



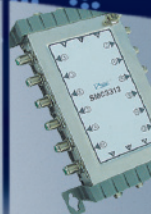
Sandmartin International Holdings Limited

聖馬丁國際控股有限公司

(Incorporated in Bermuda with limited liability)

Stock code: 0482

07/08
INTERIM REPORT





CONTENTS

CORPORATE INFORMATION	2
MANAGEMENT DISCUSSION AND ANALYSIS	3
CONDENSED CONSOLIDATED INCOME STATEMENT	11
CONDENSED CONSOLIDATED BALANCE SHEET	12
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	14
CONDENSED CONSOLIDATED CASH FLOW STATEMENT	16
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS	17
REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION	31

CORPORATE INFORMATION

DIRECTORS

Executive directors

Mr. Hung Tsung Chin (*Chairman*)

Ms. Chen Mei Huei

(*Chief Executive Officer*)

Mr. Wang Yao Chu

Mr. Liao Wen I

Mr. Yip Ho Chi

Independent non-executive directors

Mr. Hsu Chun Yi

Mr. Chen Chung Ho

Mr. Tsan Wen Nan

REGISTERED OFFICE

Clarendon House, 2 Church Street

Hamilton, HM 11, Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 1, 19/F., China Merchants Tower
Shun Tak Centre, 168-200

Connaught Road Central, Hong Kong

COMPANY SECRETARY

Mr. Yip Ho Chi, *FCCA, FCCA*

LEGAL ADVISORS

Sidley Austin

AUDITORS

Deloitte Touche Tohmatsu

Certified Public Accountants

AUDIT COMMITTEE

Mr. Hsu Chun Yi (*Chairman*)

Mr. Chen Chung Ho

Mr. Tsan Wen Nan

PRINCIPAL BANKERS

The Hong Kong and Shanghai Banking
Corporation

Bank SinoPac

Standard Chartered Bank (Hong Kong)
Limited

Industrial and Commercial Bank of
China (Asia) Limited

Chinatrust Commercial Bank, Limited

SHARE REGISTRARS AND TRANSFER OFFICE

In Hong Kong

Computershare Hong Kong
Investor Services Limited

Shops 1712-1716, 17th Floor

Hopewell Centre

183 Queen's Road East

Wanchai, Hong Kong

In Bermuda

The Bank of Bermuda Limited

Bank of Bermuda Building

6 Front Street, Hamilton

HM11, Bermuda

WEBSITE

www.sandmartin.com.hk

STOCK CODE

Hong Kong 482



MANAGEMENT DISCUSSION AND ANALYSIS

The Board of Directors (the “Directors”) of Sandmartin International Holdings Limited (the “Company”) presents their unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended December 31, 2007 (the “Period”), together with the comparative figures.

Business review

The Group recorded revenue of HK\$938.4 million for the Period, representing a substantial increase of 59.0% as compared to the corresponding period last year (7.1.2006 to 12.31.2006: HK\$590.1 million). Gross profit margin of the Group for the Period also increased to 18.8% (7.1.2006 to 12.31.2006: 16.7%). The Group’s profit for the Period attributable to equity holders amounted to HK\$30.4 million, or rose by 103.5% (7.1.2006 to 12.31.2006: HK\$15.0 million). Basic and diluted earnings per share for the Period were 5.7 HK cents (7.1.2006 to 12.31.2006: 2.9 HK cents). Though the Group’s profit for the Period has been adversely affected by the impairment loss on trade receivables amounted to HK\$31.7 million, mainly related to a Middle East customer, the Directors have sustained the prudent approach and tightened its overall credit control to address the issue, and believe that through the diversification of markets and customers the credit risk can be mitigated. The Group would continue its investment in research and development (“R&D”) and the R&D costs for the Period amounted to HK\$13.9 million, increased by 125.6% (7.1.2006 to 12.31.2006: HK\$6.1 million). Also, in January 2008, the Directors approved the acquisition of the entire interest in Intelligent Digital Services GmbH (“IDS”), a company incorporated in Germany for a consideration of EUR1,800,000 (equivalent to approximately HK\$21.1 million), in order to further strengthen the R&D capability of the Group especially in the markets of Europe and Americas.

