Management Discussion and Analysis

The board (the "Board") of directors (the "Directors") of Sandmartin International Holdings Limited (the "Company") is pleased to present the unaudited condensed consolidated results of the Company and its subsidiaries (the "Group") for the six months ended December 31, 2005 (the "Period").

Review of results

For the Period, the Group recorded turnover and net profit of HK$583.9 million and HK$30.0 million, representing decreases of 15.5% and 43.6% respectively as compared to the corresponding period last year (2004: HK$691.3 million and HK$53.2 million respectively). Gross profit margin of the Group for the Period decreased slightly to 16.4% (2004: 17.5%). Basic earnings per share for the Period was 5.9 HK cents (2004: 12.5 HK cents).

The turnover attributable to the core business, sales of digital television ("DTV") reception products, amounted to HK$332.2 million (2004: HK$432.4 million), or 56.9% of the Group's turnover. The decrease of 23.2% in this segment was mainly driven by a decrease in the average selling price under keen competition within the industry.

As for the non-core segments, sales from connectors and cables decreased slightly by 4.6% to HK$146.8 million for the Period (2004: HK$153.9 million), representing 25.1% of the Group's turnover. Sales from another non-core segment, communication related products, have remained stagnant, recorded HK$104.9 million for the Period (2004: HK$105.0 million), or 18.0% of the Group's turnover. Owing to the acute competition on the electronic manufacturing services (EMS) market, communication related products recorded a segment loss of HK$7.0 million (2004: segment profit of HK$4.7 million). In line with the Group's strategic decision to refocus on the core business, the Group has trimmed certain non-core operations in the Period.

Liquidity and financial resources

At December 31, 2005, the Group had cash and cash equivalents of HK$119.5 million (June 30, 2005: HK$83.6 million) and net current assets of HK$218.4 million (June 30, 2005: HK$189.1 million). The Group's general banking facilities at December 31, 2005 amounted to approximately HK$321 million, of which HK$189.7 million were utilised.

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Capital structure

As at December 31, 2005, the Group has bank borrowings and obligations under finance leases of HK$185.8 million and HK$3.9 million, respectively, (June 30, 2005: HK$162.5 million and HK$5.6 million respectively), of which HK$33.0 million were not repayable within one year. The Group's borrowings are denominated either in HK$ or US$ and bear interest on a HIBOR or LIBOR basis. The gearing ratio, representing net interest-bearing debts divided by total equity, was 37% at December 31, 2005 (June 30, 2005: 28%).

Charges on assets

As at December 31, 2005, certain of the Group's property, plant and equipment, prepaid lease payments and bank deposits amounted to HK$152.3 million were pledged to secure the Group's general banking facilities.

Capital commitments

At December 31, 2005, the Group had capital expenditure amounting to approximately HK$2.4 million in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements.

Use of proceeds

The net proceeds from the Company's issue of new shares in May 2005 amounted to approximately HK$78.9 million. At the end of the Period, approximately HK$6 million was used for additions of production facilities and approximately HK$9 million was used for the construction of factory buildings. The downsizing in the non-core business moderates the need to expand the Group's production capacity. The Group has not moved ahead with the plan to purchase the land for the new manufacturing facility in Zhuhai of China. Instead, the Group constructed a new factory building at the existing plant in Zhongshan of China to fully utilize the remaining area at that site. The leftover funds were used to reduce short-term bank loans principally denominated in RMB to keep away from currency risk and the effect on the increasing interest rate.

Further, approximately HK$4 million was used for the new research and development ("R&D") centre in Taiwan and approximately HK$4 million was used for the product R&D. Also, approximately HK$2 million was used for the further market promotion and sales activities and approximately HK$4 million was used for general working capital of the Group. All of these were applied in the ways as described in the prospectus dated April 28, 2005.

Foreign exchanges

Majority of the Group's sales, purchases and operating expenses were denominated in RMB, US$ and HK$. The Directors believe that the Group has been and will continue to be exposed to foreign currency exchange risk but they do not expect future currency fluctuations to have material impact on operations. During the Period, the Group did not use any financial instruments for hedging purposes.

