**SMIT HOLDINGS LIMITED**
**國微控股有限公司**
*(Incorporated in the Cayman Islands with limited liability)*
**(Stock Code: 2239)**

# DISCLOSEABLE TRANSACTION – DISPOSAL OF THE ENTIRE EQUITY INTEREST IN SMIT JINGRUI

## EQUITY TRANSFER

The Board is pleased to announce that on 23 December 2022, SMIT Shenzhen (a wholly-owned subsidiary of the Company) and SMIT Jingrui (a wholly-owned subsidiary of the SMIT Shenzhen) entered into the Equity Transfer Agreement with S2C Shanghai, pursuant to which SMIT Shenzhen agreed to sell, and S2C Shanghai agreed to purchase, the entire equity interest in SMIT Jingrui for the Consideration of RMB160 million.

Immediately after Completion, SMIT Jingrui will cease to be a subsidiary of the Company.

## 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 Transfer is more than 5% but are all less than 25%, the Equity Transfer constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules and is subject to the reporting and announcement requirement, but exempt from the circular and Shareholders' approval requirements under the Listing Rules.

## INTRODUCTION

The Board is pleased to announce that on 23 December 2022, SMIT Shenzhen, a wholly-owned subsidiary of the Company, and SMIT Jingrui, a wholly-owned subsidiary of the Company, entered into the an Equity Transfer Agreement with S2C Shanghai, pursuant to which SMIT Shenzhen agreed to sell, and S2C Shanghai agreed to purchase, the entire equity interest in SMIT Jingrui.

## THE EQUITY TRANSFER AGREEMENT

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

1. **Date:** 23 December 2022

2. **Parties:**
   (i) SMIT Jingrui (as target company);
   (ii) SMIT Shenzhen (as transferor); and
   (iii) S2C Shanghai (as transferee)

### Equity Transfer

As at the date of this announcement, SMIT Jingrui is wholly-owned by SMIT Shenzhen.

Pursuant to the Equity Transfer Agreement, SMIT Shenzhen agreed to sell, and S2C Shanghai agreed to purchase, the entire equity interest in SMIT Jingrui to S2C Shanghai.

### Consideration

The Consideration of the Equity Transfer is RMB160 million, which is based on the appraised value of SMIT Jingrui as at 30 November 2022 of RMB160 million (the "**Valuation**") prepared by Yinxin Assets Appraisal Co., Limited (the "**Valuer**"), an independent valuer, based on, among others, discounted cash flow under the income method.

The Valuation constitutes a profit forecast in respect of SMIT Jingrui under Rule 14.61 of the Listing Rules, and the Company has fully complied with Rules 14.60A and 14.62 of the Listing Rules.

Yongtuo Fuson CPA Limited ("**Yongtuo**"), has been engaged by the Company as the reporting accountants to review the calculations of the discounted future cash flows upon which the Valuation is based on, which do not involve the adoption of accounting policies and the appropriateness and validity of the assumptions.

The Board has reviewed and considered the Valuation including the principal assumptions upon which the Valuation is based. The Board has also considered the report from Yongtuo. On the basis of the foregoing, the Board is of the opinion that the Valuation has been made after due and careful enquiry.

To the best knowledge, information and belief of the Directors after making all reasonable enquiry, each of the Valuer and Yongtuo is an Independent Third Party.

Details of the principal assumptions (including commercial assumptions) upon which the Valuation is based, the report from Yongtuo and the letter from the Board in relation to the profit forecast of SMIT Jingrui are set out in the appendices to this announcement.

The Consideration shall be settled by S2C Shanghai in cash, which shall be payable in full within 5 business day after Completion.

## COMPLETION

Completion will occur upon completion of the relevant company registration process in PRC, which shall take place within 15 business days from the date of the Equity Transfer Agreement.

## FINANCIAL EFFECT OF THE EQUITY TRANSFER

As at the date of this announcement, SMIT Jingrui is an indirect wholly-owned subsidiary of the Company, and the financial results and position of the SMIT Jingrui Group are consolidated in the consolidated financial statements of the Company.

