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Sandmartin International Holdings Limited

聖馬丁國際控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 482)

**ANNOUNCEMENT OF INTERIM RESULTS
FOR THE SIX MONTHS ENDED DECEMBER 31, 2010**

The Board of Directors (the “Directors”) of Sandmartin International Holdings Limited (the “Company”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended December 31, 2010 (the “Period”), together with the comparative figures, as follows:

* For identification purposes only

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended December 31, 2010

		Six months ended December 31,	
	NOTES	2010 HK\$'000 (unaudited)	2009 HK\$'000 (unaudited)
Revenue	3	833,651	715,469
Cost of sales		(654,847)	(558,499)
Gross profit		178,804	156,970
Other income		7,159	7,334
Other gains and losses		(354)	742
Distribution and selling costs		(25,119)	(27,575)
Administrative expenses		(75,659)	(64,079)
Impairment loss on goodwill		(12,500)	(3,055)
Impairment loss on trade receivables	8	(2,300)	(1,276)
Research and development costs		(20,303)	(18,822)
Finance costs		(1,222)	(3,703)
Profit before tax	4	48,506	46,536
Income tax expense	5	(2,226)	(5,165)
Profit for the period		46,280	41,371
Other comprehensive income			
Exchange difference arising from translation of foreign operations		7,254	3,346
Fair value gain on available-for-sale investments		478	—
Total comprehensive income for the period		54,012	44,717
Profit for the period attributable to:			
Owners of the Company		45,580	41,531
Non-controlling interests		700	(160)
		46,280	41,371
Total comprehensive income attributable to:			
Owners of the Company		53,508	44,885
Non-controlling interests		504	(168)
		54,012	44,717
Earnings per share	7		
Basic (HK cents)		6.9	7.3
Diluted (HK cents)		6.8	7.3

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At December 31, 2010

		December 31	June 30,
		2010,	2010
	<i>NOTES</i>	HK\$'000	HK\$'000
		(unaudited)	(audited)
			(restated)
Non-current assets			
Property, plant and equipment		169,569	170,814
Prepaid lease payments		15,191	15,009
Investment properties		32,789	31,981
Goodwill		55,662	66,392
Intangible assets		1,764	2,980
Available-for-sale investments		174,241	–
Derivatives embedded in convertible bonds		24,696	–
Deferred tax assets		15,778	12,624
		489,690	299,800
Current assets			
Inventories		186,983	278,791
Trade and other receivables	8	356,479	276,268
Prepaid lease payments		388	379
Derivative financial instruments		47	51
Pledged bank deposits		1,425	1,405
Bank balances and cash		292,086	477,150
		837,408	1,034,044
Current liabilities			
Trade and other payables	9	335,172	392,223
Tax liabilities		15,203	14,658
Bank borrowings – due within one year		86,089	66,395
Obligations under finance leases			
– due within one year		275	291
		436,739	473,567
Net current assets		400,669	560,477
		890,359	860,277

	December 31 2010, <i>HK\$'000</i> (unaudited)	June 30, 2010 <i>HK\$'000</i> (audited) (restated)
Capital and reserves		
Share capital	66,478	66,478
Reserves	791,939	757,666
Equity attributable to owners of the Company	858,417	824,144
Non-controlling interests	9,937	9,433
Total equity	868,354	833,577
Non-current liabilities		
Bank borrowings – due after one year	9,756	16,157
Deferred tax liabilities	11,820	10,006
Obligations under finance leases – due after one year	429	537
	22,005	26,700
	890,359	860,277

NOTES:

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for investment properties and certain financial instruments which are measured at fair values.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended June 30, 2010 except as stated below.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. The group has designated the debt element of an investment in convertible bonds as an available-for-sale investment.

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated in the revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the revaluation reserve is reclassified to profit or loss.

Interest income is recognised on an effective interest basis for the debt element of the convertible bonds classified as an available-for-sale investment.

In the current interim period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations (“new and revised HKFRSs”) issued by the HKICPA which are effective for the Group’s financial year beginning on July 1, 2010.

HKAS 32 (Amendments)	Classification of Rights Issues
HKFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 ¹
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010 ²
HK – Int 5	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause
HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs issued in 2008.

