Sandmartin International Holdings Limited
聖馬丁國際控股有限公司 *

(Incorporated in Bermuda with limited liability)

(Stock Code: 482)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2018

FINANCIAL HIGHLIGHTS

- For the six months ended 30 June 2018, the unaudited revenue of the Group decreased to approximately HK$739,962,000, representing a decrease of approximately 4.20% as compared to approximately HK$772,367,000 for the corresponding period of last year.

- The loss attributable to owners of the Company for the six months ended 30 June 2018 was approximately HK$62,883,000 (six months ended 30 June 2017: loss attributable to owners of the Company was approximately HK$63,656,000).

- For the six months ended 30 June 2018, basic loss per share of the Company was approximately HK1.92 cents (six months ended 30 June 2017: basic loss per share of the Company was approximately HK4.17 cents).

- The Board does not recommend the payment of any dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

* *For identification purposes only*

CHAIRMAN'S LETTER TO SHAREHOLDERS

Dear shareholders of the Company (the "Shareholders"),

On behalf of the board (the "Board") of the directors (the "Directors") of Sandmartin International Holdings Limited (the "Company", together with its subsidiaries collectively referred to as the "Group"), I am pleased to present the interim results of the Group for the six months ended 30 June 2018.

Over the past six months, the financial performance of the Group was not satisfactory because the Group has been undergoing a restructuring of its manufacturing segments, including but not limited to outsourcing some of its production processes to external service providers, and streamlining the Group structure to improve its efficiency. For the media segment, regrettably, the satellite TV broadcasting business was still broadening its subscriber base to attain a breakeven level. Before that, the media segment of the Group was still loss-making and that adversely impacted the overall financial performance of the Group.

As part of the Group's strategy to diversify its manufacturing business to a more stable revenue stream business, the Group continued to invest in the satellite TV broadcasting business which is also correlated to our manufacturing and trading of electronic products business. The Group's 51%-owned subsidiary, My HD Media FZ-LLC ("MyHD") launched the GOBX Project with Middle East Broadcasting Center ("MBC"), a renowned broadcaster in the Middle East since October 2016. The satellite TV broadcasting business is still in the development stage to build up customer bases by purchasing high quality and highly demanded television content and promoting them to new subscribers. It incurred substantial amounts of programming costs including payment for content fees, renting satellite transponders, purchase of set-top boxes and payment for dealer's commission for marketing and promotion. Since the subscription of new customers is slower than expected, the Group has revised its projected breakeven to 2020. As this satellite TV broadcasting business is a long-term investment project and the running costs-per-subscriber remains high before the subscription revenue is expected to breakeven in 2020, the Group recorded a segment loss of HK$52.0 million from the satellite TV broadcasting segment for the six months ended 30 June 2018.

Nevertheless, the restructuring of the Group's manufacturing segment was almost completed and new products, such as retractable chargers will be launched to the market in the second half of 2018. Besides, it is expected that the customer base of MyHD will continue to grow in the second half of 2018.

Lau Yau Cheung
Chairman

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL HIGHLIGHT AND BUSINESS REVIEW

The Group recorded a significant decrease in gross profit margin from 6.75% for the six months ended 30 June 2017 to 3.46% for the six months ended 30 June 2018 due to the subscription revenue of the satellite TV broadcasting segment not being able to cover the substantial amount of programming costs incurred for the satellite TV broadcasting business. Programming costs included payment for content fees, renting satellite channels and transponders, purchase of set-top boxes and payment for dealer's commission for marketing and promotion. The gross profit margin of the Group excluding the satellite TV broadcasting segment decreased from 13.20% for the six months ended 30 June 2017 to 10.82% for the six months ended 30 June 2018 due to the increase in raw material cost such as integrated circuits, multilayer ceramic capacitors, etc.

Media Entertainment Platform Related Products

In the first half of 2018, the Group's media entertainment platform related products segment faced fierce market competition from other set-top box manufacturers in the People's Republic of China ("PRC"). In response to the fierce market competition and the surge in raw material prices, the Group explored new business opportunities in other locations, such as customers in South Asia and Russia; and redesigned the set-top boxes and ancillary chargers to reduce material costs. Together with the strong demand of set-top boxes from Dish Media Network Limited ("Dish Media", a pay television operator in Nepal, which is owned as to approximately 47.12% by the Company), the revenue of this segment was able to increase by 27.50% as compared with the six months ended 30 June 2017.

– Segment turnover of media entertainment platform related products was approximately HK$130.3 million (30 June 2017: HK$102.2 million).

– Segment results from operations were approximately HK$17.8 million (30 June 2017: HK$18.8 million).

– Segment margin was 13.69%, which decreased by 4.72 percentage-point as compared with the segment margin of 18.41% for the six months ended 30 June 2017.

Outlook

The market competition is fierce due to direct competition from other set-top box manufacturers in the PRC, and the surge in raw material prices. The Group is exploring new markets for its set-top boxes, such as customers in South Asia and East Europe. Meanwhile, the Group is redesigning its set-top boxes to reduce the material costs so as the impact from the surge of raw material prices. The China-United States trade war is not expected to have material adverse impact on this segment as the Group does not have set-top boxes customers in the United States.

Other Multimedia Products

In the first half of 2018, the market competition remained intense while we have enhanced our product portfolio and reduced the product costs by outsourcing and supply chain integration, the Group's other multimedia products segment was able to maintain its profitability. Major products of this segment included high definition multimedia interface ("HDMI") cables, multimedia accessories, external batteries and retractable chargers. Segment results slightly decreased by 0.88% due to the decrease in profit margin for the electronic products amidst the fierce competition in the industry.

– Segment turnover of other multimedia products was approximately HK$123.3 million (30 June 2017: HK$126.7 million).

– Segment results from operations were approximately HK$14.0 million (30 June 2017: HK$14.1 million).

– Segment margin was 11.32%, which increased by 0.21 percentage-point as compared with the segment margin of 11.11% for the six months ended 30 June 2017.