Immediately after Completion, SMIT Jingrui will cease to be a subsidiary of the Company. Accordingly, the financial results and financial position of the SMIT Jingrui will cease to be consolidated in the consolidated financial statements of the Company after Completion. Further, all assets and liabilities of SMIT Jingrui will be derecognized.

The estimated pre-tax gain on disposal will be approximately US$21 million, subject to the finalized net assets amount of SMIT Jingrui as at the Completion date and final transaction expenses. The estimated pre-tax gain on disposal is mainly derived from the difference between the consideration receivable by the Company and net assets of SMIT Jingrui derecognized upon Completion, adjusted by the cumulative other comprehensive income of SMIT Jingrui that are eligible to be reclassified to profit or loss and the transaction expenses directly attributable to the transaction.

## USE OF PROCEEDS

The Group intends to use the net proceeds from the Equity Transfer as general working capital and for strengthening the cash flow of the Group which allows the Group to reallocate its resources for further development.

## INFORMATION ON SMIT JINGRUI

SMIT Jingrui is a company incorporated in the PRC with limited liability. As at the date of this announcement, SMIT Jingrui has no subsidiaries. SMIT Jingrui is specialised in the research and development of emulator, a hardware-based rapid verification EDA tool.

### Financial information of SMIT Jingrui

The unaudited financial information of the SMIT Jingrui 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** | **2021** |
| | *(RMB)* | *(RMB)* |
| Net loss before tax | – | (1,949) |
| Net loss after tax | – | (1,949) |

| | **As at 30 November 2022 (unaudited)** |
|---|---|
| | *(RMB)* |
| Net asset value | 149,042,868 |

**EXPERT AND CONSENT**

Qualification of the expert who have given its opinion and advice in this announcement are set out below:

| **Name** | **Qualification** |
|---|---|
| Yongtuo Fuson CPA Limited | Certified Public Accountants |

As at the date of this announcement, Yongtuo does not, directly or indirectly, have any shareholding in any member of the Group or any rights (whether legally enforceable or not) to subscribe for or to nominate person(s) to subscribe for the securities of any member of the Group. As at the date of this announcement, Yongtuo does not have any direct or indirect interest in any assets which have been since 31 December 2021 (the date to which the latest published annual result of the Group were made up) 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.

As at the date of this announcement, Yongtuo has given and has not withdrawn its consent to the publication of this announcement with inclusion of its report and all references to its names in the form and context in which they are included in this announcement.

**INFORMATION ON THE PARTIES TO THE EQUITY TRANSFER AGREEMENT**

**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 CAMs (for the paid TV industry).

**S2C Shanghai**

S2C Shanghai is a company incorporated in the PRC with limited liability. It is a leading EDA solution provider.

As at the date of this announcement, the S2C Shanghai is held as to (i) approximately 29.75% by the Company; (ii) approximately 3.78% by Zhuhai Hongtu Xinsheng VC Fund (Limited Partnership)* 珠海鴻圖芯盛創業投資基金合夥企業(有限合夥) ("**Zhuhai Hongtu**"); and (iii) approximately 66.47% by a diverse group of shareholders each holding less than 15% in S2C Shanghai. Zhuhai Hongtu is held as to approximately 0.33% by its general partner, Shenzhen Hongtai Guowei Equity Investment Management Co., Ltd.* (深圳鴻泰國微股權投資管理有限公司) ("**Shenzhen Hongtai**"), and approximately 99.67% by its limited partner, Mr. Huang Xueliang, an executive Director and the controlling shareholder of the Company. Shenzhen Hongtai is held as to 80% by Shenzhen Qianhai Guowei Investment Co., Ltd.* (深圳前海國微投資有限公司) ("**Qianhai Guowei**"). Qianhai Guowei is held as to 99.01% and 0.99% by Mr. Huang Xueliang and his spouse, Ms. Zhang Shiyun, respectively. Save as disclosed above, to the best of the Directors' knowledge, information and belief having made all reasonable enquiry, the shareholders of S2C Shanghai and their respective ultimate beneficial owners are Independent Third Parties.

