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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)

CONTINUING CONNECTED TRANSACTION PROPERTY LEASING FRAMEWORK AGREEMENT

Reference is made to the announcement of the Company dated 14 June 2019 regarding, among other things, the Existing Tenancy Agreement and the Existing Property Management Services Agreement.

In light of the Group's business growth and development plan, the Board announces that, on 29 October 2019, SMIT Shenzhen, a wholly-owned subsidiary of the Company, entered into the Property Leasing Framework Agreement with Mr. Huang, pursuant to which SMIT Shenzhen (or its subsidiaries) may further enter into tenancy agreements (each for a term of one year or less) with Shanghai Guo Wei or Shenzhen Digital TV, each a company controlled by Mr. Huang, in relation to the leasing of certain office premises in the Shanghai Property and the Shenzhen Property respectively. The transactions contemplated under the Property Leasing Framework Agreement will be subject to the proposed annual caps in respect of the years ending 31 December 2020, 2021 and 2022.

Upon expiration of the Existing Tenancy Agreement and the Existing Property Management Services Agreement, any further leasing of the Existing Premises (which is located in the Shenzhen Property) will also be governed by the terms of the Property Leasing Framework Agreement.

Mr. Huang is a connected person of the Company under Rule 14A.07 of the Listing Rules as he is an executive Director and a controlling shareholder of the Company. Accordingly, the transactions contemplated under the Property Leasing Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As one of the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules in respect of the proposed annual caps exceeds 5%, the transactions contemplated under the Property Leasing Framework Agreement are subject to the reporting, announcement, Independent Shareholders' approval and annual review requirements under Chapter 14A of the Listing Rules.

An Independent Board Committee has been formed to advise and provide recommendation to the Independent Shareholders on the transactions contemplated under the Property Leasing Framework Agreement and the proposed annual caps.

Messis Capital Limited has been appointed by the Company as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard. A circular containing, among other things, details of the Property Leasing Framework Agreement, a letter from the Independent Board Committee, a letter from the Independent Financial Adviser, and a notice of the EGM are expected to be despatched to the shareholders of the Company on or around 18 November 2019.

INTRODUCTION

Reference is made to the announcement of the Company dated 14 June 2019 regarding, among other things, the Existing Tenancy Agreement and the Existing Property Management Services Agreement.

In light of the Group's business growth and development plan, the Board announces that, on 29 October 2019, SMIT Shenzhen, a wholly-owned subsidiary of the Company, entered into the Property Leasing Framework Agreement with Mr. Huang in relation to the leasing of certain premises in Shanghai and Shenzhen.

THE PROPERTY LEASING FRAMEWORK AGREEMENT

The principal terms of the Property Leasing Framework Agreement are set out as follows:

Date:	29 October 2019
Parties:	(i) Mr. Huang Xueliang (ii) SMIT Shenzhen
Term:	3 years, from 1 January 2020 to 31 December 2022 (both days inclusive)
Subject:	The Property Leasing Framework Agreement sets out a framework of the terms on which SMIT Shenzhen (or its subsidiaries) may further enter into tenancy agreements (each for a term of one year or less) with Shanghai Guo Wei or Shenzhen Digital TV, each a company controlled by Mr. Huang, in relation to the leasing of certain premises in the Shanghai Property and the Shenzhen Property respectively.
Pricing Standard:	Shenzhen Property
	Monthly rent: RMB162 per sq.m.
	Management fees
	Property management fees: RMB16 per sq.m. per month
	Air conditioning fees: RMB7.25 per sq.m. per month
	Miscellaneous property maintenance fees (e.g. utilities fees): To be charged based on the usage of SMIT Shenzhen in the Shenzhen Property
	Shanghai Property
	Monthly rent: RMB90 per sq.m.

BASIS OF DETERMINATION OF THE RENT AND THE MANAGEMENT FEES

The terms of the Property Leasing Framework Agreement, including the rents and the management fees, have been determined after arm's length negotiation between the parties with reference to (i) prevailing market rates for similar properties (e.g. with respect to floor space and age of the building) in the vicinity and the potential change in market value, (ii) prevailing market rates of property management services for comparable premises, and (iii) the historical amount of rents and management fees payable under the Existing Tenancy Agreement and the Existing Property Management Services Agreement.