Outlook

We are enhancing our product portfolio and developing new businesses. New products, such as retractable chargers will be launched on the market in the second half of 2018. The China-United States trade war will have some impact on this segment as some of the customers are in the United States. We are trying to minimize the impact by relocating some productions to India and sourcing from suppliers outside the PRC.

Satellite TV Equipment and Antenna

Due to the change of business strategy in the North America satellite television market by one of the major customers of this segment, the customer decided not to place further orders for the latest model of low noise blocking downconverters ("LNBs") after the completion of the delivery of the latest model of LNBs in the first half of 2018, but switched to a preceding model of LNBs. As it takes time for the Group to resume the production of the preceding model of LNBs, it is expected that the Group will deliver the preceding model of LNBs to the customer in the fourth quarter of 2018. Hence, the revenue of this segment showed a 10.08% decrease compared with the six months ended 30 June 2017.

– Segment turnover of satellite TV equipment and antenna was approximately HK$463.1 million (30 June 2017: HK$515.0 million).

– Segment results from operations were approximately HK$28.5 million (30 June 2017: HK$65.4 million).

– Segment margin was 6.15%, which decreased by 6.55 percentage-point as compared with the segment margin of 12.70% for the six months ended 30 June 2017.

Outlook

LNBs are receiving devices mounted on satellite dishes used for reception, which collect microwaves from the satellite dishes and facilitates the transmission of satellite television signals. Apart from the sales of LNBs to the customers in North America, we are exploring business opportunities in other areas such as cross-selling LNBs to other existing customers of the Group in South Asia. The China-United States trade war will have some impact on this segment as some of the customers are in the United States. We are trying to minimize the impact by relocating some productions to India and sourcing from suppliers outside the PRC.

Satellite TV Broadcasting

The significant loss from operations in this segment was due to the high running costs-per-subscriber before subscription revenue reached breakeven. The satellite TV broadcasting business is still in the development stage to build up customer bases by purchasing high quality and highly demanded television content and promoting them to new subscribers. It incurred substantial amounts of programming costs including payment for content fees, renting satellite transponders, purchase of set-top boxes and payment for dealer's commission for marketing and promotion.

– Segment turnover of satellite TV broadcasting was approximately HK$23.3 million (30 June 2017: HK$27.7 million).

– Segment loss from operations was HK$52.0 million (30 June 2017: loss of HK$64.3 million).

Outlook

With the successful launch of GOBX in October 2016, GOBX will be a growth factor for the satellite pay television business of MyHD in the Middle East region. The number of subscribers of MyHD has been increasing after the launch of GOBX project in Saudi Arabia in collaboration with MBC, one of the largest television operators and content providers in the Middle East.

Satellite TV broadcasting is a capital intensive investment project, which requires large amounts of funding in its initial stage of investment and takes several years to develop localised content and subscriber base before it turns into a cash cow business. Based on the Company's investment experience in Dish Media and its market knowledge in the Middle East, we believe that the subscribers of the satellite TV broadcasting business in the Middle East will continue to grow in coming years.

GEOGRAPHICAL RESULTS

Africa

– Segment revenue for Africa for the six months ended 30 June 2018 was approximately HK$4.7 million, as compared with the six months ended 30 June 2017 of approximately HK$8.5 million.

– 44.71% drop in segment revenue compared with the six months ended 30 June 2017.

– Africa's portion accounted for approximately 0.7% of the Group's total revenue for the six months ended 30 June 2018 (six months ended 30 June 2017: 1.1%).

Asia

– Segment revenue for Asia for the six months ended 30 June 2018 was approximately HK$140.3 million, as compared with the six months ended 30 June 2017 of approximately HK$84.3 million.

– 66.43% increase in segment revenue compared with the six months ended 30 June 2017.

– Asia's portion accounted for approximately 19.0% of the Group's total revenue for the six months ended 30 June 2018 (six months ended 30 June 2017: 10.9%).

Europe

– Segment revenue for Europe for the six months ended 30 June 2018 was approximately HK$97.0 million, as compared with the six months ended 30 June 2017 of approximately HK$75.6 million.

– 28.31% increase in segment revenue compared with the six months ended 30 June 2017.

– Europe's portion accounted for approximately 13.1% of the Group's total revenue for the six months ended 30 June 2018 (six months ended 30 June 2017: 9.8%).

Middle East

– Segment revenue for Middle East for six months ended 30 June 2018 was approximately HK$33.3 million, as compared with the six months ended 30 June 2017 of approximately HK$44.7 million.

– 25.50% drop in segment revenue compared with the six months ended 30 June 2017.

– Middle East's portion accounted for approximately 4.5% of the Group's total revenue for the six months ended 30 June 2018 (six months ended 30 June 2017: 5.8%).

North America

– Segment revenue for North America for the six months ended 30 June 2018 was approximately HK$458.0 million, as compared with the six months ended 30 June 2017 of approximately HK$516.3 million.

– 11.29% drop in segment revenue compared with the six months ended 30 June 2017.

– North America's portion accounted for approximately 61.9% of the Group's total revenue for the six months ended 30 June 2018 (six months ended 30 June 2017: 66.9%).

South America

– Segment revenue for South America for the six months ended 30 June 2018 was approximately HK$6.1 million, as compared with the six months ended 30 June 2017 of approximately HK$41.6 million.

– 85.34% drop in segment revenue compared with the six months ended 30 June 2017.

– South America's portion accounted for approximately 0.8% of the Group's total revenue for the six months ended 30 June 2018 (six months ended 30 June 2017: 5.4%).