## REASONS FOR AND BENEFITS OF ENTERING INTO THE EQUITY TRANSFER AGREEMENT

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 resolved to formulate a plan to scale down and cease the EDA business of the Company. Against this background, the Company has been seeking to divest its EDA emulator R&D project and related assets, which is held by SMIT Jingrui. The Equity Transfer would allow the Company to achieve the strategic goal, replenish the Group's cash flow and also allow the Company, through its investment interest held in S2C Shanghai, to benefit from any potential upward development of SMIT Jingrui in the future.

As Mr. Haung is indirectly interested in approximately 3.75% of S2C Shanghai through Zhuhai Hongtu, he abstained from voting in the relevant Board's resolutions approving the Equity Transfer.

The Directors (including the independent non-executive Directors and excluding Mr. Huang Xueliang) consider that the terms of the Equity Transfer Agreement 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.

## 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 Transfer is more than 5% but are all less than 25%, the Equity Transfer constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules and is subject to the reporting and announcement requirement, but exempt from the circular and Shareholders' approval requirements under the Listing Rules.

## DEFINITIONS

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

| | |
|---|---|
| "Board" | the board of Directors |
| "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 Agreement including the completion of the relevant company registration process in PRC |
| "Consideration" | the consideration in the sum of RMB160 million for the Equity Transfer |
| "Directors" | the director(s) of the Company |
| "EDA" | electronic design automation |
| "Equity Transfer" | the transfer of the entire equity interest in SMIT Jingrui from SMIT Shenzhen to the S2C Shanghai in accordance with the terms of the Equity Transfer Agreement |
| "Equity Transfer Agreement" | the equity transfer agreement dated 23 December 2022 entered into between SMIT Shenzhen, SMIT Jingrui and S2C Shanghai in relation to the Equity Transfer |

| | |
|---|---|
| "Group" | the Company and its subsidiaries |
| "Independent Third Party" | a party who is not connected person of the Company and is third party independent of the Company and the connected persons of the Company |
| "Listing Rules" | the Rules Governing the Listing of Securities on the Stock Exchange |
| "PRC" | the People's Republic of China, which shall, for the purposes of this announcement, exclude Hong Kong Special Administrative Region of the PRC, 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 |
| "S2C Shanghai" | S2C Ltd. (上海思爾芯技術股份有限公司), a company established under the laws of the PRC with limited liability |
| "Shareholder(s)" | shareholder(s) of the Company |
| "SMIT Jingrui" | Shenzhen SMIT Jingrui Co., Ltd.* (深圳國微晶鋭技術有限公司), a company established under the laws of the PRC with limited liability and, as at the date of this announcement, an indirect wholly-owned subsidiary of the Company |
| "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 |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "%" | per cent |

*In this announcement, unless the context requires otherwise, the terms "associate(s)", "connected person(s)", "percentage ratio(s)" and "subsidiary(ies)", shall have the meaning given to such terms in the Listing Rules.*

By order of the Board
**SMIT Holdings Limited**
**Huang Xueliang**
*Chairman*

Hong Kong, 23 December 2022

*As at the date of this announcement, the executive Directors are Mr. Huang Xueliang (chairman and chief executive officer) and Mr. Loong, Manfred Man-tsun; the non-executive Directors are Mr. Kwan, Allan Chung-yuen and Mr. Cai Jing; and the independent non-executive Directors are Mr. Zhang Junjie, Mr. Woo Kar Tung, Raymond and Mr. Jin Yufeng.*

* *For identification purpose only*

## APPENDIX I – PRINCIPAL ASSUMPTIONS OF VALUATION

Given the Valuation was prepared based on, among others, discounted cash flow under the income method, it is regarded as a profit forecast under Rule 14.61 of the Listing Rules.

The Valuation has been prepared on the following principal assumptions (including commercial assumptions):

1. Transaction assumption: It is assumed that the valuation object is in the process of trading, and the valuer performs valuations under the simulation of the market on the transaction conditions for the valuation object. The valuation result is an estimate of the price at which the valuation object is most likely to be traded.

2. Open market assumption: It is assumed that the valuation object and the assets involved are traded in the open market. In such market, buyers and sellers are on an equal position and have sufficient opportunities and time to access the market information. Transactions of both parties are conducted on voluntary, rational, non-mandatory conditions.