Interim dividend

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, 2007 (7.1.2006 to 12.31.2006: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Segmental information

The revenue attributable to the core business, sales of digital television (“DTV”) reception products, amounted to HK\$641.4 million (7.1.2006 to 12.31.2006: HK\$292.9 million), or 68.4% of the Group’s revenue. The increase of 119.0% in this segment was mainly attributable to the growth in DTV set-top boxes, both in output units and the percentage of high value products. The continuing growth in the European market was also a key factor to boost up the revenue and gross margin simultaneously.

As for the non-core segment, sales from other multimedia products maintained at HK\$297.0 million for the Period (7.1.2006 to 12.31.2006: HK\$297.2 million), representing 31.6% of the Group’s revenue.

Capital structure

In September 2007, upon the completion of the issue of 48,000,000 new shares under the general mandate granted to the Directors at the annual general meeting of the Company held on December 5, 2006 (the “Subscription”), the sum of share capital and share premium of the Company has been enlarged by HK\$69.6 million to HK\$148.8 million. In view of the positive conditions of the stock market, the Directors considered that the Subscription represented an opportunity to raise capital for the Company while broadening the shareholder base and the capital base of the Company, and the Company can have readily available resources to make investments as and when opportunities arise.

Liquidity and financial resources

The net gearing ratio, representing net borrowings over total equity of the Group, was significantly reduced to the single digit 4.0% at December 31, 2007 (6.30.2007: 32.2%). At December 31, 2007, the Group’s general banking facilities amounted to approximately HK\$399.1 million, of which bank and other borrowings of HK\$274.5 million and obligations under finance leases of approximately HK\$228,000 were utilised (6.30.2007: HK\$261.0 million and HK\$805,000, respectively) whereas HK\$45.1 million were not repayable within one year.

The current ratio of the Group at December 31, 2007 was 1.4 (6.30.2007: 1.2). Because of the growth in revenue, the annualized trade receivable turnover and inventory turnover decreased to 50 days and 86 days, respectively (82 days and 124 days for the year ended June 30, 2007, respectively). The annualized trade payable turnover also reduced to 84 days (128 days for the year ended June 30, 2007).



MANAGEMENT DISCUSSION AND ANALYSIS

During the Period, net cash generated from the Group's operating activities amounted to HK\$60.4 million (7.1.2006 to 12.31.2006: used HK\$2.6 million). Net cash used in investing activities amounted to HK\$6.8 million (7.1.2006 to 12.31.2006: HK\$7.7 million). Net cash generated from financing activities amounted to HK\$70.5 million (7.1.2006 to 12.31.2006: used HK\$0.9 million).

Prospects

The Group has delivered a strong performance during the Period, meeting its increased expectations, primarily supported by recent years' acquisitions and the associated enhancement in the R&D competence and the distribution network. The Directors believe the Group will continue to benefit from its European subsidiaries' contributions, as well as the wide-ranging growth of the global DTV set-top box market, not just geographically, but in different platforms namely terrestrial, satellite, cable and internet protocol TV, and products' diverse functionality such as high-definition, personal video recorder and interactive services.

The Directors have noticed the recent unification of tax laws, labor law reform, and the appreciation of RMB in China. It is generally expected that these changes will stimulate the development of high-tech, infrastructure, agriculture, and other industries. Meanwhile, simple production and processing industries, driven mainly by cheap labor, will be under pressure to upgrade their technology and labor productivity. The Group's manufacturing base is located in the mainland China, inevitably would be affected to a certain extent. The Group would take all necessary measures and develop strategies that optimize the domestic and global tax benefits. Particularly, the Group's principal subsidiary in China has been recognized as a "High and New Technology Enterprise" by the Department of Science and Technology of Guangdong Province in China since 2005, which potentially can enjoy the reduced tax rate under the new tax laws. Furthermore, the Group's total staff costs only amounted to 9.8% of the Group's revenue for the year ended June 30, 2007 and the Group will increase its subcontracting processes whenever beneficial to the Group. The Directors consider that the Group is well-positioned to face these new challenges and able to maintain its competitiveness.



