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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)

**FRAMEWORK AGREEMENT IN RESPECT OF
THE PROPOSED FORMATION OF
A JOINT VENTURE COMPANY**

This announcement is made by the Company pursuant to the Inside Information Provisions (as defined in the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) and Rule 13.09 of the Listing Rules.

The Board is pleased to announce that after trading hours on 28 October 2013, the JV Partners entered into the Framework Agreement for the formation of the JV Company as an investment holding company for two companies whose principal businesses are to design, manufacture and distribute satellite television antenna, low noise block and accessories.

The Framework Agreement contains a legally binding obligation on the JV Partners to negotiate in good faith within one month the detailed terms of the Definitive Documentation in respect of the proposed formation of the JV Company as well as confidentiality obligations.

The proposed formation of the JV Company, if materialised, will constitute a notifiable transaction for the Company under Chapter 14 of the Listing Rules, it will also constitute a deemed disposal of a subsidiary. Further announcement will be made in relation to the proposed formation of the JV Company as and when appropriate in accordance with the requirements of the Listing Rules.

Shareholders and potential investors are reminded that the proposed formation of the JV Company is subject to, among other things, the entering into of the Definitive Documentation, the terms of which are yet to be finalised. The Framework Agreement may or may not lead to the entering into of the Definitive Documentation. Accordingly, the proposed formation of the JV Company may or may not be proceed. Shareholders and potential investors should exercise caution when dealing in the securities of the Company.

FRAMEWORK AGREEMENT

The Board is pleased to announce that the JV Partners have entered into the Framework Agreement on 28 October 2013, pursuant to which the JV Partners will establish the JV Company as an investment holding company to hold the 100% equity interests of SKS and PBI (wholly-owned subsidiaries of the JV Partner and the Company respectively). The respective principal businesses of SKS and PBI are designing, manufacturing and distribution of satellite television antenna, low noise block (“LNB”) and accessories. Upon completion of the formation of JV Company and the shares exchange between SKS, PBI and the JV Company, SKS and PBI will become wholly-owned subsidiaries of the JV Company.

The Framework Agreement contains a legally binding obligation on the JV Partners to negotiate in good faith the detailed terms of the Definitive Documentation within one month in respect of the proposed formation of the JV Company as well as confidentiality obligations.

It is contemplated that the Definitive Documentation shall include the following terms:

Principal terms for the formation of the JV Company

- (1) The capital structure of the JV Company will be determined and agreed by the JV Partners after the entering into of the Framework Agreement. The share capital of the JV Company will consist of ordinary shares and preference shares to be subscribed for or exchanged by the JV Partners, with the preference shares to be subscribed by Whayu;
- (2) The rights and obligations of the preference shares of the JV Company will be set out in the articles of association of the JV Company and the agreement to be entered into between the JV Company and Whayu, including but limited to the dividend right, redemption right and conversion right to the preference shares of the JV Company;
- (3) The Company will contribute its 100% equity interest in PBI as its investment in the JV Company, while Whayu will contribute its 100% equity interest in SKS as its investment in the JV Company;
- (4) For the purpose of the contribution by the Company of PBI to the JV Company as mentioned in (3) above, the basis of valuation of PBI will be based on the net asset value of PBI as at 31 October 2013, plus a premium of NT\$300 million (approximately HK\$79.2 million);
- (5) For the purpose of the contribution by Whayu of SKS to the JV Company as mentioned in (3) above, the basis of valuation of SKS will be based on its net asset value as at 31 October 2013, plus a premium of NT\$40 million (approximately HK\$10.56 million) and the past due trade receivables of NT\$42 million (approximately HK\$11.09 million) in the books of SKS (“**Pending Trade Receivables**”), and deduct the intangible assets adjusted item of NT\$1.75 million (approximately HK\$462,000) in the books of SKS. In case the Pending Trade Receivables cannot be recovered by SKS within a reasonable period, Whayu will compensate the unrecovered amount to the Company based on the Company’s equity interest in the JV Company and the remaining unrecovered amount of Pending Trade Receivables, or to compensate the unrecovered amount to the JV Company at the Company’s discretion;