3. Going concern assumption: The going concern assumption is the assumption that with the existing asset resources, the appraised entity can legally continue its production and operation in the foreseeable future as it is, without any material adverse changes in its operating conditions.

4. Assumption on use of assets for current purposes: The assumption on the use of assets for current purposes is the assumption on the intended market conditions for the assets and the state of the assets' use under such market conditions.

5. Assets in-situ use assumption: The in-situ use assumption is the assumption that assets will remain in continuous use at the original place where they are located or installed.

6. No material changes are seen in the country's current economic policies, or in banks' loan interest rates, exchange rates or tax rates.

7. There are no material changes in the socioeconomic environment of the area where the appraised entity is located; the industry in which the appraised entity engages sees stable development trends, and the existing laws, regulations and economic policies concerning the production and operation of the appraised entity remain stable.

8. It is assumed that a company related to the valuation object will operate as a going concern with the original business purposes and the original mode of operation following the realisation of the valuation purpose (economic behaviour), and its earnings can be predicted.

9. It is assumed that a company related to the valuation object continues to operate at the current (or general market participants) management level as of the base date of valuation, without considering the impact of the management level of the future owner of the company on its future earnings.

10. The calculation of earnings is based on the Chinese fiscal year and they incur evenly. No other unforeseeable or force majeure factors have a significant impact on the operation of the appraised entity. As far as future earnings are concerned, no possible synergies after the implementation of the economic behaviour will be taken into account.

11. There are no unforeseeable material changes in the product price and the unit price of major raw materials of the appraised entity; the impact of inflation on revenue and costs is not considered; all income and relevant prices and costs on which the appraisal is based are a professional judgement made by the appraiser upon due diligence according to the data provided by the appraised entity.

12. The cashflow of the appraised entity is generated evenly in each earning period; it is assumed that the corporate capital structure is relatively stable.

13. Contracts of the appraised entity signed in previous and current years are effective and enforceable; it is assumed that the appraised entity will be able to continue to lease the premises at a reasonable market rate after the expiry of the lease.

14. According to Guo Fa [2020] No. 8: (2) State-encouraged IC design, equipment, materials, packaging, testing enterprises and software enterprises shall be exempt from corporate income tax from the first to the second year of profit, and the corporate income tax shall be reduced by half at the statutory rate of 25% from the third to the fifth year. The Ministry of Industry and Information Technology, in conjunction with the relevant departments, shall establish the conditions for the state-encouraged IC design, equipment, materials, packaging, and testing enterprises. It is assumed that the above tax incentives will be continued in the future operation of the appraised entity.

15. As the appraised entity is a micro and small enterprise on the valuation base date and the appraised entity will have a larger sales scale in the future, it is assumed that the corporate income tax rate of the appraised entity in the future is adjusted to 25%.

16. It is assumed that relevant certificates of title can be obtained successfully for patents under application.

The following is the text of a report received from the Company's reporting accountants, Yongtuo Fuson CPA Limited, for inclusion in this announcement.

YONG TUO
永拓富信會計師事務所有限公司
YONGTUO FUSON CPA LIMITED

**INDEPENDENT ASSURANCE REPORT ON THE CALCULATIONS OF DISCOUNTED FUTURE ESTIMATED CASH FLOWS IN CONNECTION WITH THE VALUATION OF 100% EQUITY INTEREST IN SHENZHEN SMIT JINGRUI CO., LTD.**

**TO THE BOARD OF DIRECTORS OF SMIT HOLDINGS LIMITED**

We have examined the calculations of the discounted future estimated cash flows on which the valuation prepared by Yinxin Assets Appraisal Co., Limited (銀信資產評估有限公司), of 100% equity interest in Shenzhen SMIT Jingrui Co., Ltd. (深圳國微晶鋭技術有限公司) ("**Disposed Company**") as at 30 November 2022 (the "**Valuation**") is based. The Valuation based on the discounted future estimated cash flows is regarded as a profit forecast under paragraph 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and will be included in an announcement dated 23 December 2022 to be issued by SMIT Holdings Limited (the "**Company**") in connection with the possible disclosable transaction in relation to the disposal of 100% equity interest in Disposed Company (the "**Announcement**").