MANAGEMENT DISCUSSION AND ANALYSIS

Charges on assets

As at December 31, 2007, the Group's general banking facilities were secured by the following assets of the Group: (i) bank deposits of HK\$10.7 million, (ii) buildings with a carrying value of HK\$37.0 million, (iii) prepaid lease payments of HK\$14.5 million, (iv) freehold land of HK\$2.4 million and (v) investment properties of HK\$25.6 million.

Capital commitments

At December 31, 2007, capital expenditure of approximately HK\$149,000 (6.30.2007: HK\$443,000) has been contracted for but not provided in the condensed consolidated financial statements in respect of acquisition of property, plant and equipment.

Employees

At December 31, 2007, the Group employed a total of 4,585 (6.30.2007: 4,717) 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, 2007.

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.

MANAGEMENT DISCUSSION AND ANALYSIS

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES AND SHARES OPTIONS

As at December 31, 2007, the interests of the directors and chief executives of the Company and their associates in the shares and share options of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

Long positions

(i) Ordinary shares of HK\$0.10 each of the Company

Name of director	Nature of interest	Number of Company's shares held	Percentage of the issued share capital
Mr. Hung Tsung Chin	Corporate	147,523,125 (Note 1)	26.50%
Ms. Chen Mei Huei	Corporate	147,523,125 (Note 1)	26.50%
Mr. Wang Yao Chu	Corporate	111,150,000 (Note 2)	19.97%
Mr. Liao Wen I	Corporate	75,489,375 (Note 3)	13.56%

Notes:

1. These Company's shares were 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% at December 31, 2007.
2. These Company's shares were 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% at December 31, 2007.
3. These Company's shares were 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% at December 31, 2007.

MANAGEMENT DISCUSSION AND ANALYSIS

(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, 2007.

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

Type of grantee	Date of grant (Note 2)	Exercise price (Note 1)	Number of share options			Outstanding at December 31, 2007
			Outstanding at July 1, 2007	Granted during the Period	Forfeited during the Period	
Directors						
Mr. Hung Tsung Chin	July 30, 2005	HK\$1.02	500,000	–	–	500,000
Ms. Chen Mei Huei	July 30, 2005	HK\$1.02	500,000	–	–	500,000
Mr. Wang Yao Chu	July 30, 2005	HK\$1.02	500,000	–	–	500,000
Mr. Liao Wen I	July 30, 2005	HK\$1.02	500,000	–	–	500,000
Mr. Yip Ho Chi	July 30, 2005	HK\$1.02	500,000	–	–	500,000
			2,500,000	–	–	2,500,000
Employees	July 30, 2005	HK\$1.02	3,240,000	–	(180,000)	3,060,000
Employees	December 16, 2006	HK\$2.05	1,100,000	–	–	1,100,000
Employees	December 27, 2007	HK\$1.76	–	3,050,000	–	3,050,000
Total			6,840,000	3,050,000	(180,000)	9,710,000

Notes:

- The closing prices of the Company's shares immediately before July 30, 2005, December 16, 2006 and December 27, 2007, the dates of grant of the options, were HK\$1.02, HK\$2.05 and HK\$1.76, respectively.
- The share options are vested in stages as follows:

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

Options granted on July 30, 2005, December 16, 2006 and December 27, 2007 are exercisable until July 31, 2015, December 15, 2016 and December 26, 2017, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

Other than the holdings disclosed above and nominee share in a subsidiary held in trust for the Group, none of the directors, chief executives and their associates, had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations.

SUBSTANTIAL SHAREHOLDERS

As at December 31, 2007, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders had notified the Company of relevant interests in the issued share capital of the Company:

Long positions

Name of shareholder	Number of Company's shares held	Percentage of the issued share capital
Metroasset Investments Limited	147,523,125 (<i>Note 1</i>)	26.50%
Success Power Investments Limited	111,150,000 (<i>Note 2</i>)	19.97%
Wellever Investments Limited	75,489,375 (<i>Note 3</i>)	13.56%
CDIB Capital (Japan) Limited	48,000,000	8.62%

Notes:

1. Metroasset Investments Limited was 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% at December 31, 2007.
2. Success Power Investments Limited was held by Mr. Wang Yao Chu as to 58.80% and his wife, Ms. Tseng Wei Ti, as to 41.20% at December 31, 2007.
3. Wellever Investments Limited was held by Mr. Liao Wen I as to 86.14% and his wife, Ms. Lin Hsiu Ling, as to 13.86% at December 31, 2007.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at December 31, 2007.