Outlook

As our business in Asia, Europe, North America and Middle East accounted for the majority of our Group's revenue, we shall focus in these regions in the future.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2018

		For six months ended 30 June	
		2018	2017
	Notes	***HK$'000***	*HK$'000*
		(unaudited)	(unaudited)
Revenue	*5*	**739,962**	772,367
Cost of sales		**(714,352)**	(720,209)
Gross profit		**25,610**	52,158
Other income, gains and losses		**18,572**	16,197
Distribution and selling costs		**(15,759)**	(18,152)
Administrative and other expenses		**(103,284)**	(102,394)
Research and development costs		**(17,631)**	(20,858)
Finance costs		**(14,003)**	(15,884)
Share of profit of an associate		**3,915**	362
Loss before income tax expense		**(102,580)**	(88,571)
Income tax expense	*6*	**(4,691)**	(6,631)
Loss for the period	*7*	**(107,271)**	(95,202)
Other comprehensive income			
Item that will not be reclassified subsequently to profit or loss:			
Revaluation surplus on investment properties upon transfer from property, plant and equipment and prepaid lease payment		**30,353**	–
Item that may be reclassified subsequently to profit or loss:			
Exchange difference on translation of foreign operations		**7,040**	(15,015)
Total comprehensive income for the period		**(69,878)**	(110,217)

	Note	For six months ended 30 June	
		2018	2017
		HK$'000	*HK$'000*
		(unaudited)	(unaudited)
Loss for the period attributable to:			
– Owners of the Company		**(62,883)**	(63,656)
– Non-controlling interests		**(44,388)**	(31,546)
		(107,271)	(95,202)
Total comprehensive income attributable to:			
Owners of the Company		**(25,433)**	(75,105)
Non-controlling interests		**(44,445)**	(35,112)
		(69,878)	(110,217)
		HK cents	*HK cents*
Loss per share	*9*		
Basic		**(1.92)**	(4.17)
Diluted		**(1.92)**	(4.17)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2018

	Notes	30 June 2018 HK$'000 (unaudited)	31 December 2017 HK$'000 (audited)
Non-current assets			
Property, plant and equipment		**112,183**	149,844
Prepaid lease payments		**1,984**	5,037
Investment properties		**136,399**	73,681
Goodwill		**108,251**	108,297
Intangible assets		**15,107**	17,368
Interest in an associate		**63,240**	59,325
Loan receivables		**8,794**	8,794
Deferred tax assets		**6,396**	6,438
Total non-current assets		**452,354**	428,784
Current assets			
Inventories		**154,771**	258,428
Trade, bills and other receivables	*10*	**248,689**	299,126
Prepaid lease payments		**161**	163
Amount due from an associate	*11*	**97,024**	71,444
Pledged bank deposits		**1,633**	66
Bank balances and cash		**135,700**	132,418
		637,978	761,645
Assets classified as held for sale		**–**	97,396
Total current assets		**637,978**	859,041
Current liabilities			
Trade, bills and other payables	*12*	**397,446**	510,401
Tax liabilities		**17,114**	16,973
Bank and other borrowings		**370,397**	392,022
Obligations under finance leases		**1,901**	1,886
Total current liabilities		**786,858**	921,282
Net current liabilities		**(148,880)**	(62,241)
Total assets less current liabilities		**303,474**	366,543

	30 June 2018	31 December 2017
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Non-current liabilities		
Bank and other borrowings	**1,100**	1,131
Deferred tax liabilities	**52,054**	41,142
Defined benefit obligation	**102**	103
Obligations under finance leases	**6,449**	7,375
Total non-current liabilities	**59,705**	49,751
NET ASSETS	**243,769**	316,792
Capital and reserves attributable to owners of the Company		
Share capital	**327,882**	327,882
Reserves	**131,115**	156,548
Equity attributable to owners of the Company	**458,997**	484,430
Non-controlling interests	**(215,228)**	(167,638)
TOTAL EQUITY	**243,769**	316,792

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

1. GENERAL INFORMATION

The Company is incorporated in Bermuda with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton, HM11, Bermuda and its principal place of business is located at Units 04-05, 16th Floor, Nam Wo Hong Building, 148 Wing Lok Street, Sheung Wan, Hong Kong. The Group principally engages in manufacturing and trading of satellite TV equipment products and other electronic goods and satellite TV broadcasting.

2. 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 (the "Listing Rules") and compliance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

These condensed consolidated financial statements should be read in conjunction with the 2017 annual financial statements. Except as described below, the accounting policies and methods of computation used in the preparation of these condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the Group's consolidated financial statements for the year ended 31 December 2017.

Basis of measurement and going concern assumption

The condensed consolidated financial statements have been prepared on the historical cost basis except for investment properties which are measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

2. BASIS OF PREPARATION (Continued)

Basis of measurement and going concern assumption (Continued)

During the period, the Group incurred a net loss of HK$62,883,000 attributable to owners of the Company and at the end of reporting period, the Group had net current liabilities of approximately HK$148,880,000. The Group is dependent upon the financial support from the banks and financial institutions to meet its financial obligations. There is no certainty that bank loans and other loans of the Group will be renewed in the future. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern and therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

In view of these circumstances, the Directors have considered the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern. In particular, the Directors have considered the following: (1) the Group maintains good relationship with major banks and financial institutions providing finance or facilities to the Group and the Group had successfully renewed its banking facilities based on past experience; (2) as of 30 June 2018, the Group has unutilised bank loan facilities totalling HK$221,519,000 available to finance its future operations and financial obligations; and (3) the Group is looking for other potential business partners or investors to cooperate with the Group in the satellite TV broadcasting business of the Group.

In the opinion of the Directors, after considering the financial performance, operation, capital expenditure and the above financing arrangements of the Group, the Group is expected to have sufficient liquidity to finance its operations for the next twelve months subsequent to the end of the reporting period.

Therefore, the condensed consolidated financial statements of the Group have been prepared on a going concern basis.

