

STATEMENT OF DISCIPLINARY ACTION

Exchange's Disciplinary Action against Sandmartin International Holdings Limited (Stock Code: 482) and eight of its current and former directors

This case involves repeated breaches of the Exchange Listing Rules by a listed issuer. Directors are reminded that they are individually and collectively responsible for an issuer's compliance with the Exchange Listing Rules. Merely placing reliance on the company secretary to procure Exchange Listing Rule compliance is not considered to be a satisfactory discharge of their duties in this regard. Directors must also be able to demonstrate that they took sufficient interest in the issuer's compliance, for example, by ensuring that there was supervision of relevant staff, proper reporting to the Board, and the provision of regular training.

The failure by certain directors to recognise relationships which gave rise to connected party implications, and their failure to take steps to ensure the accuracy of information presented in the Company's announcements, demonstrated a disregard for compliance with the Exchange Listing Rules and deprived the Company's investors and shareholders of timely receipt of information, which damages the integrity of the market and erodes investor confidence.

The Listing Committee of the Exchange ("Listing Committee")

CENSURES:

- (1) **Sandmartin International Holdings Limited ("Company")** (Stock Code: 482) for:
 - (a) its breaches of Rules 14.34 and 14A.35 of the *Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited* ("**Exchange Listing Rules**") by failing to announce the MyHD Acquisition and the Emiratinvest Connected Loans (defined below) in a timely manner; and

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- (b) its breaches of Rule 2.13(2) in respect of the Relevant Disclosures in the Loans Announcement and the Circular (defined below) which were inaccurate, not complete in all material respects, misleading and/or deceptive;

FURTHER CENSURES:

- (2) **Mr Hung Tsung Chin**, executive director (“**ED**”) of the Company (“**Mr Hung**”); and

- (3) **Ms Chen Mei Huei**, former ED of the Company (“**Ms Chen**”),

for breaching (i) Rule 3.08(f), (ii) their obligations under the *Declaration and Undertaking with regard to Directors* given to the Exchange in the form set out in Appendix 5B to the Exchange Listing Rules (“**Undertaking**”) to comply with the Exchange Listing Rules to the best of their ability, and (iii) their Undertakings to use their best endeavours to procure the Company’s compliance with the Exchange Listing Rules and to ensure that the Company had adequate and effective internal controls;

AND:

- (4) **Mr Liao Wen I Tiger**, former ED of the Company (“**Mr Liao**”),

for breaching his Undertaking to cooperate with the Exchange’s investigation and to use his best endeavours to ensure that the Company had adequate and effective internal controls;

AND CRITICISES:

- (5) **Mr Frank Karl-Heinz Fischer**, former ED of the Company (“**Mr Fischer**”),

for breaching his Undertaking to use his best endeavours to procure the Company’s compliance with the Exchange Listing Rules and to ensure that the Company had adequate and effective internal controls;

AND:

- (6) **Mr Chen Wei Chun**, ED of the Company (“**Mr WC Chen**”);

- (7) **Mr Wu Chia Ming**, independent non-executive director (“**INED**”) of the Company (“**Mr Wu**”);

- (8) **Mr Han Chien Shan**, former INED of the Company (“**Mr Han**”); and

(9) **Mr Lee Chien Kuo Thomas**, former INED of the Company (“**Mr Lee**”),

for breaching their Undertakings to use their best endeavours to ensure that the Company had adequate and effective internal controls.

(The directors identified at (2) to (9) above are collectively referred to as the “**Relevant Directors**”.)

For the avoidance of doubt, the Exchange confirms that the sanctions in this news release apply only to the Company and the Relevant Directors, and not to any other past or present members of the board of directors of the Company.

SETTLEMENT

As a consequence of a settlement, the Company and the Relevant Directors (except for Mr Han) did not contest their respective breaches as described above and accepted the sanctions and directions imposed on them by the Listing Committee as set out below.

HEARING

On 10 November 2020, the Listing Committee conducted a hearing into the conduct of Mr Han in relation to his obligations under the Exchange Listing Rules and the Undertakings, and considered a settlement proposal in respect of the Company and the Relevant Directors (except for Mr Han) (“**Settlement Proposal**”).

FACTS

This matter concerns the Company’s relationship, loans and dealings with two groups of companies.

MyHD

MyHD Media FZ LLC (“**MyHD**”) is a satellite television operator incorporated in Dubai, which was wholly-owned by Ms Chen Chu Li (“**CL Chen**”). CL Chen is a friend and business associate of Mr Hung and his wife, Ms Chen, the founders of the Company.

The Company acquired 11 per cent of MyHD on 16 June 2014 (“**MyHD Acquisition**”), and made a series of loans to MyHD. MyHD became a 51 per cent owned subsidiary of the Company on 5 July 2016, when certain loans to MyHD were capitalised. The Company failed to announce the MyHD Acquisition in a timely manner.

