Tianxuan	–	–	25,000,000	3.05
Xinqihang	–	–	50,000,000	6.10
Employee Shareholding Platform A	–	–	66,800,000	8.14
Employee Shareholding Platform B	–	–	66,800,000	8.14
Employee Shareholding Platform C	–	–	96,400,000	11.76
Total	<u>820,000,000</u>	<u>100.00</u>	<u>820,000,000</u>	<u>100.00</u>

INFORMATION ON THE SMIT XINTECH GROUP

SMIT Xintech is a company incorporated in the PRC with limited liability. Following an internal reorganization and as at the Latest Practicable Date, SMIT Xintech wholly-owns Xi'an SMIT Semiconductor Co., Ltd.* (西安國微半導體有限公司), Shenzhen SMIT Fuxin Technology Co., Ltd.* (深圳國微福芯技術有限公司), GWX (HK) Limited (a newly established subsidiary) and held a 49% interest in Shanghai SMIT Xinxin Semiconductor Co., Ltd.* (上海國微芯芯半導體有限公司). The SMIT Xintech Group is specialized in EDA system design back-end and manufacturing-end tool development and intellectual properties design services on EDA tools.

LETTER FROM THE BOARD

Financial information of SMIT Xintech Group

The unaudited financial information of the SMIT Xintech Group for the two years ended 31 December 2020 and 2021 prepared in accordance with the PRC GAAP is as follows:

	For the year ended 31 December (unaudited)	
	2020 (RMB)	2021 (RMB)
Net loss before tax	(1,880,408)	(24,213,658)
Net loss after tax	(1,880,408)	(24,213,658)

The unaudited net asset value of SMIT Xintech Group as at 31 August 2022 is RMB317,738,190.

For the two years ended 31 December 2021, SMIT Xintech Group was still in the early research and development stage, the net loss after tax was mainly attributable to the R&D staff cost and the software expenditures incurred during the period.

INFORMATION ON THE PARTIES TO THE EQUITY TRANSFER AGREEMENTS

The Company

The Company is a company incorporated in the Cayman Islands with limited liability. Its principal function is investment holding.

SMIT Shenzhen

SMIT Shenzhen is a wholly-owned subsidiary of the Company incorporated in the PRC with limited liability. It is the Company's principal operating subsidiary in the PRC and is engaged in developing and marketing security devices such as conditional access modules (CAMs) for the paid TV industry.

Guangdong Lifeng Boxin

Guangdong Lifeng Boxin is a limited partnership established in the PRC and managed by Guangzhou Lifeng Private Equity Fund Management Co., Limited* (廣州立豐私募基金管理有限公司) (“**Guangzhou Lifeng**”) as a general partner and also held by another general partner, Guangzhou Hongchuang Enterprise Development Co., Ltd.* (廣州泓創企業發展有限公司) (“**Guangzhou Hongchuang**”), and a diverse group of 13 limited partners each holding less than 30% interest with Mr. Cai Yupeng (蔡裕鵬) holding the largest interest of 13.51%. Guangzhou Lifeng is a PRC private equity firm focused on investing in industries within the semi-conductor value chain. Guangzhou Lifeng was established in 2016 and currently has 10 investment funds with investments in more than ten enterprises in the PRC. Guangzhou Lifeng is held as to 52.5%, 30% and 17.5% by Guangzhou Hongchuang, Guangzhou Jinhong Management Consulting

LETTER FROM THE BOARD

Limited Partnership* (廣州金泓管理諮詢合夥企業 (有限合夥)) (“**Guangzhou Jinhong**”) and an individual who is an Independent Third Party, respectively. Guangzhou Hongchuang is held as to approximately 51%, 39% and 10% by Mr. Qiu Xionghui (邱雄輝), Mr. Zhang Yuejun (張岳俊) and an individual who is an Independent Third Party, respectively. Guangzhou Jinhong is held as to 40%, 35% and 25% by Guangzhou Hongchuang, Ms. Xiong Hongmei (熊紅梅) and another individual who is an Independent Third Party, respectively.

