

MANAGEMENT DISCUSSION AND ANALYSIS

The Board of Directors (the “Directors”) of Sandmartin International Holdings Limited (the “Company”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended December 31, 2006 (the “Period”).

The Group recorded turnover of HK\$590.1 million for the Period, representing an increase of 1.1% as compared to the corresponding period last year (2005: HK\$583.9 million). Gross profit margin of the Group for the Period was 16.7% (2005: 16.4%). However, the increase in administrative expenses and finance costs, mainly attributable to BCN Distribuciones, S.A., the Spanish subsidiary acquired in January 2006 (the “Acquisition”), exceeded the decrease in distribution costs, the Group’s profit attributable to equity holders for the Period amounted to HK\$15.0 million, or a decrease of 50% (2005: HK\$30.0 million). Basic earnings per share for the Period was 2.9 HK cents (2005: 5.9 HK cents). We believe it is a typical experience before the Group can fully benefit from the synergy of the Acquisition.

In view of the need of the Group’s future development, the Directors have resolved not to declare any interim dividend for the six months ended December 31, 2006 (2005: Nil).

Segmental information

The turnover attributable to the core business, sales of digital TV reception products, amounted to HK\$292.9 million (2005: HK\$332.2 million), or 50% of the Group’s turnover. The decrease of 12% in this segment was attributable to the decreasing average selling prices, mainly induced by competition, and the delayed new set-top box launches, mainly caused by the global postponement in key chip development.

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As for the non-core segments, sales from connectors and cables increased by 50% to HK\$220.8 million for the Period (2005: HK\$146.8 million), representing 37% of the Group's turnover. Sales from communication related products recorded HK\$76.4 million for the Period (2005: HK\$104.9 million), or 13% of the Group's turnover. The overall increase was mainly attributable to the acquired 51% subsidiary, Weblink Technology Limited engaged in fiber optic products, as well as the growth of contribution from the US market.

Prospects

We believe that developing a set-top box is different to mainstream consumer electronics products that there is a significant degree of buyer customization. We expect the industry growth in the coming years will be determined by a shift to high end boxes. It has identified that several technological trends, like digital TV conversion, personal video recorders, high definition TV, internet protocol TV, as well as the increasing number of set-top boxes per house, should sustain a healthy demand for set-top box upgrades over the next few years. However, market competition and price pressure will still be a concern. The Group is committed to keeping its costs under control and will fully utilize the European team for its R&D and distribution capability to explore more opportunities in the global digital TV reception product market.

Liquidity and financial resources

At December 31, 2006, the Group's general banking facilities amounted to approximately HK\$345.7 million, of which bank borrowings of HK\$232.2 million and obligations under finance leases of HK\$1.7 million were utilised (6.30.2006: HK\$227.0 million and HK\$3.0 million, respectively). At December 31, 2006, the borrowings amounted to HK\$52.9 million were not repayable within one year and the net gearing ratio, representing net borrowings over total equity of the Group, was 33.1% (6.30.2006: 28.7%). The general increase in borrowings was attributable to the acquired subsidiary in Spain.

Capital structure

The Group continues to maintain a prudent treasury policy and manage currency and interest risks on a conservative basis. At December 31, 2006, the Group had cash and cash equivalents of HK\$82.8 million (6.30.2006: HK\$92.2 million), of which denominated in US\$, Euro and RMB were approximately 58%, 29% and 5% respectively. The Group's borrowings are denominated either in HK\$, US\$ or Euro and bear interest on a HIBOR, LIBOR or EURIBOR basis respectively. At December 31, 2006 the Group had commitments in respect of outstanding currency forward contracts amounting to approximately US\$10 million, to hedge significant future transactions and cash flows denominated in US\$ and RMB.

Charges on assets

As at December 31, 2006, the Group's general banking facilities were secured by the following assets of the Group: (i) bank deposits of HK\$11 million, (ii) buildings with a carrying value of HK\$75 million, (iii) prepaid lease payments of HK\$19 million, (iv) freehold land of HK\$2 million and (v) investment properties of HK\$20 million.