PROPOSED ANNUAL CAPS AND HISTORICAL FIGURES

During the subsistence of the Property Leasing Framework Agreement, the maximum aggregate rents and management fees will not exceed the following caps:

	For the financial year ending 31 December 2020	For the financial year ending 31 December 2021	For the financial year ending 31 December 2022
Proposed annual caps <i>(Note)</i>	RMB23,000,000	RMB22,000,000	RMB22,000,000

Note: The proposed annual cap for the financial year ending 31 December 2020 includes the leasing of the Existing Premises (which is located in the Shenzhen Property) governed by the Existing Tenancy Agreement and the Existing Property Management Services Agreement. In addition, the proposed annual caps for the financial years ending 31 December 2021 and 31 December 2022 have taken into account the potential leasing of the Existing Premises after the expiration of the Existing Tenancy Agreement and the Existing Property Management Services Agreement.

The annual caps above are determined with reference to (i) the estimated gross floor area of the relevant premises in the Shanghai Property and the Shenzhen Property required for the operation of the Group; (ii) the rent payable in accordance with the pricing standard under the Property Leasing Framework Agreement; and (iii) the total estimated management fees payable in accordance with the pricing standard under the Property Leasing Framework Agreement.

For the financial year ended 31 December 2018 and the nine months ended 30 September 2019, the total rents and management fees paid in relation to the leasing and property management from Mr. Huang and his associates were approximately RMB5,148,000 and RMB7,465,000 respectively.

REASONS FOR AND BENEFITS OF ENTERING INTO THE PROPERTY LEASING FRAMEWORK AGREEMENT

The Group is a leading security devices provider globally for pay-TV broadcasting access. It has been actively seeking new business opportunities in order to expand and diversify its business. The Group obtained requisite approval from the PRC Central Government for the implementation of the national science and technology project of "Development and Application of Full Process Electronic Design Automation System for Chip Design" in 2018. It is expected that the Group will continue to grasp the opportunities for the development of the domestic integrated circuit industry and develop its electronic design automation business in the PRC.

The leasing transactions contemplated under the Property Leasing Framework Agreement will enable the Group to secure stable and flexible leasing arrangement of suitable office space for its expansion plan of the Shenzhen office as well as the Shanghai office which will become the Group's base for attracting new research and development talents from the region and expand the Group's presence in the PRC.

The Directors (excluding the independent non-executive Directors whose view will be disclosed in the circular and excluding Mr. Huang Xueliang, who has abstained from voting on the relevant resolutions approving the Property Leasing Framework Agreement) are of the view that the Property Leasing Framework Agreement caters for the Company's business needs for its development plan, and that the agreement was entered into on normal commercial terms, in the ordinary and usual course of business of the Group and that the terms of the Property Leasing Framework Agreement, including the pricing standard of the rent, the management fees and proposed annual caps, are fair and reasonable and in the interests of the Company and its shareholders as a whole.

Except for Mr. Huang Xueliang, none of the Directors have a material interest in the transactions contemplated under the Property Leasing Framework Agreement and are required to abstain from voting.

INFORMATION ON THE COMPANY AND THE PARTIES TO THE PROPERTY LEASING FRAMEWORK AGREEMENT

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

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 the business of electronic design automation, rapid verification system and software and designing, developing and marketing security devices such as CAMs (for the paid TV industry) and mPOS devices (for the mobile payment market).

Mr. Huang Xueliang (黃學良) is the chairman, chief executive officer, executive Director and controlling shareholder of the Company. Mr. Huang holds approximately 65.62% indirect interest in Shenzhen Digital TV which owns the Shenzhen Property. He also holds approximately 99% indirect interest in Shanghai Guo Wei which owns the Shanghai Property.