Shunzhitong

Shunzhitong is a limited partnership established in the PRC and managed by Shenzhen New Film Private Equity Fund Management Co., Ltd.* (深圳布穀天闕股權投資基金管理有限公司) (“**New Firm**”) as its general partner and also held by a diverse group of nine limited partners with Mr. Liu Ran (劉冉) holding a 55.29% interest and the rest each holding less than 30% interest. New Firm is held as to Mr. Wang Lianghai (王良海) as to 48% with the remaining 52% held by a total of seven Independent Third Parties each holding less than 30% shareholding interest in New Firm. New Firm is a PRC investment firm focused on core technology industries, such as semiconductors and advanced manufacturing. New Firm has invested in approximately 40 investment projects since its establishment.

Gaowu Tianxuan

Gaowu Tianxuan is a limited partnership established in the PRC and managed by ABC Yueke as its executive partner and also held by another general partner, Guangzhou Huguang Tonghang Enterprise Management Limited Partnership* (深圳市和光同行企業管理合夥企業(有限合夥)), and a diverse group of 21 limited partners each holding less than 30% interest with Mr. Xia Yongqiang (夏勇強) holding the largest interest of 16.54%. ABC Yueke is the venture capital and equity investment arm of ABC Capital, and currently has around 20 investment funds with investments in more than 120 investment projects. ABC Yueke is owned as to 60% and 40% by Shanghai ABC Equity Investment Management Limited* (上海亞商股權投資管理有限公司) (“**ABC Equity**”) and Shenzhen ABC Innovation Investment Center Limited Partnership* (深圳亞商創新投資中心(有限合夥)) (“**ABC Innovation**”), respectively. ABC Equity is held as to 50% by Shanghai ABC Development Group Co., Ltd.* (上海亞商發展集團有限公司) (“**ABC Development**”) and with the remaining 50% interest being held by five individuals each an Independent Third Party holding less than 30% shareholding interest in ABC Equity. ABC Development is held as to 57% by Mr. Chan Qiwei (陳琦偉) with the remaining 43% interest being held by four individuals each an Independent Third Party holding less than 30% shareholding interest in ABC Development. Mr. Chan Qiwei and two other shareholders of ABC Development are also minority shareholders of ABC Equity. ABC Innovation is held as to 30%, 30%, 20% and 20% by Mr. Zhong Zhihui (鍾志輝), Shenzhen Jiashu Holding Co., Ltd.* (深圳嘉樹控股有限公司) (“**Shenzhen Jiashu**”) and two individuals who are Independent Third Parties, respectively. Shenzhen Jiashu is wholly-owned by Mr. Zhong Zhihui. Mr. Zhong Zhihui is also one of the minority shareholders of ABC Equity.

LETTER FROM THE BOARD

Xinqihang

Xinqihang is a limited partnership established in the PRC. Xinqihang is also managed by ABC Yueke as its general partner and also held by a diverse group of 14 limited partners each holding less than 30% interest with Mr. Wang Zheng (黃政) holding the largest interest of 15.94%.

The Employee Shareholding Scheme and the Employee Shareholding Platforms

An employee shareholding scheme of SMIT Xintech (the “**Employee Shareholding Scheme**”) has been established whereby the eligible employees of SMIT Xintech Group has been provided with opportunities to indirectly invest in SMIT Xintech and share the company’s future growth and success through the three Employee Shareholding Platforms.

A total of 157 employees will be participating in the Employee Shareholding Scheme (the “**Participants**”), each an Independent Third Party. None of the Participants is a Director.

To implement the Employee Shareholding Scheme, the Employee Shareholding Platforms have been established in the PRC to hold certain equity interests in SMIT Xintech upon Completion.

Employee Shareholding Platform A

Employee Shareholding Platform A is a limited partnership established in the PRC, and is held as to approximately 0.01% by the Shenzhen Xinzhan Software Technology Services Co., Ltd.* (深圳芯展軟件技術服務有限責任公司) (“**Shenzhen Xinzhan**”) (as general partner), and approximately 49.39% and 50.60% by Shenzhen Xinrui Software Limited Partnership* (深圳芯睿軟件合夥企業(有限合夥)) (“**Shenzhen Xinrui**”) and Shenzhen Xinhan IC Limited Partnership* (深圳芯瀚集成電路合夥企業(有限合夥)) (“**Shenzhen Xinhan**”) respectively (as limited partners).