Employees

At December 31, 2005, the Group employed a total of 3,866 full-time employees. Employees are remunerated according to their performance and responsibilities. Other employee benefits include, inter alias, share option scheme, provident fund, insurance and medical coverage. During the Period, the staff costs of the Group amounted to HK$40 million.

Acquisitions

On December 1, 2005, the Group acquired an additional interest in Weblink Technology Limited ("Weblink"), effectively changed from an associate to a subsidiary. Weblink and its subsidiaries are engaged in the manufacture and trading of optic fiber products that are commonly used in telecommunications systems. Weblink had a remarkable turnaround for the year 2005 and the acquisition preserves the comprehensiveness of the Group's connectors and cables.

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As announced on January 17, 2006, the Group acquired the entire interest in BCN Distribuciones, S.A. and its subsidiaries (collectively "BCN") for a consideration of €10 million (equivalent to approximately HK$93.8 million) payable in four installments before May 31, 2008. BCN, principally engaged in the business of R&D and distribution of DTV products, is incorporated and headquartered in Spain with group companies in France, Italy and Portugal that should improve the Group's penetration into the European markets. The Group has established a long-term business relationship with BCN since 1998 and the acquisition demonstrates the continued commitment to further strengthen the Group's distribution network and R&D capability in the DTV reception business.

Business Outlook

Digital technology provides a more efficient way to deliver TV programs than with analogue transmissions: more channels in the same amount of bandwidth and to receive high-definition ("HD") programming. However, some viewers who are happy with their existing analogue TV systems tend not to adopt DTV systems. Governments are responding to this with an attempt to enforce the planned "switch-off" dates for analogue TV, but are encountering resistance from the public, as they fear that they will need to replace every TV they own, or buy additional digital receivers (set-top boxes, "STBs"). Today most viewers receive DTV via a STB, which decodes the digital signals into signals that analogue TV can understand. The Directors believe that the Group's future performance and the extent of growth and its timing going forward will be dependent on the rate and timing of service launch in DTV broadcasting.

DTV broadcasting is steadily gaining in popularity all over the world and the Directors believe that it will inevitably be employed by most of the TV households. The Group's technological skills and expertise in manufacture of digital STBs will be important to its ability to introduce products that are competitive at the forefront of this revolution. Other than satellite, cable, terrestrial and other range of STBs, the Group is getting conclusive studies with the latest high value products bundled with advanced features including hard drives for Personal Video Recorder (PVR) services, multiple tuners, more connectivity options and HD decoding for receiving HD signals. The Group's core business, supported by the newly acquired BCN, is equipped to capture the emerging business opportunities in the international marketplace and therefore increasing the returns for shareholders.

Contingent Liabilities

The Group did not have any significant contingent liabilities at December 31, 2005.

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.

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

As at December 31, 2005, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, the "SFO") which were required to be notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), to be notified to the Company and the Stock Exchange were as follows:

(i) Ordinary shares of HK$0.1 each of the Company

Name	Nature of interest	Number of Company's shares interested	Approximate percentage of interest
Mr. Hung Tsung Chin	Corporate	147,523,125 *(Note 1)*	29.00%
Ms. Chen Mei Huei	Corporate	147,523,125 *(Note 1)*	29.00%
Mr. Wang Yao Chu	Corporate	111,150,000 *(Note 2)*	21.85%
Mr. Liao Wen I	Corporate	75,489,375 *(Note 3)*	14.84%

Notes:

1. These Company's shares are registered in the name of Metroasset Investments Limited which is held by Mr. Hung Tsung Chin as to 45.09%, his wife, Ms. Chen Mei Huei, as to 44.38% and Mr. Hung Shih Shih (on trust for Mr. Hung Chih Chun, a son of Mr. Hung Tsung Chin and Ms. Chen Mei Huei) as to 10.53%.

2. These Company's shares are registered in the name of Success Power Investments Limited which is held by Mr. Wang Yao Chu as to 58.80% and his wife, Ms. Tseng Wei Ti, as to 41.20%.