3. CHANGES IN HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The HKICPA has issued a number of new or amended HKFRSs that are first effective for the current accounting period of the Group:

- HKFRS 9, Financial Instruments
- HKFRS 15, Revenue from Contracts with Customers
- HK(IFRIC)-Interpretation 22, Foreign Currency Transactions and Advance Considerations
- Amendments to HKFRS 2, Classification and Measurement of Share-based Payment Transactions
- Amendments to HKFRS 4, Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
- Amendments to HKAS 28 included in Annual Improvements to HKFRSs 2014-2016 Cycle, Investments in Associates and Joint Ventures
- Amendments to HKAS 40, Transfers of Investment Property
- Amendments to HKFRS 1 included in Annual Improvements to HKFRSs 2014-2016 Cycle, First-time Adoption of HKFRSs

The impact of the adoption of HKFRS 9 Financial Instruments (see note 3A below) and HKFRS 15 Revenue from Contracts with Customers (see note 3B below) have been summarised in below. The other new or amended HKFRSs that are effective from 1 January 2018 did not have any material impact on the Group's accounting policies.

3. CHANGES IN HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

A. HKFRS 9 Financial Instruments ("HKFRS 9")

(i) Classification and measurement of financial instruments

HKFRS 9 replaces HKAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: (1) classification and measurement; (2) impairment and (3) hedge accounting. The adoption of HKFRS 9 from 1 January 2018 has resulted in changes in accounting policies of the Group.

HKFRS 9 basically retains the existing requirements in HKAS 39 for the classification and measurements of financial liabilities. However, it eliminates the previous HKAS 39 categories for financial assets of held to maturity financial assets, loans and receivables and available-for-sale financial assets. The adoption of HKFRS 9 has no material impact on the Group's accounting policies related to financial liabilities and derivative financial instruments. The impact of HKFRS 9 on the Group's classification and measurement of financial assets is set out below.

Under HKFRS 9, except for certain trade receivables (that the trade receivables do not contain a significant financing component in accordance with HKFRS 15), an entity shall, at initial recognition, measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVTPL"), transaction costs. A financial asset is classified as: (i) financial assets at amortised cost ("amortised costs"); (ii) financial assets at fair value through other comprehensive income ("FVTOCI"); or (iii) financial assets at FVTPL (as defined in above). The classification of financial assets under HKFRS 9 is generally based on two criteria: (i) the business model under which the financial asset is managed and (ii) its contractual cash flow characteristics (the "solely payments of principal and interest" criterion, also known as "SPPI criterion"). Under HKFRS 9, embedded derivatives is no longer required to be separated from a host financial asset. Instead, the hybrid financial instrument is assessed as a whole for the classification.

A financial asset is measured at amortised cost if it meets both of the following conditions and it has not been designated as at FVTPL:

- It is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

3. CHANGES IN HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

A. HKFRS 9 Financial Instruments ("HKFRS 9") (Continued)

(i) Classification and measurement of financial instruments (Continued)

A debt investment is measured at FVTOCI if it meets both of the following conditions and it has not been designated as at FVTPL:

- It is held within a business model whose objective is to achieved by both collecting contractual cash flows and selling financial assets; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. All other financial assets not classified at amortised cost or FVTOCI as described above are classified as FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or FVTOCI at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The following table summarises the original measurement categories under HKAS 39 and the new measurement categories under HKFRS 9 for each class of the Group's financial assets as at 1 January 2018, there is no change in their carrying amount as at 1 January 2018 upon the adoption of HKFRS 9.

Financial assets	**Original classification under HKAS 39**	**New classification under HKFRS 9**
Loan receivables	Loans and receivables	Amortised cost
Amount due from an associate	Loans and receivables	Amortised cost
Trade, bills and other receivables	Loans and receivables	Amortised cost
Pledged bank deposits	Loans and receivables	Amortised cost
Bank balance and cash	Loans and receivables	Amortised cost

3. CHANGES IN HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

A. HKFRS 9 Financial Instruments ("HKFRS 9") (Continued)

(i) Classification and measurement of financial instruments (Continued)

(i) Impairment of financial assets

The adoption of HKFRS 9 has changed the Group's impairment model by replacing the HKAS 39 "incurred loss model" to the "expected credit losses ("ECLs") model". HKFRS 9 requires the Group to recognised ECL for trade and other receivables and debt financial asset earlier than HKAS 39. Pledged bank deposits and bank balance are subject to ECL model but the impairment is immaterial for the current period.

Under HKFRS 9, the losses allowances are measured on either of the following bases: (1) 12 months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date: and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Measurement of ECLs

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

The Group has elected to measure loss allowances for trade and other receivables using HKFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other debt financial assets, the ECLs are based on the 12-months ECLs. The 12-months ECLs is the portion of the lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information. The allowance of loan receivables will be based on the lifetime ECLs while the allowance of the amount due from an associate will be based on 12-months ECLs.

3. CHANGES IN HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

A. HKFRS 9 Financial Instruments ("HKFRS 9") (Continued)

(i) Classification and measurement of financial instruments (Continued)

(i) Impairment of financial assets (Continued)

Measurement of ECLs (Continued)

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 180 days past due.

The Group considers a financial asset to be in default when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) the financial asset is more than 180 days past due.

The maximum period considered when estimating ECL is the maximum contractual period over which the Group is exposed to credit risk.

Presentation of ECLs

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Management has concluded that neither the new requirements related to the classification and measurement nor the requirements related to impairment have any impact on the financial statements.

(ii) Transition

The Group has applied the transitional provision in HKFRS 9 such that HKFRS 9 was generally adopted without restating comparative information. The reclassifications and the adjustments arising from the new ECLs rules are therefore not reflected in the statement of financial position as at 31 December 2017, but are recognised in the statement of financial position on 1 January 2018. This means that differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of HKFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of HKFRS 9 but rather those of HKAS 39.

3. CHANGES IN HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

A. HKFRS 9 Financial Instruments ("HKFRS 9") (Continued)

(i) Classification and measurement of financial instruments (Continued)

(ii) Transition (Continued)

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application of HKFRS 9 (the "DIA"):

- The determination of the business model within which a financial asset is held;
- Any designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL; and
- Any designation of certain investments in equity investments not held for trading as at FVTOCI.