Shenzhen Xinzhan is wholly-owned by Ms. Yu Mengyao (喻夢瑤). Each of Shenzhen Xinrui and Shenzhen Xinhan is held as to approximately 0.04% by Ms. Yu Mengyao (as general partner) and 99.96% by Ms. Liu Hongrong (劉紅榮) (as limited partner). Pursuant to the implementation of the Employee Shareholding Scheme, the limited partner interests are expected to be transferred to the relevant Participants by 31 January 2023. Each of Ms. Yu Mengyao and Ms. Liu Hongrong is an employee of SMIT Xintech Group.

Employee Shareholding Platform B

Employee Shareholding Platform B is a limited partnership established in the PRC, and held as to approximately 0.01% by the Shenzhen Ruixin Software Co., Ltd.* (深圳瑞芯軟件有限責任公司) (“**Shenzhen Ruixin**”) (as general partner), and approximately 49.39% and 50.60% by Shenzhen Hongxin Software Limited Partnership* (深圳宏芯軟件合夥企業(有限合夥)) (“**Shenzhen Hongxin**”) and Shenzhen Shengxin Software Limited Partnership* (深圳盛芯軟件合夥企業(有限合夥)) (“**Shenzhen Shengxin**”) respectively (as limited partners).

LETTER FROM THE BOARD

Shenzhen Ruixin is held as to 90% and 10% by Ms. Liu Hongrong and Ms. Yu Mengyao, respectively. Shenzhen Hongxin is held as to approximately 0.04% by Ms. Yu Mengyao (as general partner) and 99.96% by Ms. Liu Hongrong (as limited partner). Shenzhen Shengxin is held as to approximately 0.04% by Ms. Liu Hongrong (as general partner) and 99.96% by Ms. Yu Mengyao (as limited partner). Pursuant to the implementation of the Employee Shareholding Scheme, the limited partner interests are expected to be transferred to the relevant Participants by 31 January 2023.

Employee Shareholding Platform C

Employee Shareholding Platform C is a limited partnership established in the PRC, and is held as to approximately 0.01% by the Shenzhen Tongxin Software Technology Services Co., Ltd.* (深圳同芯軟件技術服務有限責任公司)(as general partner), and approximately 68.87% and 31.12% by Shenzhen Chuangxin Software Limited Partnership* (深圳創芯軟件合夥企業(有限合夥)) (“**Shenzhen Chuangxin**”) and Shenzhen Xinsheng Software Limited Partnership* (深圳芯勝軟件合夥企業(有限合夥)) (“**Shenzhen Xinsheng**”) respectively (as limited partners).

Shenzhen Tongxin is held as to 90% and 10% by Ms. Liu Hongrong and Ms. Yu Mengyao, respectively. Shenzhen Chuangxin is held as to approximately 0.1% by Ms. Liu Hongrong (as general partner) and 99.9% by Ms. Yu Mengyao (as limited partner), and Shenzhen Xinsheng is held as to 10% by Ms. Yu Mengyao (as general partner) and 90% by Ms. Liu Hongrong (as limited partner). Pursuant to the implementation of the Employee Shareholding Scheme, the limited partnership interests in each of Shenzhen Chuangxin and Shenzhen Xinsheng are expected to be transferred to the relevant Participants by 31 January 2023. None of the Participants will hold more than 10% interest in any of the Employee Shareholding Platforms.

The subscription of equity interests in the Employee Shareholding Platforms by the Participants will be financed by such Participants’ own funds and other funds raised or derived by Participants as permitted by applicable laws and regulations.

To the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, the Employee Shareholding Platforms and their respective ultimate beneficial owners (including the general partner, each limited partner and the Participants) are Independent Third Parties.

REASONS FOR AND BENEFITS OF ENTERING INTO THE EQUITY TRANSFER AGREEMENTS AND IMPLEMENTING THE EMPLOYEE SHAREHOLDING SCHEME

Reference is made to the voluntary announcement published by the Company on 8 March 2022 in which the Company announced that, in view of the substantial capital expenses required to sustain the development of EDA products, the Board had resolved to formulate a plan to scale down and cease the EDA business of the Company. Against this background and considering the increasing costs of attracting and retaining talent in the EDA industry, the Company has been seeking investors to invest in the EDA business of the Company. The Equity Transfers would (A) allow the Investors and the Participants (through the Employee Shareholding Scheme and the

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Employee Shareholding Platforms) to contribute investment capital to SMIT Xintech, which would provide the company with working capital to fund existing and future research and development projects and other capital expenditure requirements; and (B) also allow the Company, through its investment interest held in SMIT Xintech, to benefit from any potential upward development of SMIT Xintech Group in the future. The Company currently does not have any plans to further dispose its equity interest in SMIT Xintech.