Capital commitments

On February 28, 2007, the Group acquired the remaining 50% interest in FTE Maximal – Comercio de Antenas e Electronica, Lda., which engaged in trading of electronic goods in Portugal, for a consideration of Euro 1 million (approximately HK\$10.3 million) payable by eight installments upto September 20, 2008.

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Employees

At December 31, 2006, the Group employed a total of 3,851 full-time employees. Employees are remunerated accordingly to their performance and responsibilities. Other employee benefits include, inter alia, share option scheme, provident fund, insurance and medical coverage.

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at December 31, 2006.

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 EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES AND DEBENTURES

As at December 31, 2006, the interests and short positions of the directors and chief executives 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 in 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 of director	Nature of interest	Number of Company's shares interested	Approximate percentage of interest
Mr. Hung Tsung Chin	Corporate	147,523,125 (<i>Note 1</i>)	29.00%
Ms. Chen Mei Huei	Corporate	147,523,125 (<i>Note 1</i>)	29.00%
Mr. Wang Yao Chu	Corporate	111,150,000 (<i>Note 2</i>)	21.85%
Mr. Liao Wen I	Corporate	75,489,375 (<i>Note 3</i>)	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 the interests in the Company's shares stated above represent long position.

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(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, 2006.

The following table discloses movements in the Company's share options during the Period:

Type of grantee	Date of grant	Exercise price (Note 1)	Option period (Note 2)	Number of share options			Outstanding at December 31, 2006
				Outstanding at July 1, 2006	Granted during the period	Forfeited during the period	
Directors							
Mr. Hung Tsung Chin	July 30, 2005	HK\$1.02	August 1, 2005 to July 31, 2015	500,000	-	-	500,000
Ms. Chen Mei Huei	July 30, 2005	HK\$1.02	August 1, 2005 to July 31, 2015	500,000	-	-	500,000
Mr. Wang Yao Chu	July 30, 2005	HK\$1.02	August 1, 2005 to July 31, 2015	500,000	-	-	500,000
Mr. Liao Wen I	July 30, 2005	HK\$1.02	August 1, 2005 to July 31, 2015	500,000	-	-	500,000
Mr. Yip Ho Chi	July 30, 2005	HK\$1.02	August 1, 2005 to July 31, 2015	500,000	-	-	500,000
				<u>2,500,000</u>	<u>-</u>	<u>-</u>	<u>2,500,000</u>
Employees	July 30, 2005	HK\$1.02	August 1, 2005 to July 31, 2015	3,400,000	-	(60,000)	3,340,000
Employees	December 15, 2006	HK\$2.05	December 16, 2006 to December 15, 2016	-	1,100,000	-	1,100,000
Total				<u>5,900,000</u>	<u>1,100,000</u>	<u>(60,000)</u>	<u>6,940,000</u>

Notes:

- Being the closing price of the Company's shares immediately before the dates of grant of the options.
- The share options are vested in stages as follows:

On or after the second year anniversary of the date of grant
On or after the third year anniversary of the date of grant

50%
remaining 50%

Save as disclosed above, as at December 31, 2006, none of the directors and chief executives 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 of the Listing Rules.

SUBSTANTIAL SHAREHOLDERS

As at December 31, 2006, 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%.

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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, 2006, 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 contained in Appendix 14 of the Listing Rules during the Period.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules regarding securities transactions by directors on terms no less exacting than the required standard set out in the Model Code. Having made specific enquiry of all Directors, all Directors confirmed they have complied with the required standard set out in the Model Code for the Period.

AUDIT COMMITTEE

The Audit Committee has reviewed and discussed the unaudited interim financial statements and the accounting principles and practices adopted by the Group for the Period with management and the external auditor has reviewed the interim financial statements in accordance with the Statement of Auditing Standards 700 "Engagements to Review Interim Financial Reports".

By order of the Board
Hung Tsung Chin
Chairman

Hong Kong, March 27, 2007