Emiratinvest/Simple Media

Emiratinvest Limited (“**Emiratinvest**”) owns 80 per cent of Simple Media Network Pvt Ltd (“**Simple Media**”), a digital television operator and purportedly one of the Company’s major customers in Nepal. Mr Chen Jo Wan (“**JW Chen**”) is the sole shareholder of Emiratinvest, and was a former Non-Executive Director of the Company. JW Chen and CL Chen are siblings. Mr Hung and Ms Chen’s son (“**Mr Hung’s Son**”) and daughter-in-law were directors of Simple Media from 9 January 2015 to 21 December 2015 and from 21 December 2015 to 15 May 2017 respectively. Mr Hung’s Son was also the COO of Simple Media from 9 January 2015 to December 2017.

From October 2014 to October 2016, the Company made a series of loans to Emiratinvest. Emiratinvest became a connected person of the Company on 5 July 2016 when MyHD became a subsidiary of the Company, due to the sibling relationship between CL Chen and JW Chen. The Company failed to announce the loans which were made to Emiratinvest after it became a connected party (“**Emiratinvest Connected Loans**”) in a timely manner.

Internal Controls

The Company accepted that its breaches of the Exchange Listing Rules occurred as a result of internal control deficiencies. There were clear deficiencies in the Company’s internal control procedures at the relevant time, including (i) failure to maintain a list or register of connected parties, (ii) lack of training or guidance provided to the Relevant Directors on the application of and compliance with the Exchange Listing Rules, (iii) failure by the Relevant Directors to take an active role in implementing, reviewing and monitoring the effectiveness of the Company’s internal control procedures; and (iv) excessive reliance placed upon the company secretary for Exchange Listing Rule compliance.

Relevant Disclosures

The Company made the following statements and disclosures in an announcement made on 21 September 2016 (“**Loans Announcement**”) and in a circular dated 24 May 2017 (“**Circular**”):

- (a) “To the best knowledge of the Company, [Emiratinvest] is not related to [MyHD]” (“**Emiratinvest/MyHD Statement**”);

- (b) “Emiratinvest is an independent third party not connected with the Group” (“**Independent Third Party Disclosure**”); and
- (c) “As advised by the management of Emiratinvest, Simple Media plans to place order of 55,000 units to 80,000 units of set-top-box in the sum of US\$1.1 million to US\$1.6 million from the Group in the second half of 2017” (“**Expected Sales Disclosure**”).

(The statement and disclosures in (a) to (c) above are collectively referred to as the “**Relevant Disclosures**”).

Mr Hung and Ms Chen were aware of the sibling relationship between CL Chen and JW Chen. Further, Mr Hung, Ms Chen and Mr Fischer were aware of the positions held by Mr Hung’s Son and his wife within Simple Media. Mr Hung, Ms Chen and Mr Fischer did not appreciate the importance of such relationships or that there were connected party implications, and did not report such relationships to the Company.

In respect of the Expected Sales Disclosure, Mr Hung and Ms Chen were both aware that no set-top boxes had been sold by the Company to Simple Media in 2016 or in 2017 up to the date of the Circular. The expected figure of 55,000 to 80,000 units had been provided by Emiratinvest in an earlier draft, six months before the eventual publication of the Circular. Mr Hung and Ms Chen failed to make any enquiries with Emiratinvest/Simple Media to determine whether the figure of 55,000 to 80,000 was still accurate and up-to-date. It should be noted that the Company only sold 100 units of set-top boxes to Simple Media for the whole of 2017.

Mr Liao

Mr Liao initially instructed solicitors to respond to the Listing Division’s enquiries (“**Division**”), and claimed that he had already retired and returned to Taiwan since February 2011, but remained on the Board until August 2017 at the request of Mr Hung. Upon making further enquiries with Mr Liao via his solicitors, the Division was informed by Mr Liao’s solicitors that they had ceased to act for Mr Liao. The Division then wrote to Mr Liao directly, and received no further response from him.

EXCHANGE LISTING RULE REQUIREMENTS

Rule 2.13(2) provides that information contained in an announcement by the Company must be accurate and complete in all material respects and not misleading.

Rule 14.34 provides that a listed issuer must publish an announcement as soon as possible after the terms of, *inter alia*, a discloseable transaction have been finalised and, additionally (at the relevant time) provided that a listed issuer must inform the Exchange of such a transaction.

Rule 14A.35 provides that a listed issuer must announce a connected transaction as soon as practicable after its terms have been agreed.

Rule 3.08 provides that the Exchange expects the directors, both collectively and individually, to fulfil fiduciary duties and duties of skill, care and diligence to a standard at least commensurate with the standard established by Hong Kong law. These duties include a duty to apply such degree of skill, care and diligence as may reasonably be expected of a person of his/her knowledge and experience and holding his/her office within the issuer (Rule 3.08(f)).

The Relevant Directors were under an obligation, pursuant to their respective Undertaking, to (i) comply with the Exchange Listing Rules to the best of their ability; (ii) use their best endeavours to procure the Company's compliance with the Exchange Listing Rules; (iii) ensure that the Company had adequate and effective internal controls; and (iv) cooperate with the Exchange's investigation.