In addition, the success of SMIT Xintech relies heavily on the technological knowledge, innovation and contributions of its employees. The establishment of the Employee Shareholding Scheme allows SMIT Xintech to reward its employees for their contributions and provide incentives for retention of such employees and their continued services to the company by providing them with a platform to invest in SMIT Xintech and share in the company's future growth and success. The Company considers that the implementation of the Employee Shareholding Scheme allows employees' interests to be aligned with that of SMIT Xintech and its shareholders. Through the Employee Shareholding Scheme, high-performing employees would have greater incentives to stay and perform well in SMIT Xintech and continue to make long-term contributions.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules in respect of the Equity Transfers is more than 25% but less than 75%, the Equity Transfers constitute a major transaction of the Company under Chapter 14 of the Listing Rules and is subject to the reporting, announcement, circular and Shareholders' approval requirements under the Listing Rules.

To the best of the knowledge, information and belief of the Directors, after having made all reasonable enquiries, no Shareholders or any of their respective close associates have any material interest in the Equity Transfers, and as such no Shareholders are required to abstain from voting in favour of the resolution approving the Equity Transfers.

As at the date of the Equity Transfer Agreements and 13 October 2022, each of Ever Expert Holdings Limited ("**Ever Expert**") and Mr. Huang Xueliang ("**Mr. Huang**") directly held 168,134,777 and 5,043,624 shares, respectively, in the Company, which in aggregate represent approximately 54.06% of the entire issued share capital of the Company. Ever Expert is a company indirectly owned by Mr. Huang as to 99%, hence Ever Expert and Mr. Huang are a closely allied group of shareholders of the Company for the purpose of Rule 14.44 of the Listing Rules.

Pursuant to Rule 14.44 of the Listing Rules, written approval for the Equity Transfers was obtained from the aforesaid closely allied group of Shareholders on 13 October 2022. Accordingly, no general meeting will be convened for the purpose of approving the Equity Transfers as permitted under Rule 14.44 of the Listing Rules.

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RECOMMENDATION

The Directors (including the independent non-executive Directors) consider that the terms of the Equity Transfer Agreements, Shareholders' Agreement, the Employee Shareholding Scheme and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable and in the interests of the Company and its Shareholders as a whole and would recommend the Shareholders to vote in favour of the Equity Transfers if it had been necessary to hold a general meeting for such purpose.

ADDITIONAL INFORMATION

The attention of the Shareholders is drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
For and on behalf of
SMIT Holdings Limited
Huang Xueliang
Chairman

INDEBTEDNESS STATEMENT

As at the close of business on 31 August 2022, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had (i) secured bank loans of approximately USD21.4 million, out of which approximately USD9.9 million were secured by the corporate guarantee of the Company and personal guarantee by Mr. Huang, an executive Director and the controlling ultimate shareholder of the Company, approximately USD1.4 million were secured by the corporate guarantee of a subsidiary of the Company, and the remaining balances of approximately USD10.1 million were secured by the personal guarantee by Mr. Huang only, (ii) unsecured bank loans of approximately USD8.7 million, and (iii) lease liabilities of approximately USD3.0 million.

Save as aforesaid or otherwise disclosed herein, and apart from intra-group liabilities and normal trade payables in the normal course of business, at the close of business on 31 August 2022, the Group did not have any other debt securities issued and outstanding or authorized or otherwise created but unissued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

WORKING CAPITAL STATEMENT

The Directors, after due and careful enquiry, are of the opinion that, after taking into account the financial resources presently available to the Group, including the internally generated funds and available banking facilities, and in the absence of unforeseen circumstances, the Group has sufficient working capital for its normal business for at least the next twelve months from the date of this circular.