If an investment in a debt investment had low credit risk at the DIA, then the Group has assumed that the credit risk on the asset had not increased significantly since its initial recognition.

B. HKFRS 15 Revenue from Contracts with Customers ("HKFRS 15")

HKFRS 15 supersedes HKAS 11 Construction Contracts, HKAS 18 Revenue and related interpretations. HKFRS 15 has established a five-steps model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at the amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group has adopted HKFRS 15 using the cumulative effect method without practical expedients. The Group has recognised the cumulative effect of initially applying HKFRS 15 as an adjustment to the opening balance of retained earnings at the date of initial application (that is, 1 January 2018). As a result, the financial information presented for 2017 has not been restated.

3. CHANGES IN HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

B. HKFRS 15 Revenue from Contracts with Customers ("HKFRS 15") (Continued)

The Group assessed the impacts of adopting HKFRS 15 on its financial statements. Based on the assessment, the adoption of HKFRS 15 has no significant impact on the Group's revenue recognition.

Details of the new significant accounting policies and the nature of the changes to previous accounting policies in relation to the Group's various goods and services are set out below.

Revenue for satellite TV broadcasting is recognised over time as those services are provided. Invoices for these income are issued on a monthly basis and are usually payable within 90 days. HKFRS 15 did not result in significant impact on the Group's accounting policies. Upon the adoption of HKFRS 15, if there is any satisfied performance obligation but where the Group does not have an unconditional right to consideration, the Group should recognised a contract asset. No contract asset is recognised upon transition and at the end of the reporting period.

Revenue for trading and manufacturing of media entertainment platform related products, other multimedia products and satellite TV equipment and antenna generally include only one performance obligation. The Group has concluded that revenue from trading and manufacturing of media entertainment platform related products, other multimedia products and satellite TV equipment and antenna should be recognised at the point in time when control of the products is transferred to the customer, generally on delivery of the products to the specific location, the risks of obsolescence and loss have been transfer to customer. Therefore, the adoption of HKFRS 15 did not result in significant impact on the consolidated financial statements.

4. USE OF JUDGEMENTS AND ESTIMATES

In preparing this condensed consolidated interim financial statements, the significant judgements made by the management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to 2017 annual financial statements, except for new significant judgements and key sources of estimation uncertainty related to the application of HKFRS 9 and HKFRS 15 as described in note 3.

5. SEGMENT INFORMATION

The segment information reported externally was analysed on the basis of their goods and services delivered or provided by the Group's operating divisions which is consistent with the internal information that are regularly reviewed by the executive Directors, the chief operating decision maker, for the purposes of resource allocation and assessment of performance. This is also the basis of organisation in the Group, whereby the management has chosen to organise the Group around different products and services.

Specifically, the Group's operating segments under HKFRS 8 are as follows:

(i) Media entertainment platform related products

Trading and manufacturing of media entertainment platform related products

– which are mainly used for satellite products equipment.

(ii) Other multimedia products

Trading and manufacturing of other multimedia products

– components of audio and video electronic products such as cable lines.

(iii) Integration of signal system and traffic communication network

Integration of signal system and traffic communication network

– provide installation and integration of signal system and traffic communication network.

(iv) Satellite TV equipment and antenna

Trading and manufacturing of satellite TV equipment and antenna.

(v) Satellite TV broadcasting

Provision of Direct-to-Home services for satellite TV broadcasting in the areas of Middle East, Mediterranean and Africa.

5. SEGMENT INFORMATION (Continued)

Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable and operating segments for the period under review:

Six months ended 30 June 2018

	Media entertainment platform related products *HK$'000* (unaudited)	Other multimedia products *HK$'000* (unaudited)	Integration of signal system and traffic communication network *HK$'000* (unaudited)	Satellite TV equipment and antenna *HK$'000* (unaudited)	Satellite TV broadcasting *HK$'000* (unaudited)	Total *HK$'000* (unaudited)
REVENUE						
External sales	130,298	123,285	–	463,088	23,291	739,962
RESULTS						
Segment results	17,834	13,951	(175)	28,477	(52,011)	8,076
Other income, gains and losses						20,347
Administrative and other expenses						(103,284)
Research and development costs						(17,631)
Finance costs						(14,003)
Share of profit of an associate						3,915
Loss before income tax expense						(102,580)

5. SEGMENT INFORMATION (Continued)

Segment revenue and results (Continued)

Six months ended 30 June 2017

	Media entertainment platform related products HK$'000 (unaudited)	Other multimedia products HK$'000 (unaudited)	Integration of signal system and traffic communication network HK$'000 (unaudited)	Satellite TV equipment and antenna HK$'000 (unaudited)	Satellite TV broadcasting HK$'000 (unaudited)	Total HK$'000 (unaudited)
REVENUE						
External sales	102,193	126,743	667	515,023	27,741	772,367
RESULTS						
Segment results	18,818	14,075	21	65,404	(64,312)	34,006
Other income, gains and losses						16,197
Administrative and other expenses						(102,394)
Research and development costs						(20,858)
Finance costs						(15,884)
Share of profit of an associate						362
Loss before income tax expense						(88,571)

Segment results represent profit earned/loss suffered by each segment without allocation of other income, gains and losses (except impairment loss on trade and other receivables), administrative and other expenses, research and development costs, finance costs and share of profit of an associate. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

6. INCOME TAX EXPENSE

	For six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
The tax charge comprises:		
Current tax:		
PRC	**608**	1,182
Jurisdictions other than the PRC and Hong Kong	**3,266**	3,939
	3,874	5,121
(Over)/Under-provision in prior years:		
PRC	**(185)**	–
Hong Kong	**–**	524
	(185)	524
Deferred taxation:		
Current period	**822**	714
Provision for withholding tax	**180**	272
	1,002	986
	4,691	6,631

(i) PRC

The applicable PRC enterprise income tax rate of the PRC subsidiaries is 25% in accordance with the relevant income tax law and regulations in the PRC.