¹ *Amendments that are effective for annual periods beginning on or after January 1, 2010.*

² *Amendments that are effective for annual periods beginning on or after July 1, 2010.*

Except as described below, the adoption of the new and revised HKFRSs has had no material effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

Amendments to HKAS 17 Leases

As part of Improvements to HKFRSs issued in 2009, HKAS 17 “Leases” has been amended in relation to the classification of leasehold land. Before the amendments to HKAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the consolidated statement of financial position. The amendments to HKAS 17 have removed such a requirement. The amendments require that the classification of leasehold land should be based on the general principles set out in HKAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee.

In accordance with the transitional provisions set out in the amendments to HKAS 17, the Group reassessed the classification of unexpired leasehold land as at July 1, 2010 based on information that existed at the inception of the leases. Leasehold land that qualifies for finance lease classification has been reclassified from prepaid lease payment to property, plant and equipment retrospectively. This resulted in prepaid lease payments with carrying amounts of HK\$7,837,000 and HK\$7,669,000 as at July 1, 2009 and June 30, 2010 respectively being reclassified to property, plant and equipment.

As at December 31, 2010, leasehold land that qualifies for finance lease classification with a carrying amount of HK\$7,585,000 has been included in property, plant and equipment. The application of the amendments to HKAS 17 has had no impact on the reported profit or loss for the current and prior years.

Summary of the effects of the above changes in accounting policies

The effects of the above changes in accounting policies on the financial positions of the Group as at July 1, 2009 and June 30, 2010 is as follows:

	As at July 1, 2009 (originally stated) HK\$'000	Adjustments HK\$'000	As at July 1, 2009 (restated) HK\$'000	As at June 30, 2010 (originally stated) HK\$'000	Adjustments HK\$'000	As at June 30, 2010 (restated) HK\$'000
ASSETS						
Property, plant and equipment	180,733	7,837	188,570	163,145	7,669	170,814
Prepaid lease payment – non-current	22,899	(7,669)	15,230	22,510	(7,501)	15,009
Prepaid lease payment – current	543	(168)	375	547	(168)	379
Other assets	724,142	–	724,142	1,147,642	–	1,147,642
	<u>928,317</u>	<u>–</u>	<u>928,317</u>	<u>1,333,844</u>	<u>–</u>	<u>1,333,844</u>
LIABILITIES	<u>353,926</u>	<u>–</u>	<u>353,926</u>	<u>500,267</u>	<u>–</u>	<u>500,267</u>
NET ASSETS	<u>574,391</u>	<u>–</u>	<u>574,391</u>	<u>833,577</u>	<u>–</u>	<u>833,577</u>
CAPITAL AND RESERVES	<u>574,391</u>	<u>–</u>	<u>574,391</u>	<u>833,577</u>	<u>–</u>	<u>833,577</u>

Note: There is no effects on net assets and equity for the current and prior period.

The above changes in accounting policies have no effects on the Group's basic and diluted earnings per share for the current and prior period.

The Group has not early applied the following new or revised standards, amendments or interpretations that have been issued but not yet effective:

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010 ¹
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets ¹
HKFRS 9	Financial Instruments ²
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets ³
HKAS 24 (as revised in 2009)	Related Party Disclosures ¹
HK (IFRIC) – Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement ¹

¹ Effective for annual periods beginning on or after January 1, 2011.

² Effective for annual periods beginning on or after January 1, 2013.

³ Effective for annual periods beginning on or after January 1, 2012.

HKFRS 9 “Financial Instruments” (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 “Financial Instruments” (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 “Financial Instruments: Recognition and Measurement” are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. The directors anticipate application of HKFRS 9 that will be adopted in the Group’s consolidated financial statements for the financial year ending June 30, 2014 may have a significant impact on amounts reported in respect of the Groups’ financial assets.

The amendments to HKAS 12 titled “Deferred Tax: Recovery of Underlying Assets” mainly deal with the measurement of deferred tax for investment properties that are measured using the fair value model in accordance with HKAS 40 “Investment Property”. Based on the amendments, for the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties measured using the fair value model, the carrying amounts of the investment properties are presumed to be recovered through sale, unless the presumption is rebutted in certain circumstances. The directors anticipate that the application of the amendments to HKAS 12 may have a significant impact on deferred tax recognised for investment properties located in the People’s Republic of China (the “PRC”) that are measured using the fair value model. If the presumption under the amendments is not rebutted, the deferred tax liability relating to the revaluation of investment properties may increase as the land appreciation tax rate of the PRC is higher than the tax rate currently used by the Group to calculate the deferred tax recognised for investment properties.