- (6) Upon the formation of the JV Company, Whyu will, either through capital reduction or through other methods as mutually agreed in writing by the JV Partners, receive a consideration of NT\$60 million (approximately HK\$15.84 million) for its agreement to enter into the joint venture agreement. Besides, Whyu will assist SKS to apply for a bridge loan from bank not exceeding NT\$100 million (approximately HK\$26.4 million) and the purpose of the bridge loan will be solely for the redemption of the preference shares of the JV Company to be held by Whyu.;
- (7) The JV Partners will agree that the subscription agreement of the preference shares of the JV Company will set out the following items: (i) the preference shares will have priority redemption right, but the redemption will only be made by the funding from the bridge loan; (ii) Whyu can choose to convert the preference shares into ordinary shares within a fixed period, and the conversion price will be the same as the subscription price of the ordinary shares; (iii) the preference shares, if not participating in ex-right and/or ex-dividend, will contain the automatic price adjustment mechanism for ex-right and ex-dividend; (iv) the preference shares will have maturity date. Except for the prior written consent by the JV Partners for its extension, the preference shares will automatically convert into ordinary shares on maturity; and (v) before the preference shares be converted or redeemed, they will have the right and obligation as the ordinary shares, including but not limited to the dividend entitlement and voting right;
- (8) Within four months after the formation of the JV Company, the JV Partners will enter into share exchange agreements for the share exchange between the JV Company and SKS; and the share exchange between the JV Company and PBI;
- (9) As at the date of this Framework Agreement, if the net asset value of SKS is lower than its net asset value as at 30 June 2013, but the amount is less than NT\$4 million, under this situation, the JV Partners will agree that the contribution by Whyu to the JV Company will be based on the net asset value of SKS as at 30 June 2013;
- (10) In the employment agreements to be entered into between the JV Company and its employees, the employment agreements may include the granting of share options of the JV Company to the employees, subject to the subscription amount shall not exceed NT\$125 million (approximately HK\$33 million).

The exact terms and conditions of the JV Company will be set out in the Definitive Documents, the terms of which have not been agreed and are still subject to finalization as at the date of this announcement.

REASONS FOR AND THE BENEFITS OF THE PROPOSED FORMATION OF THE JV COMPANY

SKS was founded in 2003 and was incorporated in Taiwan. SKS became a wholly-owned subsidiary of Whayu in 2011. The principal activity of SKS is in the design and the manufacturing of LNB products and a variety of multi-purpose compound switch products. Its factory is located in Dongguan, PRC.

The formation of JV Company is a strategic alliance between Whayu and the Company. With the efficient production facilities of SKS in the PRC and the long established distribution channels and customers' base of PBI in North America and Latin America, the proposed formation of the JV Company will build up an efficient supply chain that covers the design, manufacture and distribution of LNB products and other equipment to meet different customer demands for high-end satellite television and LNB products.

Following the successful integration of SKS and PBI, it is expected that the profit margin of both companies will be improved and this will equip both companies with the advance technologies capable of developing the next generation products in satellite television receiving system and LNB products.

GENERAL

The proposed formation of the JV Company, if materialised, will constitute a notifiable transaction for the Company under Chapter 14 of the Listing Rules, it will also constitute a deemed disposal of a subsidiary. Further announcement will be made in relation to the proposed formation of JV Company as and when appropriate in accordance with the requirements of the Listing Rules.

Shareholders and potential investors are reminded that the proposed formation of the JV Company is subject to, among other things, the entering into of the Definitive Documentation, the terms of which are yet to be finalised. The Framework Agreement may or may not lead to the entering into of the Definitive Documentation. Accordingly, the proposed formation of JV Company may or may not be proceed. Shareholders and potential investors should exercise caution when dealing in the securities of the Company.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms have the meaning set opposite to them below:

“Board”	the board of Directors;
“Company”	Sandmartin International Holdings Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the main board of the Stock Exchange;
“connected person(s)”	has the meaning ascribed to it in the Listing Rules;
“Definitive Documentation”	definitive agreements between the JV Partners providing for the formation of the JV Company;
“Director(s)”	director(s) of the Company;
“Framework Agreement”	the framework agreement dated 28 October 2013 entered into between Whayu and the Company in relation to the proposed formation of the JV Company;
“Group”	the Company and its subsidiaries;
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“JV Company”	a joint venture company to be established by the Company and Whayu;
“JV Partners”	the Company and Whayu;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“NT\$”	New Taiwan dollar, the lawful currency of Taiwan
“PBI”	Pro Brand International Inc., a company incorporated in the State of Georgia, the United States of America with limited liability, including its subsidiary in the United Kingdom, which is wholly owned by the Company as at the date of this announcement;
“PRC”	the People’s Republic of China;
“Shareholder(s)”	holder(s) of ordinary share(s) having a par value of HK\$0.10 each in the share capital of the Company;

“SKS”	Skstecks Inc., a company incorporated in Taiwan with limited liability, including its subsidiaries in the PRC;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Taiwan”	the Republic of China;
“Whayu”	Wha Yu Industrial Co., Ltd., a company incorporated in Taiwan with limited liability, the shares of which are listed on the Taiwan Stock Exchange (Taiwan Stock code: 3419); and
“%”	per cent.

In this announcement, amounts in the New Taiwan Dollars have been converted into Hong Kong Dollars at the rate of NT\$1.00 = HK\$0.264 for illustration purpose, unless otherwise stated. No representation is made that any amounts in NT\$ or HK\$ could have been or could be converted at that rate or other rate or at all.

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

Hong Kong, 28 October 2013

As at the date of this announcement, the executive directors are Mr. Hung Tsung Chin, Ms. Chen Mei Huei, Mr. Liao Wen I, Mr. Frank Karl-Heinz Fischer, Mr. Mu Yean Tung and Mr. Shou Philip Ming Yung; the independent non-executive directors are Mr. Hsu Chun Yi, Mr. Lee Chien Kuo and Mr. Han Chien Shan.

** For identification purpose only*