MANAGEMENT DISCUSSION AND ANALYSIS

CORPORATE GOVERNANCE

The Company has complied with all the provisions set out in the Code on Corporate Governance Practices as contained in Appendix 14 of the Listing Rules, and where appropriate, adopted the recommended best practices throughout 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 standards 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 the management, and the external auditor has reviewed the interim financial statements in accordance with the Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”.

By order of the Board

Hung Tsung Chin

Chairman

Hong Kong, March 13, 2008

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended December 31, 2007

		Six months ended December 31,	
		2007	2006
		HK\$'000	HK\$'000
	NOTES	(unaudited)	(unaudited)
Revenue	3	938,422	590,128
Cost of sales		(762,308)	(491,667)
Gross profit		176,114	98,461
Other income		12,644	10,934
Distribution and selling costs		(32,000)	(22,498)
Administrative expenses		(69,740)	(49,279)
Impairment loss on trade receivables	10	(31,673)	(3,355)
Research and development costs		(13,868)	(6,147)
Share of results of an associate		–	250
Finance costs		(10,469)	(10,348)
Profit before taxation	4	31,008	18,018
Income tax expense	5	(232)	(3,391)
Profit for the period		30,776	14,627
Attributable to:			
Equity holders of the Company		30,432	14,956
Minority interests		344	(329)
		30,776	14,627
Earnings per share	8		
Basic (HK cents)		5.7	2.9
Diluted (HK cents)		5.7	2.9

CONDENSED CONSOLIDATED BALANCE SHEET

At December 31, 2007

		December 31, 2007 HK\$'000 (unaudited)	June 30, 2007 HK\$'000 (audited)
	NOTES		
Non-current assets			
Property, plant and equipment	9	199,910	201,710
Prepaid lease payments		22,730	22,503
Investment properties	9	25,577	24,785
Deposit paid for acquisition of property, plant and equipment		–	779
Goodwill		70,765	70,294
Intangible assets		8,353	8,909
Available-for-sale investments		1,527	1,711
Deferred tax assets		486	1,019
		329,348	331,710
Current assets			
Inventories		362,689	382,128
Trade and other receivables	10	293,112	323,197
Prepaid lease payments		520	508
Derivative financial instruments		–	215
Pledged bank deposits		10,722	10,725
Bank balances and cash		242,889	114,111
		909,932	830,884
Current liabilities			
Trade and other payables	11	415,708	463,960
Tax liabilities		8,473	10,315
Derivative financial instruments		1,332	–
Bank and other borrowings			
– due within one year	12	229,512	212,138
Obligations under finance leases			
– due within one year		146	683
		655,171	687,096
Net current assets		254,761	143,788
		584,109	475,498

CONDENSED CONSOLIDATED BALANCE SHEET

At December 31, 2007

		December 31, 2007 HK\$'000 (unaudited)	June 30, 2007 HK\$'000 (audited)
	<i>NOTES</i>		
Capital and reserves			
Share capital	13	55,668	50,868
Share premium and reserves		471,105	362,034
Equity attributable to equity holders of the Company		526,773	412,902
Minority interests		12,229	12,039
Total equity		539,002	424,941
Non-current liabilities			
Other long-term payable		–	1,596
Bank and other borrowings			
– due after one year	12	45,025	48,839
Obligations under finance leases			
– due after one year		82	122
		45,107	50,557
		584,109	475,498

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended December 31, 2007

	Attributable to equity holders of the Company										
	Share capital HK\$'000	Share premium HK\$'000	Share option reserve HK\$'000	Statutory reserve HK\$'000	Special reserve HK\$'000	Revaluation reserve HK\$'000	Exchange reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total HK\$'000
At July 1, 2006 (audited)	50,868	28,328	267	9,664	79,878	54	6,784	238,992	414,835	13,248	428,083
Exchange differences arising on translation to presentation currency	-	-	-	-	-	-	6,183	-	6,183	(65)	6,118
Gain on fair value changes of available-for-sale investments	-	-	-	-	-	2	-	-	2	-	2
Income recognised directly in equity	-	-	-	-	-	2	6,183	-	6,185	(65)	6,120
Profit for the period	-	-	-	-	-	-	-	14,956	14,956	(329)	14,627
Total recognised income and expense for the period	-	-	-	-	-	2	6,183	14,956	21,141	(394)	20,747
Recognition of equity-settled share-based payments	-	-	166	-	-	-	-	-	166	-	166
At December 31, 2006 (unaudited)	50,868	28,328	433	9,664	79,878	56	12,967	253,948	436,142	12,854	448,996