Except as described above, the directors anticipate that the application of these new or revised standards, amendments or interpretations that have been issued but not yet effective will have no material impact on the results and the financial position of the Group.

3. SEGMENT INFORMATION

Information reported to the Board of Directors of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on two operating divisions-media entertainment platform related products and other multimedia products.

Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable segment:

Six months ended December 31, 2010

	Media entertainment platform related products <i>HK\$'000</i>	Other multimedia products <i>HK\$'000</i>	Total <i>HK\$'000</i>
REVENUE			
External sales	<u>602,770</u>	<u>230,881</u>	<u>833,651</u>
RESULTS			
Segment results	<u>113,745</u>	<u>25,140</u>	138,885
Other income			7,159
Other gains and losses			(354)
Research and development costs			(20,303)
Administrative expenses			(75,659)
Finance costs			<u>(1,222)</u>
Profit before tax			<u>48,506</u>

Six months ended December 31, 2009

	Media entertainment platform related products <i>HK\$'000</i>	Other multimedia products <i>HK\$'000</i>	Total <i>HK\$'000</i>
REVENUE			
External sales	<u>514,113</u>	<u>201,356</u>	<u>715,469</u>
RESULTS			
Segment results	<u>107,205</u>	<u>17,859</u>	125,064
Other income			7,334
Other gains and losses			742
Research and development costs			(18,822)
Administrative expenses			(64,079)
Finance costs			<u>(3,703)</u>
Profit before tax			<u>46,536</u>

Segment results represent the profit earned by each segment without allocation of administrative expenses, research and development costs, other income, other gains and losses, and finance costs. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

4. PROFIT BEFORE TAX

	Six months ended	
	December 31,	
	2010	2009
	HK\$'000	HK\$'000
Profit before tax has been arrived at after charging (crediting):		
Amortisation of intangible assets (included in cost of sales)	1,362	1,684
Release of prepaid lease payments	194	178
Depreciation of property, plant and equipment	11,406	14,887
Write-down of inventories (included in cost of sales)	3,000	8,200
Bank interest income	(203)	(318)
Net loss (gain) on fair value change of derivative financial instruments (<i>Note</i>)	24	(177)
Net loss on fair value change of derivatives embedded in convertible bonds (included in other gains and losses)	<u>1,541</u>	<u>–</u>

Note: The amount represents fair value change for foreign currency exchange contracts, certain of which are outstanding at the end of the reporting period.

5. INCOME TAX EXPENSE

	Six months ended	
	December 31,	
	2010	2009
	HK\$'000	HK\$'000
The tax charge (credit) comprises:		
Current tax:		
PRC Enterprise Income Tax	2,851	2,315
Other jurisdictions	622	1,450
Underprovision in prior years	–	88
Deferred taxation:		
Current period	(2,905)	–
Provision for PRC dividend withholding tax	<u>1,658</u>	<u>1,312</u>
	<u>2,226</u>	<u>5,165</u>

No tax is payable on the profit for both periods arising in Hong Kong as the assessable profit is wholly absorbed by tax losses brought forward.

Pursuant to the relevant laws and regulations in the PRC, 珠海保稅區虹揚電子科技有限公司 and 珠海保稅區隆宇光電科技有限公司 are subject to PRC enterprise income tax that provide for a transitional period of 5 years commencing January 1, 2008 for the tax rate to reach 25%.

As for 中山聖馬丁電子元件有限公司, in late 2008, it successfully applied for High and New Technology Enterprises Status, so the applicable tax rate has been reduced to 15% from January 1, 2008 to December 31, 2010.

As stated in the Decree Law No. 58/99/M, Chapter 2, Article 12, dated October 18, 1999, the Macau subsidiary is exempted from Macao Complementary Tax.

The Group's European subsidiaries are subject to profit tax rates at range of 26.3% to 30%.

Tax arising in other jurisdictions are subject to applicable tax rates in the relevant jurisdictions.

6. DIVIDENDS

During the six months ended December 31, 2010, a final dividend of HK3.0 cents per share (7.1.2009 to 12.31.2009: HK1.6 cents per share), amounting to HK\$19,943,000 (7.1.2009 to 12.31.2009: HK\$8,908,000) was paid to the shareholders for the year ended June 30, 2010.

The directors do not recommend the payment of an interim dividend.

7. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	Six months ended December 31,	
	2010	2009
	HK\$'000	HK\$'000
Earnings for the purposes of basic and diluted earnings per share		
Profit for the period attributable to owners of the Company	<u>45,580</u>	<u>41,531</u>

	Number of shares	
Weighted average number of ordinary shares for the purpose of basic earnings per share	664,782,000	565,530,913
Effect of dilutive potential ordinary shares in respect of share options	<u>4,451,926</u>	<u>–</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>669,233,926</u>	<u>565,530,913</u>

No diluted earnings per share had been presented for the six months ended December 31, 2009 since the exercise price of the Company's share options were higher than the average market price per share for the period.

8. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 90 days to its trade customers. The following is an aged analysis of trade receivables by age net of allowance for doubtful debts, presented based on the invoice date at the end of the reporting periods:

	December 31, 2010 HK\$'000	June 30, 2010 HK\$'000
0 – 30 days	135,891	119,748
31 – 60 days	84,073	63,497
61 – 90 days	10,487	41,932
91 – 180 days	721	11,052
More than 180 days	<u>–</u>	<u>–</u>
	231,172	236,229
Other receivables	<u>125,307</u>	<u>40,039</u>
Total trade and other receivables	<u>356,479</u>	<u>276,268</u>

During the period, the directors reviewed the carrying amounts of certain long outstanding trade receivables and identified an impairment loss of HK\$2,300,000 (7.1.2009 to 12.31.2009: HK\$1,276,000) which has been recognised in the statement of comprehensive income.

9. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables, presented based on the invoice date at the end of the reporting periods:

	December 31, 2010 <i>HK\$'000</i>	June 30, 2010 <i>HK\$'000</i>
0 – 30 days	150,039	151,276
31 – 60 days	63,112	102,782
61 – 90 days	25,427	49,380
91 – 180 days	12,957	23,895
181 – 365 days	3,310	1,891
	254,845	329,224
Other payables	80,327	62,999
Total trade and other payables	<u>335,172</u>	<u>392,223</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Overall Review

In the wake of the financial crisis, the Group achieved the satisfactory results in first half 2010/11 year. The Group has recorded 833.7 million sales revenue for the six months ended December 31, 2010 (the “Period”), increased by 16.5% when compared with the same period last year (7.1.2009 to 12.31.2009: HK\$715.5 million). Gross profit of the Group during the Period was up to 13.9% to HK\$178.8 million (7.1.2009 to 12.31.2009: HK\$157.0 million). Gross profit margin also remained stable at 21.4% (7.1.2009 to 12.31.2009: 21.9%). Net profit of the Group during the Period rose by about 11.9% to HK\$46.3 million (7.1.2009 to 12.31.2009: HK\$41.4 million).

Profit attributable to owners of the Company during the Period was HK\$45.6 million (7.1.2009 to 12.31.2009: HK\$41.5 million). During the Period, basic and diluted earnings per share was HK6.9 cents and HK6.8 cents respectively (7.1.2009 to 12.31.2009: HK7.3 cents and HK7.3 cents respectively).

Business Review

Looking back to the second half year of 2010, the Group kept the excellent development situation same as that in the first half year, and had made great achievement and outstanding performance in the whole global market, which further secured the global business plan of the Group. Furthermore, the long term stable cooperative relationships with the strategic partners have made the Group keeping the leadership in different markets. The Group’s great achievement in the past half year mainly attribute to the following points:

1. Middle East Market: Transform from Standard Definition (SD) Set Top Box to High Definition (HD) Set Top Box

Following the development of High Definition Television (HDTV), the development of HD set top box has become a must. With our first-class research and development (R&D) team of hardware and software, the Group had launched multiple platforms of new HD set top box series in the Middle East market. High quality products, excellent sales team and large customers marketing channels, all helped the Group to expand our market share in Middle East market.

HD products provide higher resolution for HDTV, moreover, clearer, more exquisite video and realistic sound gives the user a completely new experience in both visual and auditory. Besides, there are various optional add-value functions in HD products. The optional features enable users to get much more convenient services.

HD products with advanced technology are more profitable than SD products. The successful business of HD products has a good contribution to the Group revenue. HD products require high quality. The advanced manufacturing equipments and hi-tech testing devices provide guarantee to the quality of our products.

