

Chairman's Statement

It is our pleasure to present to you the annual report of Sandmartin International Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended June 30, 2006 (the "Year").

OUR BUSINESS

Our Group is a full range solution provider, designs and produces digital TV (DTV) reception equipment, including mainly set-top boxes (STB), satellite antennas (low-noise block converters) and DiSEqC switches, with programming of application software for STB on satellite, cable, terrestrial and Internet Protocol TV (IPTV). The Group also manufactures and trades audio-visual connectors and cables, as well as other communication related products.

From an operational point of view, last year was undoubtedly a challenging and complicated year. We moved swiftly to complete the exit from non-core activities and, in parallel, to invest in our core business, principally through the acquisition of the European group – BCN Distribuciones, S.A., and the increased research and development (R&D) expenditure. For the Year, we recorded a net profit of HK\$33.5 million, decreased by 66.4% from last year. It is partly because of the loss from non-core activities, bad debt provision, the increased R&D and general expenditure, and the general decrease in products' average selling prices arising from acute competition.

INDUSTRY OVERVIEW

The global market for digital STB products continues to grow but is evolving around two types of products: high-end converged products against low-end basic products. High-end products include high-definition (HD), Personal Video Recorder (PVR) and interactive IPTV services. In developed countries, major satellite and cable broadcasters are preparing for full-scale deployment of these services in the coming years to meet customer demand and explore new business opportunities. Due to technology barriers, mainly stemming from software integrity, aggressive price competition is not effective in this area.

However, there is potential competition from DTV makers, mostly electronic giants, who offer DTVs with a built-in STB or PVR. In the field of terrestrial broadcasting, it is a highly likely scenario because there is only one DTV standard for each country. Satellite, cable and IPTV broadcasting is a different story because different broadcasters use different standards, so it is not easy for DTV makers to merge STBs with their TVs.

APPRECIATION

We believe the Group has succeeded in the low-end products in the past years and we are now extending our footprints to the high-end products. Going forward, we believe the R&D capability is the key to our sustainable competitiveness in the industry. Recently, the Group has received several noteworthy awards for its technology, including:

1. On June 1, 2005, Sandmartin (Zhong Shan) Electronic Co., Ltd. ("Sandmartin (Zhong Shan)"), a wholly owned subsidiary of the Company, was recognised as a "High and New Technology Enterprise" by the Department of Science and Technology of Guangdong Province.
2. In December 2005, Sandmartin (Zhong Shan) was recognised as "City Level Enterprise Technology Centre" and "Key Enterprise of Equipment Manufacturers" by the Zhongshan City People's Government.
3. On July 6, 2006, Sandmartin (Zhong Shan) was recognised as one of the 26 "Satellite Television Receiving Equipment Processing Production Enterprises" jointly by the Ministry of Commerce, the Ministry of Information Industry, and the General Administration of Customs.

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As for the environmental concerns, Sandmartin (Zhong Shan) was accredited with ISO14001: 2004 in environmental management standards on January 24, 2006, which helps the Group continually minimize how the operations negatively affect the environment and comply with applicable laws, regulations, and other environmentally oriented requirements.

PROSPECT

Technological advances will continue to create increased opportunity as well as increased competition. Capitalising on strengths of the European-led R&D team and our continual spending on R&D, together with our highly efficient vertically integrated production process based in Zhongshan, China, which comprises of both major upstream and downstream production stages to retain maximum amount of value in the product value chain, our global operation model is well prepared to capture further growth opportunities in the digital home development.

I hope you share my excitement and appreciate your continued support and confidence.

Hung Tsung Chin

Chairman

Hong Kong

October 27, 2006