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended December 31, 2007

	Attributable to equity holders of the Company										
	Share capital HK\$'000	Share premium HK\$'000	Share option reserve HK\$'000	Statutory reserve HK\$'000	Special reserve HK\$'000	Revaluation reserve HK\$'000	Exchange reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total HK\$'000
At July 1, 2007 (audited)	50,868	28,328	822	12,905	79,878	29	18,360	221,712	412,902	12,039	424,941
Exchange differences arising on translation to presentation currency	-	-	-	-	-	-	-	-	-	-	-
Loss on fair value changes of available-for-sale investments	-	-	-	-	-	(29)	-	-	(29)	-	(29)
Net income recognised directly in equity	-	-	-	-	-	(29)	13,590	-	13,561	(154)	13,407
Profit for the period	-	-	-	-	-	-	-	30,432	30,432	344	30,776
Total recognised income and expense for the period	-	-	-	-	-	(29)	13,590	30,432	43,993	190	44,183
Issue of shares	4,800	64,800	-	-	-	-	-	-	69,600	-	69,600
Transaction costs attributable to issue of shares	-	(38)	-	-	-	-	-	-	(38)	-	(38)
Recognition of equity-settled share-based payments	-	-	316	-	-	-	-	-	316	-	316
At December 31, 2007 (unaudited)	55,668	93,090	1,138	12,905	79,878	-	31,950	252,144	526,773	12,229	539,002

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended December 31, 2007

	Six months ended December 31,	
	2007	2006
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Net cash from (used in) operating activities	60,352	(2,560)
Net cash (used in) from investing activities:		
Additions to property, plant and equipment	(9,008)	(19,882)
Decrease in pledged bank deposits	110	11,316
Other investing cash flows	2,059	848
	(6,839)	(7,718)
Net cash from (used in) financing activities:		
New bank and other borrowings raised	360,361	266,523
Proceeds from issue of shares	69,600	—
Repayment of bank borrowings	(358,829)	(266,027)
Other financing cash flows	(635)	(1,411)
	70,497	(915)
Net increase (decrease) in cash and cash equivalents	124,010	(11,193)
Cash and cash equivalents at beginning of the period	114,111	92,179
Effect of foreign exchange rate changes	4,768	1,771
Cash and cash equivalents at end of the period, represented by bank balances and cash	242,889	82,757

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended December 31, 2007

1. 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 of Hong Kong Limited (the “Stock Exchange”) and with the Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for investment properties and certain financial instruments which are measured at fair values.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended June 30, 2007 except as described below.

In the current interim period, the Group has applied, for the first time, the following new standard, amendment and interpretations (“new HKFRSs”) issued by the HKICPA which are effective for the Group’s financial year beginning July 1, 2007.

HKAS 1 (Amendment)	Capital Disclosures ¹
HKFRS 7	Financial Instruments: Disclosures ¹
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment ²
HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions ³

¹ Effective for annual periods beginning on or after January 1, 2007

² Effective for annual periods beginning on or after November 1, 2006

³ Effective for annual periods beginning on or after March 1, 2007

The adoption of these new HKFRSs has had no material effect on the results and financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended December 31, 2007

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

The Group has not early applied the following new and revised standards or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements ¹
HKAS 23 (Revised)	Borrowing Costs ¹
HKFRS 8	Operating Segments ¹
HK(IFRIC) – Int 12	Service Concession Arrangements ²
HK(IFRIC) – Int 13	Customer Loyalty Programmes ³
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction ²

¹ Effective for annual periods beginning on or after January 1, 2009

² Effective for annual periods beginning on or after January 1, 2008

³ Effective for annual periods beginning on or after July 1, 2008

The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group.