2. *Europe Market: Transit from Simple Entry Level Products to Hi-end Deluxe Products*

Following tightly with the market tread and the booming of new technologies, the Group had launched multiple platforms of Hi-end set top boxes with different solutions. The Hi-end platforms have various optional expanded functions, such as Personal Video Recorder Ready (PVR Ready), Dual Tuner/Combo, Triple play, Hybrid, Serial Advanced Technology Attachment interface (SATA interface), Internet Protocol Television (IPTV) and Hybrid Broadcast/Broadband Television (HbbTV) etc. These additional features provide the users of more qualified lives.

Hi-end products come with hi-technology which contributes higher profits and revenue for the Group. Committed to the development of the new technology for high-end models did not only bring economic profits to the Group, but also lay a reliable foundation for the development and innovation of the Group products structure. Furthermore, it provides a strong technique supports for the Group's leadership in the industry and market.

3. *Africa Virgin Market Development*

Through the cooperation with the most prestigious local religious people, our professional System Integration team well-equipped with advanced Conditional Access Systems (CAS) systems and high-quality products helped to set up the local digital signal broadcasting stations and complete signal transmission network for the customers successfully. Professional technology and high quality products help the Group to expand the market share, build brand image and win a very good reputation in the Africa market. The Group has prepared well to further expand in the Africa market in future.

4. *Outsourcing Helps to Win More Market Opportunities*

The new Group operation strategy is self-production of the core products and outsourcing the simple parts, such as accessories, which has made a positive contribution for the Group's steady development. Outsourcing action aids to release the production pressure, help the factory to have better schedule of the customers' orders and keep the delivery dates. As a result, the customer satisfaction has been enhanced and the cooperation in future would be more pleasant. Moreover, outsourcing assists R&D department to release from working in the simple parts, then R&D team could have more time and energy to focus on the development of the new technologies and new products. Therefore, outsourcing helps to catch more market opportunities for the Group's further development.

Prospects

China has the largest television broadcasting network and the most population of TV users in the world. The huge market has endless potential. With the increasing population of digital TV in China markets, the digital terrestrial broadcasting and digital cable broadcasting business are growing rapidly with the huge market potential driving the whole digital broadcasting television related sectors. Since the beginning of 2010, the Group began to formulate the layout of China market aggressively and develop the digitalized Set Top Boxes (STBs) in accordance with the new standards of China terrestrial digital broadcasting television. Through the strategic cooperation with a famous broadcasting system operator in China, the Group has stepped into the terrestrial digital TV market in China successfully, and has become the largest supplier of the digital terrestrial STBs. Currently, the Group is actively expanding its territory in the digital cable TV market in China.

The Group did not only become the supplier of set top box to the system operator in Chinese market, but also participate as the role of System Integrator for the diverse, international and strong technique background support, who provide professional head-end equipments to Chinese system operator as the equipments supplier as well.

The Group is not only the designer and manufacturer of professional head-end equipments, transmission equipments, modulating equipments and terminal receiving equipments. In Latin America and Africa, the Group has obtained great success in co-operating with many local system operators to provide comprehensive system integration business and advanced CAS technology.

Being participated in the huge China market, the Group's strategy is to transform gradually from the designer and manufacturer role to become a digital broadcasting platform operator, content provider and system integration expert, so as to extend system integration business to content services.

The Group will focus on the establishment of its special and important presence in China market by its exclusive operation certifications and local advantages, and promote the self-researched advanced security systems and technologies to gain good reputation in building up its own brand.

The Group will form strategic alliances with technological co-operation partners, renowned locking system providers, platform operators, and multi-system operators.

Looking forward, with the successful operation in China market, the Group expects the total revenue from all the regions in China would represent an important part of the Group's total revenue in next five years. Our business mode will be transformed from Original Design Manufacturer (ODM) to system operator, content provider and system integration expert, to establish the media business and build up our own brand, so as to maintain and strengthen the global competitiveness of the Group and to enhance our leading position.

Segmental Information

Media entertainment platform related products remain as the major growth driver, contributing to 72.3% of the Group sales revenue (7.1.2009 to 12.31.2009: 71.9%). While other multimedia products contributed to 27.7% of the Group sales revenue (7.1.2009 to 12.31.2009: 28.1%).

Detailed information of the Group's turnover and profit for the period by segment is shown in note 3 to the interim financial statement.