LISTING COMMITTEE'S FINDINGS OF BREACH

The Listing Committee considered the written submissions of the Division, the Company and the Relevant Directors and the Settlement Proposal, and concluded as follows:

Company's breaches

The Listing Committee noted that the Company did not contest that it had breached: (a) Rule 14.34 in respect of the MyHD Acquisition and Rule 14A.35 in respect of the Emiratinvest Connected Loans; and (b) Rule 2.13(2) in respect of the Relevant Disclosures.

The Listing Committee concluded that the Company did breach these Rules and that it did not have adequate and effective internal controls at the relevant time.

Relevant Directors' breaches

The Listing Committee concluded that:

- (a) Mr Hung and Ms Chen breached Rule 3.08(f) and their respective Undertakings to comply with the Exchange Listing Rules to the best of their ability and to use their best

endeavours to procure the Company's compliance with the Exchange Listing Rules in respect of the Relevant Disclosures;

- (b) Mr Fischer breached his Undertaking to use his best endeavours to procure the Company's compliance with the Exchange Listing Rules in respect of the Independent Third Party Disclosure;
- (c) The Relevant Directors breached their respective Undertakings to use best endeavours to ensure that the Company had adequate and effective internal controls; and
- (d) Mr Liao breached his Undertaking to cooperate with the Exchange's investigation.

REGULATORY CONCERN

This case reveals a serious concern over the Company's corporate governance, the Relevant Directors' ability to procure the Company's Exchange Listing Rule compliance, and the adequacy and effectiveness of the Company's internal control systems, particularly in relation to compliance with Chapters 14 and 14A of the Exchange Listing Rules. This case also involves inaccurate, incomplete, misleading and/or deceptive disclosure in the Company's announcements.

The Company's admitted breaches of its disclosure, reporting and announcement obligations in relation to a series of transactions involving MyHD and Emiratinvest deprived the Company's investors and shareholders of their timely receipt of information concerning the affairs of the Company. The Company has a history of non-compliance with the Exchange Listing Rules, and they have been notified by the Division on previous occasions that further non-compliance may lead to disciplinary action. The Relevant Directors' failure to ensure that the Company had adequate and effective internal control systems has resulted in the Company's repeated breaches of the Exchange Listing Rules.

Directors are expected to be familiar with the connected transactions provisions of the Exchange Listing Rules, including the identification of connected parties. These rules are designed to protect the investing public, safeguard minority shareholders, and to dispel any conflict or perception of conflict in respect of transactions entered into by the Company.

SANCTIONS

Having made the findings of breach stated above, the Listing Committee decided to:

- (1) censure the Company for its breaches of Rule 2.13(2), Rule 14.34, Rule 14A.35 and for its repeated breaches of the Exchange Listing Rules;
- (2) censure Mr Hung and Ms Chen for their breaches of Rule 3.08(f) and their Undertakings;
- (3) criticise Mr Fischer, Mr WC Chen, Mr Wu, Mr Han and Mr Lee for their breaches of the Undertakings in respect of the Company's internal controls (and for Mr Fischer, in respect of the Company's breach of Rule 2.13(2)); and
- (4) censure Mr Liao for non-cooperation and his breach of the Undertaking in respect of the Company's internal controls.

The Listing Committee further directed:

- (5) the Company to (a) retain an independent professional adviser satisfactory to the Division ("**Adviser**") to conduct a thorough review of and make recommendations to improve the Company's internal controls and to ensure compliance with Chapters 14 and 14A of the Exchange Listing Rules, within two weeks from the date of publication of this news release. The Company shall provide the Division with the written report of the Adviser containing such recommendations within two months from the date of publication of this news release. The Company is to submit the proposed scope of retainer to the Division for comment before appointment of the Adviser; and (b) furnish the Division with the Adviser's written report on the Company's full implementation of the Adviser's recommendations within a further period of two months;
- (6) Mr Hung, Mr WC Chen and Mr Wu to attend 26 hours of training on regulatory and legal topics including Exchange Listing Rule compliance ("**Training**"). The Training must include at least three hours on each of (i) directors' duties; (ii) the Corporate Governance Code; (iii) the Exchange Listing Rule requirements for notifiable transactions; (iv) the Exchange Listing Rule requirements for connected transactions; and (v) at least two hours on the presentation of information in any announcement or corporate communication, to be provided by training providers approved by the Division and completed within 90 days from the date of the decision letter of the Listing Committee. They must provide the Division with the Training provider's written certification of full compliance within two weeks after Training completion;

- (7) As a pre-requisite of any future appointment as a director of any company listed or to be listed on the Exchange, Ms Chen, Mr Fischer, Mr Han and Mr Lee to attend 26 hours of Training, the contents of which are described in paragraph (6) above, to be provided by training providers approved by the Division. The Training is to be completed, and the Training provider's written certification of full compliance is to be provided to the Division, before the effective date of any such appointment; and
- (8) Following the publication of this news release, any changes necessary and any administrative matters which may emerge in the management and operation of the directions set out in paragraphs (5) to (7) above are to be directed to the Division for consideration and approval. The Division should refer any matters of concern to the Listing Committee on review for determination.

Hong Kong, 22 January 2021