6. INCOME TAX EXPENSE (Continued)

(ii) Hong Kong

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits.

No tax is payable on the profit arising in Hong Kong as the entity operating in Hong Kong incurred tax losses for both years.

(iii) United States of America

The Group's subsidiaries in United States of America are subjected to United States Federal Income Tax at 34% and States Income Tax at 6%.

(iv) Europe

The Group's European subsidiaries are subject to profit tax rates at a range of 21% to 33%.

(v) Macau

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

(vi) Others

Other subsidiaries operating in other jurisdictions are subject to applicable tax rates in the relevant jurisdictions.

7. LOSS FOR THE PERIOD

	For six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Loss for the period has been arrived at after charging/(crediting):		
Directors' emoluments	**2,581**	2,372
Other staff costs	**81,338**	100,188
Retirement benefits scheme contribution, excluding Directors	**1,539**	1,602
Total employee benefit expenses	**85,458**	104,162
Depreciation of property, plant and equipment	**15,845**	15,032
Amortisation of intangible assets *(Note i)*	**2,268**	2,104
Release of prepaid lease payments	**84**	77
Impairment loss on trade and other receivables *(Note ii)*	**1,775**	–
Write-down of inventories *(Note i)*	**–**	6,023
Interest income *(Note ii)*	**(1,604)**	(966)
Interest income from an associate *(Note ii)*	**(797)**	(791)
Loss on disposal of subsidiaries *(Note ii)*	**2,922**	–
Loss on disposal of investment properties *(Note ii)*	**885**	–
Loss/(Gain) on disposal of property, plant and equipment *(Note ii)*	**815**	(1,657)
Net foreign exchange (gain)/loss *(Note ii)*	**(1,550)**	1,808

Note i: Included in cost of sales

Note ii: Included in other income, gains and losses

8. DIVIDENDS

No dividend was paid, declared or proposed during the interim period. The Directors have determined that no dividend will be paid in respect of the interim period.

9. LOSS PER SHARE

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

	For six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Basic		
Loss for the period attributable to owners of the Company for the purposes of calculating basic and diluted loss per share	**(62,883)**	(63,656)
Number of shares		
Weighted average number of ordinary shares at 30 June	**3,278,825,335**	1,526,855,977

The computation of diluted loss per share does not assume the exercise of the Company's outstanding share options as the exercise price of those options is higher than the average market price for shares.

10. TRADE, BILLS AND OTHER RECEIVABLES

The Group allows an average credit period of 60 to 120 days to its trade customers. The following is an aged analysis of trade and bills receivables, net of allowance for doubtful debts, presented based on the invoice date, which approximated the respective revenue recognition date, at the end of the reporting periods:

	30 June 2018	31 December 2017
	HK$'000	*HK$'000*
	(unaudited)	(audited)
0 – 30 days	**116,428**	157,804
31 – 90 days	**63,029**	45,542
91 – 180 days	**–**	21,171
More than 180 days	**–**	7,579
	179,457	232,096
Prepayments and other receivables	**69,232**	67,030
Total trade, bills and other receivables	**248,689**	299,126

During the period, the Directors reviewed the carrying amounts of certain long outstanding trade, bills and other receivables and identified impairment loss of approximately HK$1,775,000 (six months ended 30 June 2017: Nil).

11. AMOUNT DUE FROM AN ASSOCIATE

Amount due from an associate include:

(i) amount of HK$78,550,000 (31 December 2017: HK$41,355,000) being unsecured, interest-free and the Group allows a credit period of 360 days to its associate which is trade in nature;

(ii) amount of HK$12,892,000 (31 December 2017: HK$25,304,000) is unsecured, bearing fixed interest rate at 4.75% per annum; and

(iii) amount of HK$5,582,000 (31 December 2017: HK$4,785,000) is interest receivables from the loan to an associate.

The following is an aged analysis of trade receivables from an associate, which is trade in nature, presented based on the invoice date at the end of the reporting periods:

	30 June 2018	31 December 2017
	HK$'000	*HK$'000*
	(unaudited)	(audited)
0 – 30 days	**9,136**	–
31 – 90 days	**8,161**	–
91 – 360 days	**37,778**	5,640
More than 360 days	**23,475**	35,715
	78,550	41,355

Aging of amount due from an associate which are past due but not impaired:

	30 June 2018	31 December 2017
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Less than 3 months past due	**–**	12,287
3 to 6 months past due	**–**	23,428
More than 6 months past due	**23,475**	–
	23,475	35,715

12. TRADE, BILLS AND OTHER PAYABLES

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

	30 June 2018	31 December 2017
	HK$'000	*HK$'000*
	(unaudited)	(audited)
0 – 30 days	**135,841**	209,629
31 – 90 days	**74,895**	42,877
91 – 360 days	**59,973**	67,560
More than 360 days	**8,818**	6,284
	279,527	326,350
Other payables	**117,919**	184,051
Total trade, bills and other payables	**397,446**	510,401

REVIEW OF FINANCIAL POSITION

The Group's loss attributable to the owners of the Company for the six months ended 30 June 2018 amounted to approximately HK$62.9 million, as compared to the loss of approximately HK$63.7 million in the same period of 2017. Basic loss per share was approximately HK1.92 cents (six months ended 30 June 2017: basic loss per share was approximately HK4.17 cents).

Liquidity and financial resources

As at 30 June 2018, the overall cash and cash equivalent was HK$135.7 million (31 December 2017: HK$132.4 million). The Group's major financial resources were derived from cash generated from financing activities and internal generated cash flow.

The Group's current ratio (ratio of current assets to current liabilities) was 0.81 at 30 June 2018 (31 December 2017: 0.93).

As at 30 June 2018, the Group's total borrowings were HK$379.8 million (31 December 2017: HK$402.4 million). The gearing ratio (total borrowings over total assets of the Group) increased from 31.25% as at 31 December 2017 to 34.84% as at 30 June 2018.