Acquisition of a Company

(1) *Agreement and Consideration*

On December 17, 2010, the Company, Honstar Development Limited (“HDL”), the wholly-owned subsidiary of the Company, Sino Light Group Limited (“SLG”), Express Touch Limited, and Sino Light Enterprise Limited (“SLE”) entered into an agreement that (a) HDL acquired from SLG the issued ordinary shares of SLE; and (b) HDL subscribed for new shares of SLE.

The consideration of acquisition is HK\$20,000,000 that is satisfied partly by the allotment and issue of consideration shares of the Company and partly by cash. The consideration of the subscription is HK\$30,000,000 that is satisfied by cash. After completion of the acquisition, HDL holds 55% of the entire issued capital of SLE and SLE becomes a non-wholly owned subsidiary of the Company.

On January 3, 2011, the Company allotted and issued 7,936,000 consideration shares, at an issue price of HK\$2.52 per share, together with cash at HK\$1,280 to SLG in order to fulfill the consideration of acquisition of HK\$20,000,000.

The consideration for the subscription HK\$30,000,000 which will, subject to satisfaction of the conditions of the agreement, be satisfied by cash, on or before April 30, 2011.

(2) *Principle Activities of SLE*

In December 2010, SLE has entered into a license agreement with the world-wide master distributor of “Pleasant Goat and Big Big Wolf” (Chinese: 喜羊羊與灰太狼 (“喜羊羊”); Chinese pronunciation: *Xǐ Yáng Yáng yǔ Huī Tài Láng* (“XYY”)) to manufacture and distribute children’s wear from 0-14 years old through establishing chain stores in the brand of XYY for 3 years with an option to renew for another three years in mainland China.

(3) *Reasons for and Benefits of the Acquisition and Subscription*

XYY is a cartoon series originally created by the Creative Power Entertaining (廣州原創動力) in Guangdong province of China. The cartoon series was first broadcasted in 2005 and since then more than 600 episodes have been broadcasted. Since the broadcasting of the XYY episodes, it has been recognized and honored by many awards. In 2008, XYY was the recipient of “The 4th Annual JinLong Prize for Original Cartoon Animation 2007” – “Mainland China, Hong-Kong, Macau and Taiwan The Best Creative Animation of the Year Award”; “14th Shanghai TV Festival Magnolia Award” – “Animation Silver Award”; and Guangdong channels’ – “The 2007 Grand Prize for Outstanding Domestically Produced Animated Cartoon”.

Owing to the fourth baby boom in China started in 2005, it is expected that this phenomenon will last for 10 to 15 years. By the end of 2008, the number of children in China aged between 0 to 14 has reached 250 million. With such a large population base of infants and children, it is expected that children’s wear industry will continue to grow positively. Also, in the next ten years, the children’s wear industry is expected to be able to attract those consumers who have the strongest purchasing power in Mainland China.

Apart from this, there are over 1,000 brands of children’s wear in Mainland China with low concentration. Each famous brand has its own market pattern, segment, enterprise pattern, brand style and so on. As branded children’s wear market continues to grow and develop, brand groups, marketing companies of professional brands, brand processors, brand retailers, exclusive retailers, professional purchasing agents, professional wholesalers, design companies and brand customization companies will put very much effort to differentiate their brands. It is estimated that the scale of the Chinese children’s wear industry will grow significantly. Leverage from the already well-known XYY characters, the acquisition will enable the Group to benefit from the growing children’s wear market in Mainland China.

For the above reasons, the Directors take the view that the Acquisition and the Subscription are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

Subscription of Convertible Bonds

In December 2010, the Company has subscribed for the convertible bonds in the aggregate principal amount of HK\$200,000,000 to be issued by Heng Xin China Holdings Limited (“Heng Xin”). The subscription price was satisfied in cash by the Company. The convertible bonds do not bear any interest. The term of the convertible bonds is two years after the date of issue of the convertible bonds. Assuming the conversion rights attaching to the convertible bonds are exercised in full at the initial conversion price of HK\$2 per conversion share, a maximum of 100,000,000 conversion shares will be allotted and issued.

Heng Xin is an investment holding company and its subsidiaries are principally engaged in wireless digital terrestrial television network equipment integrated business, digital cable television two-way conversion business, research, design, development on and manufacturing of electronic message security products, integrated circuits, and the integrated circuit solutions and the related services. In accordance with the Company’s corporate strategy to explore other industries with good business potential and growth prospects, the Directors consider that the Subscription provides an opportunity for the Company to participate in the market with strong earnings potential.