3. These Company's shares are registered in the name of Wellever Investments Limited which is held by Mr. Liao Wen I as to 86.14% and his wife, Ms. Lin Hsiu Ling, as to 13.86%.

All interests in the Company's shares stated above represent long position.

(ii) Share options

Details of the Company's share option scheme are set out in the published annual report of the Company for the year ended June 30, 2005. As at December 31, 2005, the following share options had been granted by the Company on July 30, 2005 and remained outstanding:

			Number of share options		
Type of grantee	**Exercise price** *(Note 1)*	**Option period** *(Note 2)*	**Granted**	**Forfeited**	**Outstanding as at December 31, 2005**
Directors					
Mr. Hung Tsung Chin	HK$1.02	1 August 2005 to 31 July 2015	500,000	0	500,000
Ms. Chen Mei Huei	HK$1.02	1 August 2005 to 31 July 2015	500,000	0	500,000
Mr. Wang Yao Chu	HK$1.02	1 August 2005 to 31 July 2015	500,000	0	500,000
Mr. Liao Wen I	HK$1.02	1 August 2005 to 31 July 2015	500,000	0	500,000
Mr. Yip Ho Chi	HK$1.02	1 August 2005 to 31 July 2015	500,000	0	500,000
Employees	HK$1.02	1 August 2005 to 31 July 2015	4,020,000	340,000	3,680,000
			6,520,000	340,000	6,180,000

Notes:

1. The closing price of the Company's shares immediately before July 30, 2005, the date of grant of the options, was HK$1.02.

2. The maximum percentage of the share option which may be exercised is determined in stages as follows:

On or after the second year anniversary of the date of grant	50%
On or after the third year anniversary of the date of grant	remaining 50%

Save as disclosed above, as at December 31, 2005, none of the Directors and chief executive of the Company had or were deemed to have any interest or short position in the shares or underlying shares of the Company and its associated corporations (within the meaning of Part XV of the SFO), which has been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which has been notified to the Company pursuant to the Model Code.

Interests and Short Positions of Substantial Shareholders

As at December 31, 2005, the interests of the substantial shareholders in the shares or underlying shares of the Company which have been disclosed to the Company pursuant to Division 2 and 3 of Part XV of the SFO have been recorded in the register kept by the Company pursuant to section 336 of the SFO:

Name of Shareholder	Number of Company's shares held	Approximate percentage of interest
Metroasset Investments Limited	147,523,125	29.00% *(Note 1)*
Success Power Investments Limited	111,150,000	21.85% *(Note 2)*
Wellever Investments Limited	75,489,375	14.84% *(Note 3)*

Notes:

1. Metroasset Investments Limited is held by Mr. Hung Tsung Chin as to 45.09%, his wife, Ms. Chen Mei Huei, as to 44.38% and Mr. Hung Shih Shih (on trust for Mr. Hung Chih Chun, a son of Mr. Hung Tsung Chin and Ms. Chen Mei Huei) as to 10.53%.

2. Success Power Investments Limited is held by Mr. Wang Yao Chu as to 58.80% and his wife, Ms. Tseng Wei Ti, as to 41.20%.

3. Wellever Investments Limited is held by Mr. Liao Wen I as to 86.14% and his wife, Ms. Lin Hsiu Ling, as to 13.86%.

All the interests in the Company's shares stated above represent long position.

Save as disclosed above, so far as is known to the Directors, as at December 31, 2005, there was no person (other than a director or chief executive of the Company) who had an interest in the shares or underlying shares in the Company which would fall to be disclosed to the Company pursuant to section 336 of the SFO.

Corporate Governance

The Company has complied with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules during the Period.

Model Code for Securities Transaction by Directors

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules. Upon enquiry by the Company, all Directors confirmed they have complied with the required standards set out in the Model Code.

Review of Interim Results

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and the unaudited interim financial statements for the Period. The unaudited interim results of the Company for the Period have been reviewed by the Company's auditors, Deloitte Touche Tohmatsu, in accordance with Statement of Auditing Standard 700 "Engagements to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants.

By order of the Board
Hung Tsung Chin
Chairman

Hong Kong, March 27, 2006