Charges on the Group's assets

As at 30 June 2018, the Group's general banking facilities (including bank loans and other borrowings) were secured by the following assets of the Group: (i) bank deposits of HK$1.6 million, (ii) property, plant and equipment with a carrying value of HK$35.9 million, (iii) investment properties of HK$136.4 million, (iv) trade receivables of HK$93.8 million, (v) inventory of HK$56.6 million and (vi) pledge of the Company's interest in Pro Brand Technology, Inc.

Foreign exchange exposure

The Group's sales and purchases were denominated mainly in US dollars and Renminbi ("RMB"). The Group was exposed to certain foreign currency exchange risk but it does not expect future currency fluctuations to cause material operational difficulties because the recent pressure from depreciation of RMB was manageable and the Group purchased the raw materials from diversified sources. However, the management continuously assesses the foreign exchange risks, with an aim to minimise the impact of foreign exchange fluctuations on business operations.

Contingent liabilities

The Group did not have any significant contingent liabilities as at 30 June 2018 (31 December 2017: Nil).

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend (six months ended 30 June 2017: Nil) for the six months ended 30 June 2018.

LITIGATIONS

HCMP 1044/2017

The Company was served an originating summons under section 740 of the Companies Ordinance (Cap.622) (the "Summons 2") on 5 May 2017 filed by Fung Chuen as the plaintiff (the "Summons 2 Plaintiff") against the Company as the defendant under action number HCMP No.1044/2017 in the Court. Details of the Summons 2 are set out in the announcement of the Company dated 5 May 2017.

In the Summons 2, the Summons 2 Plaintiff applied to the Court for, among others, the following orders (the "Application"):

(i) The Summons 2 Plaintiff and/or his authorised agent be authorised to inspect and make copies of the documents in relation to the investment in Dish Media and the Debtors;

(ii) The Summons 2 Plaintiff and/or his authorised agent be authorised to inspect and make copies of the documents in relation to the investment in MyHD; and

(iii) The Summons 2 Plaintiff and his authorised agent be authorised to inspect and make copies of the documents in relation to the open offer announced by the Company on 24 October 2016 and the Open Offer.

The Company was advised by its Hong Kong legal advisors in relation to the aforesaid litigation of the Group that if the Application is granted by the Court, the likely orders which would be made by the Court are that the Summons 2 Plaintiff and his authorised agent will be entitled to inspect and make copies of the requested documents (in full or in part), and that the Company shall pay costs of the Application to the Summons 2 Plaintiff (to be taxed if not agreed).

Pursuant to the order of the Court dated 17 October 2017 (the "Order dated 17 October 2017"), it was ordered that the Company shall produce to the Summons 2 Plaintiff those documents listed in the schedule of the Order dated 17 October 2017. On 27 October 2017, the Company filed a notice of appeal (the "Notice of Appeal") to the Court for a stay of execution of the Order dated 17 October 2017 pending the final determination of the appeal.

On 15 December 2017, the Court held that the appeal had no reasonable prospect of success and ordered that the Company's application for stay be refused but that the time for the Company to comply with the Order dated 17 October 2017 be extended to 5 January 2018.

On 22 December 2017, the Company amended its Notice of Appeal and applied to the Court of Appeal of Hong Kong for a stay of execution of the Order dated 17 October 2017 pending final determination of the appeal (the "Stay Application"). Pursuant to the order dated 22 December 2017, an interim stay of the Order dated 17 October 2017 pending determination of the Stay Application was granted.

At the hearing held on 17 April 2018, the appeal of the Stay Application under action number CACV 240 of 2017 by the Company was dismissed by the Court of Appeal of Hong Kong and the costs of the Stay Application was awarded to the Plaintiff, the sum of which will be assessed by the Court of Appeal of Hong Kong and handed downed together with the written judgment. The Company had to comply with the Order and produce the documents as listed in the schedule of the Order dated 17 October 2017 within 14 days upon payment by the Plaintiff of the reasonable photocopying charges to the Company.

HCCW 207/2017

On 6 July 2017, the Company was served a petition for winding-up dated 5 July 2017 (the "Winding-Up Petition") filed by Fung Chuen ("Winding Up Petitioner") against the Company (the "1st Winding-Up Respondent"), Mr. Hung Tsung Chin (the "2nd Winding-Up Respondent") and Ms. Chen Mei Huei (the "3rd Winding-Up Respondent") in the proceedings HCCW No. 207/2017.

Pursuant to the Winding-Up Petition, the Winding Up Petitioner petitioned for (i) an order that the Company be wound up by the Court under section 327(3)(c) of the Companies (Winding-Up and Miscellaneous Provisions) Ordinance (Cap.32) of the Laws of Hong Kong; (ii) an order that a liquidator be appointed by the Court to investigate into the affairs of the Company upon the winding-up of the Company; (iii) an order that the 2nd and/or 3rd Winding-Up Respondents do account to the Company for such payments or dispositions which they had procured to be made for their own benefit and/or for the benefit of entities substantially owned or controlled by them and/or other than for the Company's proper purpose and operation of its business; (iv) an order that costs of the Petitioner and the Company be paid by the 2nd and 3rd Winding-up Respondents and (v) such other order as the Court thinks fit and appropriate.

On 10 July 2017, a summons to apply for a validation order was issued by the Company, 2nd and 3rd Winding-Up Respondents. At the hearing held on 17 August 2017, a validation order was granted by the Court on the terms as follows: the following disposition of property and transfer of shares of the Company shall not be void by virtue of the provisions of section 182 of the Companies Ordinance (Cap 32) of the Laws of Hong Kong: (a) payment made (or to be made) into and out of the Company's bank account in the ordinary course of business of the Company between the date of presentation of the Winding-Up Petition and the date of judgment on the Winding-Up Petition; (b) disposition of property of the Company made (or to be made) in the ordinary course of business for proper value between the date of presentation of the Winding-Up Petition and the date of judgment on the Winding-Up Petition; and (c) allotment and issuance of 1,967,295,201 shares of the Company pursuant to the Open Offer and use of the proceeds from the Open Offer by the Company. The Court has also ordered the Winding-Up Petitioner to pay the costs of the validation order to the 1st, 2nd and 3rd Winding-Up Respondents.