FINANCIAL AND TRADING PROSPECTS OF THE GROUP

Affected by the development trend of the industry, the development of the Group's traditional CAM business faces significant challenges. However, the Group will continue to maintain its traditional businesses' leading advantages in the industry while transforming technology, improving efficiency and controlling overall risks. In addition, the Group will grasp the opportunities for the development of the domestic integrated circuit industry.

In respect of CAM business, the Group will focus on serving its major customers in Europe and will cooperate with conditional access providers to promote CAM products that do not require smart cards. The Group will also recommend new CI+ 2.0 products based on USB form to conditional access providers to gain more market share. The Group will cooperate with host manufacturers in emerging markets to jointly customize products according to the needs of operators. The Group will also promote USB-based products to emerging markets. The Group will use the popularity of 4K content as a product entry point in China, and develop several key operator customers based on the deployed hosts.

In the face of the current complex business situation, the Group will endeavor to advance in the future, diversifying its business and broadening its revenue stream by leveraging its leading position in the global pay-TV broadcasting access and expanding its R&D efforts in IC related technology and all-round applications through strategic acquisitions.

RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

DISCLOSURE OF INTERESTS

(i) **Directors' and chief executives' interests and short positions in Shares, underlying Shares and debentures of the Company or any associated corporations**

As at the Latest Practicable Date, the interests or short positions, if any, of each Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are (i) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she is taken or deemed to have under such provisions of the SFO); (ii) required to be or are recorded in the register required to be kept by the Company pursuant to section 352 of the SFO; or (iii) required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 to the Listing Rules (the “**Model Code**”), to be notified to the Company and the Stock Exchange, were as follows:

Name of director	Nature of interest	Number and class of securities ^(Note 1)	Approximate percentage of interest in our Company
Mr. Huang ^(Note 2)	Beneficial interest and interest in a controlled corporation	184,040,468 Shares (L)	57.45%
Kwan, Allan Chung-yuen ^(Note 3)	Beneficial interest	1,080,414 Shares (L)	0.34%
Loong, Manfred Man-tsun ^(Note 4)	Beneficial interest	4,578,649 Shares (L)	1.43%

Notes:

- (1) The letter “L” denotes the Directors' long positions in the shares of our Company or the relevant associated corporation.
- (2) As at the Latest Practicable Date, Mr. Huang was interested in 5,043,624 Shares and was interested in share options to subscribe for 738,067 Shares. Mr. Huang also held 99% in Shenzhen Qianhai Guowei Investment Co., Limited* (深圳前海國微投資有限公司) which wholly-owns Ever Expert. Mr. Huang was therefore also deemed to be interested in the 178,258,777 Shares in which Ever Expert had interests.

- (3) As at the Latest Practicable Date, Mr. Kwan, Allan Chung-yuen was interested in 223,418 Shares. Mr. Kwan also held 100% interest in Cykorp Limited. Mr. Kwan is therefore deemed to be interested in the 856,996 Shares in which Cykorp Limited had interests.
- (4) As at the Latest Practicable Date, Mr. Loong, Manfred Man-tsun was interested in share options to subscribe for 4,578,649 Shares.

Save for those disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any other interest or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were (i) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO); (ii) required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

(ii) Interests of substantial shareholders

As at the Latest Practicable Date, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required to be entered in the register to be kept by the Company pursuant to section 336 of the SFO:

Name of shareholder	Nature of interest	Number and class of securities ^(Note 1)	Approximate percentage of interest in our Company
Ms. Zhang Shiyun ^(Note 2)	Interest of spouse	184,040,468 Shares (L)	57.45%
Shenzhen Qianhai Guowei Investment Co., Ltd. ^(Note 2)	Interest in controlled corporation	178,258,777 Shares (L)	55.64%
Ever Expert ^(Note 2)	Beneficial owner	178,258,777 Shares (L)	55.64%
Xinxin (Hongkong) Capital Co., Limited ^(Note 3)	Beneficial owner	29,999,000 Shares (L)	9.36%
Xinxin (Shanghai) Investment Co., Ltd. ^(Note 3)	Interested in a controlled corporation	29,999,000 Shares (L)	9.36%

Name of shareholder	Nature of interest	Number and class of securities ^(Note 1)	Approximate percentage of interest in our Company
China Integrated Circuit Industry Investment Fund Co., Ltd. ^(Note 3)	Interested in a controlled corporation	29,999,000 Shares (L)	9.36%