**Directors' Responsibility for the Discounted Future Estimated Cash Flows**

The directors of the Company are responsible for the preparation of the discounted future estimated cash flows in accordance with the bases and assumptions determined by the directors and set out in Appendix I – Principal Assumptions of Valuation in the Announcement (the "**Assumptions**"). This responsibility includes carrying out appropriate procedures relevant to the preparation of the discounted future estimated cash flows for the Valuation and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

**Our Independence and Quality Control**

We have complied with the independence and other ethical requirements of the "Code of Ethics for Professional Accountants" issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Management 1 "Quality Management for Firms that Perform Audits and Reviews of Financial Statements, or Other Assurance or Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

**Reporting Accountant's Responsibilities**

Our responsibility is to express an opinion on whether the calculations of the discounted future estimated cash flows have been properly compiled, in all material respects, in accordance with the Assumptions on which the Valuation is based and to report solely to you, as a body, as required by Rules 14.62(2) of the Listing Rules, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Our engagement was conducted in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the HKICPA. This standard requires that we comply with ethical requirements and plan and perform the assurance engagement to obtain reasonable assurance on whether the discounted future estimated cash flows, so far as the calculations are concerned, have been properly compiled in accordance with the Assumptions. Our work was limited primarily to making inquiries of the Company's management, considering the analyses and assumptions on which the discounted future estimated cash flows are based and checking the arithmetic accuracy of the compilation of the discounted future estimated cash flows. Our work does not constitute any valuation of Disposed Company.

Because the Valuation relates to discounted future estimated cash flows, no accounting policies of the Company have been adopted in its preparation. The Assumptions include hypothetical assumptions about future events and management actions which cannot be confirmed and verified in the same way as past results and these may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Valuation and the variation may be material. Accordingly, we have not reviewed, considered or conducted any work on the reasonableness and the validity of the Assumptions and do not express any opinion whatsoever thereon.

**Opinion**

Based on the foregoing, in our opinion, the discounted future estimated cash flows, so far as the calculations are concerned, have been properly compiled, in all material respects, in accordance with the Assumptions.

**Yongtuo Fuson CPA Limited**
*Certified Public Accountants*

**Fok Tat Choi**
Practicing Certificate Number: P06895
Hong Kong, 23 December 2022

## APPENDIX III – LETTER FROM THE BOARD

*The following is the text of a letter from the Board prepared for the purpose of inclusion in this announcement.*

23 December 2022

The Listing Division
The Stock Exchange of Hong Kong Limited
12/F, Two Exchange Square
8 Connaught Place
Central
Hong Kong

Dear Sirs,

**Discloseable Transaction – Disposal of the entire equity interest in Shenzhen SMIT Jingrui Co., Ltd.*(深圳國微晶銳技術有限公司)("SMIT Jingrui")**

We refer to the announcement of SMIT Holdings Limited dated 23 December 2022 (the "**Announcement**") and the valuation report dated 23 December 2022 prepared by Yinxin Assets Appraisal Co., Limited (the "**Valuer**") in relation to the valuation of the market value of equity interest in SMIT Jingrui as at 30 November 2022 (the "**Valuation**"). As the discounted cash flow method is adopted in the Valuation, the Valuation constitutes a profit forecast under Rule 14.61 of the Listing Rules and accordingly, Rule 14.62 of the Listing Rules is applicable. The principal assumptions upon which the Valuation are based have been stated in Appendix I to the Announcement.

We have discussed with the Valuer about different aspects including the bases and assumptions upon which the Valuation has been prepared, and reviewed the Valuation for which the Valuer is responsible. We have also considered the report from our reporting accountants, Yongtuo Fuson CPA Limited, regarding whether the calculations of the discounted cash flow upon which Valuation is based on was compiled properly so far as the calculations are concerned.

Pursuant to the requirements of Rule 14.62(3) of the Listing Rules, we are of the opinion that the Valuation prepared by the Valuer has been made after due and careful enquiry.

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