On 30 August 2017, the Company applied for another validation order under section 182 of the Companies Ordinance (Cap 32) of the Laws of Hong Kong, which provides that any transfer of the shares of the Company shall not be void by virtue of the said section. The validation order was also granted by the Court on 25 October 2017. On 4 December 2017, the Company filed and served its points of defence (the "Points of Defence") of the 1st Winding-

Up Respondent. On 11 December 2017, the 2nd and 3rd Winding-Up Respondents filed and served the Points of Defence of the 2nd and 3rd Winding-Up Respondents. Pursuant to a consent order dated 31 January 2018, the Winding-Up Petitioner should file and serve his points of reply (the "Points of Reply") to the Company's Points of Defence on 5 February 2018. As at the date of approval of this announcement, the Winding-Up Petitioner has yet to file and serve his Points of Reply and has yet to apply for a time extension for the same to be filed out of time.

At the case management hearing held on 25 April 2018, the Court made an order that:

1. The Petitioner, the Company, the 2nd Winding-Up Respondent and the 3rd Winding-Up Respondent (collectively the "Parties") do file and serve their respective list of documents within 42 days after the date hereof, with inspection to be conducted within 7 days thereafter;

2. Parties do file and exchange signed witness statements as to fact within 70 days thereafter, i.e. by 22 August 2018;

3. Parties do file and exchange such witness statements in reply (if any) within 28 days thereafter, i.e. by 19 September 2018;

4. The witness statements filed with the Court do stand as evidence-in-chief unless the trial judge directs otherwise;

5. Parties shall obtain Counsel's advice (if necessary) by 28 November 2018; and all interlocutory applications if so advised, shall be taken out within 42 days thereafter;

6. Parties shall attend a case management hearing on a date to be fixed in consultation with Counsel's diaries not earlier than September 2018 with 30 minutes reserved;

7. There be liberty to apply; and

8. Costs be in the cause.

The next case management hearing is scheduled to be heard on 25 October 2018. It is expected that it would take approximately 1 to 2 years (depending upon the Court's schedule) before the Winding-Up Petition would be set down for the substantive hearing.

MATERIAL ACQUISITIONS AND DISPOSALS

During the six months ended 30 June 2018, there was no material acquisition or disposal of subsidiaries, associates and joint ventures by the Group.

EVENTS AFTER THE REPORTING PERIOD

There has been no significant events occurring after the end of the six months ended 30 June 2018 up to the date of this announcement.

HUMAN RESOURCES

As at 30 June 2018, the Group employed a total of 912 (31 December 2017: 1,526) full-time employees. Employees are remunerated according to their performance and responsibilities. Employees of the Group receive training depending on their scope of works, especially those training relating to workplace health and safety.

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

During the six months ended 30 June 2018, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

The Group continues to improve its corporate governance practices, emphasising the attainment and maintenance of a quality board, sound risk management and internal controls, and high transparency and accountability to the Shareholders. The Board and the management are committed to the principles of good corporate governance consistent with prudent management and enhancement of shareholder value. The Board believes that good corporate governance will bring long-term benefits to the Shareholders and the Group.

During the six months ended 30 June 2018, the Company has applied the principles and has complied with code provisions of the Corporate Governance Code (the "Code Provision(s)") as contained in Appendix 14 to the Listing Rules, except for certain deviations as specified and explained below with considered reasons for such deviations.

1. Under Code Provision A.6.7, independent non-executive directors and other non-executive directors should attend general meetings.

   Messrs. Kuo Jen Hao, a non-executive Director, Li Chak Hung and Wu Chia Ming, both independent non-executive Directors, were unable to attend the annual general meeting of the Company held on 12 June 2018 due to other engagements.

2. Under Code Provision C.1.2, the management should provide all members of the board with monthly updates giving a balanced and understandable assessment of the issuer's performance, position and prospects in sufficient detail to enable the board as a whole and each director to discharge their duties under rule 3.08 and Chapter 13 of the Listing Rules.

   The Company is in the execution stage of streamlining its manufacturing segments, including but not limited to outsourcing production processes to external service providers, and reducing headcount of the Group to a sustainable level with higher efficiency. During the six months ended 30 June 2018, the management had provided all members of the Board with updates giving a balanced and understandable assessment of the Company's performance, position and prospect on a proactive and as requested basis.

AUDIT COMMITTEE

The Company has established an audit committee (the "Audit Committee") for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The Audit Committee comprises three members, Messrs. Li Chak Hung (chairman of Audit Committee), Lau Yau Cheung and Wu Chia Ming, all of whom are independent non-executive Directors. The Audit Committee has reviewed the Group's unaudited condensed consolidated financial statements and the interim report for the six months ended 30 June 2018 and held discussion with the management.

PUBLICATION OF UNAUDITED INTERIM RESULTS AND INTERIM REPORT

The unaudited interim results announcement is published on the websites of the Company (www.sandmartin.com.hk) and of the Stock Exchange (www.hkexnews.hk). The interim report of the Company for the six months ended 30 June 2018 will be dispatched to the Shareholders and published on the aforesaid websites in due course.

GENERAL

On behalf of the Board, I would like to take this opportunity to express my sincere gratitude to all of the Shareholders for their support to the Company.

By order of the Board
Sandmartin International Holdings Limited
Lau Yau Cheung
Chairman

Hong Kong, 10 August 2018

As at the date of this announcement, the Directors are:

Executive Directors
Mr. Hung Tsung Chin and Mr. Chen Wei Chun

Non-Executive Director
Mr. Kuo Jen Hao

Independent Non-Executive Directors
Mr. Lau Yau Cheung *(Chairman)*, Mr. Li Chak Hung and Mr. Wu Chia Ming