Notes:

- (1) The letter “L” denotes the long positions in the shares of our Company or the relevant associated corporation.
- (2) As at the Latest Practicable Date, Mr. Huang was directly interested in 5,043,624 Shares and was interested in share options to subscribe for 738,067 Shares. Mr. Huang also held 99% in Shenzhen Qianhai Guowei Investment Co., Limited (深圳前海國微投資有限公司) which wholly-owns Ever Expert. Mr. Huang and Shenzhen Qianhai Guowei Investment Co., Limited (深圳前海國微投資有限公司) were therefore also deemed to be interested in the 178,258,777 Shares held by Ever Expert. Ms. Zhang Shiyun is the spouse of Mr. Huang and was therefore deemed to be interested in all the Shares Mr. Huang was interested in.
- (3) As at the Latest Practicable Date, to the best of our Directors’ knowledge, China Integrated Circuit Industry Investment Fund Co., Ltd. held a 100% interest in Xinxin (Shanghai) Investment Co., Ltd. which in turn held a 100% interest in Xinxin (Hongkong) Capital Co., Limited. Each of China Integrated Circuit Industry Investment Fund Co., Ltd. and Xinxin (Shanghai) Investment Co., Ltd. is therefore deemed to be interested in the 29,999,000 Shares held by Xinxin (Hongkong) Capital Co., Limited.

Save for those disclosed above, as at the Latest Practicable Date, no other persons were recorded in the register of the Company required to be kept under Section 336 of the SFO as having interests or short positions in the shares or underlying shares of the Company.

LITIGATION

As at the Latest Practicable Date, so far as the Directors are aware, no litigation or claim of material importance was pending or threatened against any member of the Group.

MATERIAL CONTRACTS

As at the Latest Practicable Date, no contracts (not being contracts entered into in the ordinary course of business) were entered into by members of the Group within the two years immediately preceding the date of this circular which are, or may be, material.

COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and their respective associates had an interest in any business which competes, or are likely to compete, either directly or indirectly, with the business of the Group which would require disclosure under the Listing Rules.

DIRECTORS' INTERESTS IN ASSETS

None of the Directors had any direct or indirect interest in any assets which had been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2021 (being the date to which the latest published audited consolidated financial statements of the Company were made up) and up to the Latest Practicable Date.

DIRECTORS' INTERESTS IN CONTRACT OR ARRANGEMENT

As at the Latest Practicable Date, Mr. Huang held approximately 65.62% indirect interest in Shenzhen Digital TV National Engineering Laboratory Co., Ltd. (“**Shenzhen Digital TV**”) which owned the Guoshi Building, an office building located at No. 1801 Shahe West Road, Nanshan District, Shenzhen (the “**Shenzhen Property**”). He also held approximately 99% indirect interest in Shanghai Guo Wei Industrial Development Co., Ltd. which owned an office building located at No. 2555 Xiupu Road, Pudong New Area, Shanghai (the “**Shanghai Property**”). On 29 October 2019, the SMIT Shenzhen and Mr. Huang entered into a framework agreement in relation to the leasing of certain premises in the Shenzhen Property and the Shanghai Property (the “**Tenancy Framework Agreement**”).

Save as disclosed above, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group which was subsisting as at the Latest Practicable Date and which was significant in relation to the business of the Group.

DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered, or proposed to enter, into any service contract with any member of the Group which was not expiring or determinable by the Group within one year without payment of compensation (other than statutory compensation).

DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.smit.com.cn>) from this date of the circular up to 14 days thereafter:

- (1) the Equity Transfer Agreements; and
- (2) the Shareholders' Agreement.

GENERAL

- (1) The secretary of the Company is Mr. Cheng Kai Pui, Eric who is a registered certified public accountant of the Hong Kong Institute of Certified Public Accountants.
- (2) The registered office of the Company is situated at Maples Corporate Services Limited, PO Box 309, Uglan House, Grand Cayman, KY1-1104, Cayman Islands and the principal place of business of the Company in Hong Kong is at 1/F, Harbour View 2, 16 Science Park East Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong.
- (3) The Company's branch share registrar and transfer office in Hong Kong is Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.
- (4) In the event of any inconsistency, the English text of this circular shall prevail over its Chinese text.