LISTING RULES IMPLICATIONS

Mr. Huang is a connected person of the Company under Rule 14A.07 of the Listing Rules as he is an executive Director and a controlling shareholder of the Company. Accordingly, the transactions contemplated under the Property Leasing Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As one of the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules in respect of the proposed annual caps exceeds 5%, the transactions contemplated under the Property Leasing Framework Agreement are subject to the reporting, announcement, Independent Shareholders' approval and annual review requirements under Chapter 14A of the Listing Rules.

The Property Leasing Framework Agreement is conditional on the approval by the Independent Shareholders being obtained at the EGM.

An EGM will be convened by the Company with a view to seek approval of the Independent Shareholders for the Property Leasing Framework Agreement and the proposed annual caps in accordance with the requirements of the Listing Rules.

An Independent Board Committee has been formed to advise and provide recommendation to the Independent Shareholders on the transactions contemplated under the Property Leasing Framework Agreement and the proposed annual caps.

Messis Capital Limited has been appointed by the Company as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

A circular containing, among other things, details of the Property Leasing Framework Agreement, a letter from the Independent Board Committee; a letter from the Independent Financial Adviser, and a notice of the EGM are expected to be despatched to the shareholders of the Company on or around 18 November 2019.

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)
“Directors”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened to consider and, if thought fit, approve, among other things, the Property Leasing Framework Agreement and the transactions contemplated thereunder
“Existing Premises”	Part of 1st floor, 14th, 15th and 22nd floors of the Shenzhen Property, to which the Existing Tenancy Agreement and the Existing Property Management Services Agreement relate
“Existing Property Management Services Agreement”	the property management services agreement dated 14 June 2019 entered into between SMIT Shenzhen, Shenzhen Digital TV and Shenzhen Excellence in relation to the property management of the Existing Premises
“Existing Tenancy Agreement”	the tenancy agreement dated 14 June 2019 entered into between SMIT Shenzhen and Shenzhen Digital TV in relation to the leasing of the Existing Premises
“Group”	the Company and its subsidiaries

“Independent Board Committee”	the committee of all the independent non-executive Directors, consisting of Mr. Zhang Junjie, Mr. Woo Kar Tung, Raymond and Mr. Jin Yufeng, which has been formed to advise the Independent Shareholders in respect of the transactions contemplated under the Property Leasing Framework Agreement and the proposed annual caps
“Independent Financial Adviser”	Messis Capital Limited, a licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong), and being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the transactions contemplated under the Property Leasing Framework Agreement and the proposed annual caps
“Independent Shareholder(s)”	the shareholder(s) of the Company other than Mr. Huang and his associates
“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 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
“Property Leasing Framework Agreement”	the property leasing framework agreement dated 29 October 2019 entered into between SMIT Shenzhen and Mr. Huang in relation to the leasing of certain premises in the Shanghai Property and the Shenzhen Property
“RMB”	Renminbi, the lawful currency of the PRC
“Shanghai Property”	an office building located at No. 2555 Xiupu Road, Pudong New Area, Shanghai, and owned by Shanghai Guo Wei
“Shanghai Guo Wei”	Shanghai Guo Wei Industrial Development Co., Ltd.* (上海國微實業發展有限公司), a company established under the laws of the PRC with limited liability
“Shenzhen Digital TV”	Shenzhen Digital TV National Engineering Laboratory Co., Ltd.* (深圳數字電視國家工程實驗室股份有限公司), a company established under the laws of the PRC with limited liability
“Shenzhen Excellence”	Shenzhen Excellence Property Management Co., Ltd.* (深圳市卓越物業管理股份有限公司), a company established under the laws of the PRC with limited liability

“Shenzhen Property”	Guoshi Building, an office building located at No.1801 Shahe West Road, Nanshan District, Shenzhen, and owned by Shenzhen Digital TV
“SMIT Shenzhen”	Shenzhen State Micro Technology Co., Ltd.* (國微集團(深圳)有限公司), a company incorporated under the laws of the PRC with limited liability and a wholly-owned subsidiary of the Company
“sq.m.”	square meter
“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)”, “connected transaction(s)”, “percentage ratio(s)”, “substantial shareholder(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, 29 October 2019

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

* *For identification purpose only*