The Directors consider that the terms of the convertible bonds are fair and reasonable and in the interests of the Company and the shareholders as a whole.

Issue of Taiwan Depositary Receipt (“TDR”)

On August 26, 2010, the Company issued TDR at Taiwan Stock Exchange. The ordinary shares of the Company are the underlying securities of the TDR. One ordinary share represents one unit of TDR. A total TDR of 80 million units was issued and all of which are existing shares to be offered by ten shareholders, including Success Power Investments Limited and Wellever Investments Limited, two substantial shareholders of the Company. The Company did not issue any new shares for this TDR issue. The offer price of TDR is NT\$9.30 (equivalent to HK\$2.26) per unit. The net proceeds of TDR issue, after deduction of underwriting fees and expenses, has been delivered to the shareholders who participated in this TDR issue after completion of issue.

Liquidity and Financial Resources

As at December 31, 2010, the Group's cash and bank balances amounted to HK\$292.1 million (6.30.2010: HK\$477.2 million).

During the Period, the Group has net cash inflow from its operating activities amounted to HK\$25.0 million. Net cash outflow from investing activities and financing activities amounted to HK\$204.3 million and HK\$13.4 million respectively.

As a measure of liquidity, the current ratio (ratio of current assets to current liabilities) was 1.9 at December 31, 2010 and 2.1 at June 30, 2010. For the Period, the annualized average trade receivable turnover period, average inventory turnover period, and average trade payable turnover period were 51 days, 65 days, and 81 days respectively (For the year ended June 30, 2010: 47 days, 77 days, and 79 days respectively).

At December 31, 2010, the Group has the ability to borrow up to approximately HK\$215.0 million under its existing credit facilities. The Group was in a net cash position, total bank and cash exceeded total borrowings at December 31, 2010. The gearing ratio, expressed as a percentage of interest bearing borrowings of HK\$96.5 million over total assets of HK\$1,327.1 million, was 7.3% (6.30.2010: 6.3%).

Foreign Currency Exposure

The Group's sales and purchases were mostly denominated in US dollars and Renminbi ("RMB"). Although the Group currently does not maintain any hedging policy to hedge against foreign exchange exposure that may arise from the above transactions, management team will continuously monitor the Group's foreign currency exposure.

Charges on Assets

As at December 31, 2010, the Group's general banking facilities were secured by the following assets of the Group: (i) buildings with a carrying value of HK\$36.6 million, and (ii) prepaid lease payments of HK\$11.6 million.

Contingent Liabilities

The Group did not have any significant contingent liabilities at December 31, 2010.

EMPLOYEES

At December 31, 2010, the Group employed a total of 3,186 (6.30.2010: 3,866) full-time employees. Employees are remunerated accordingly to their performance and responsibilities. Other employee benefits include, inter alias, share option scheme, provident fund, insurance and medical coverage.

INTERIM DIVIDEND

The Board do not recommend the payment of an interim dividend (7.1.2009 to 12.31.2009: HK2.5 cents) for the six months period ended December 31, 2010.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the shares of the Company during the Period.

CORPORATE GOVERNANCE

The Company has complied with all the provisions set out in the Code on Corporate Governance Practices as contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), and where appropriate, adopted the recommended best practices throughout the Period.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the Company's code of conduct for dealings in securities of the Company by Directors. All Directors of the Company have confirmed, following specific enquiry by the Company that they have complied with the required standards set out in the Model Code throughout the Period.

REVIEW OF ACCOUNTS

The Audit Committee has reviewed the Group's consolidated financial statements for the six months ended December 31, 2010, including the accounting principles and practices adopted by the Group, in conjunction with the Company's external auditors.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This results announcement is published on the Company's corporate website at www.sandmartin.com.hk and the HKExnews at www.hkexnews.hk. The Interim Report will be dispatched to Shareholders and will be available at the Company's corporate website in due course.

BOARD OF DIRECTORS

As at the date of this announcement, Mr. Hung Tsung Chin, Ms. Chen Mei Huei, and Mr. Liao Wen I are the executive directors and Mr. Hsu Chun Yi, Mr. Tsan Wen Nan, and Mr. Lee Chien Kuo are the independent non-executive directors of the Company.

By Order of the Board
Sandmartin International Holdings Limited
Hung Tsung Chin
Chairman

Hong Kong, February 25, 2011