3. SEGMENT INFORMATION

Business segments

For management purposes, the Group is currently organised into two operating divisions – digital television reception products and other multimedia products. These divisions are the basis on which the Group reports its primary segment information.

In the previous period, the Group's operations were organised into three operating divisions namely digital television reception products, connectors and cables, and communication related products. During the period, management considered that most of the customers ordered both connectors and cables, and communication related products and these products are subject to similar risk and returns. Accordingly, management has reorganised the operating divisions by grouping the connectors and cables, and communication related products and renamed it as other multimedia products. Comparative segment information has been restated accordingly.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended December 31, 2007

3. SEGMENT INFORMATION (Continued)

Six months ended December 31, 2007

	Digital television reception products HK\$'000	Other multimedia products HK\$'000	Total HK\$'000
REVENUE			
External sales	<u>641,437</u>	<u>296,985</u>	<u>938,422</u>
RESULTS			
Segment results	<u>62,979</u>	<u>49,461</u>	<u>112,440</u>
Other income			12,644
Unallocated corporate expenses			(83,607)
Finance costs			<u>(10,469)</u>
Profit before taxation			31,008
Income tax expense			<u>(232)</u>
Profit for the period			<u>30,776</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended December 31, 2007

3. SEGMENT INFORMATION (Continued)

Six months ended December 31, 2006

	Digital television reception products HK\$'000	Other multimedia products HK\$'000	Total HK\$'000
REVENUE			
External sales	<u>292,914</u>	<u>297,214</u>	<u>590,128</u>
RESULTS			
Segment results	<u>29,391</u>	<u>46,572</u>	75,963
Other income			10,934
Unallocated corporate expenses			(58,781)
Share of results of an associate	250	–	250
Finance costs			<u>(10,348)</u>
Profit before taxation			18,018
Income tax expense			<u>(3,391)</u>
Profit for the period			<u>14,627</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended December 31, 2007

4. PROFIT BEFORE TAXATION

	Six months ended December 31,	
	2007	2006
	HK\$'000	HK\$'000
Profit before taxation has been arrived at after charging:		
Amortisation of intangible assets (included in cost of sales)	964	555
Release of prepaid lease payments	256	235
Depreciation of property, plant and equipment	17,882	17,510
Fair value change of derivative financial instruments (<i>Note</i>)	1,600	813
and after crediting:		
Bank interest income	1,379	848

Note: The amount represent fair value change for foreign currency exchange contracts, certain of which are outstanding at the balance sheet date.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended December 31, 2007

5. INCOME TAX EXPENSE

	Six months ended December 31,	
	2007	2006
	HK\$'000	HK\$'000
The tax charge comprises:		
Current period		
PRC Enterprise Income Tax	3,024	1,509
Taxation in other jurisdictions	3,030	1,904
PRC Enterprise Income Tax refunded in respect of reinvestment of dividend declared	(6,402)	—
Deferred tax charge (credit)	580	(22)
	<u>232</u>	<u>3,391</u>

No tax is payable on the profit for both periods arising in Hong Kong since the assessable profit of the subsidiary operating in Hong Kong was wholly absorbed by tax losses brought forward.

The principal subsidiary of the Company in the People's Republic of China (the "PRC") was qualified as an exported oriented enterprise for the year ended December 31, 2007 and continued to enjoy the reduced tax rate of 12% during both periods.

On March 16, 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On December 6, 2007, the State Council of the PRC issued Implementation Regulations of the New Law. For companies that were qualified under old law or regulations for incentive tax rate of 12%, the tax rate will progressively increase to 18%, 20%, 22%, 24% and 25% in calendar year 2008, 2009, 2010, 2011 and 2012, respectively. The deferred tax balance has been adjusted to reflect the tax rates that are expected to apply to the respective periods when the asset is realised or the liability is settled.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended December 31, 2007

6. DIVIDENDS

No dividends were paid during the period. The directors do not recommend the payment of an interim dividend for the period.

7. SHARE-BASED PAYMENT TRANSACTIONS

Pursuant to a share option scheme approved by a written resolution passed by the shareholders of the Company on March 17, 2005 (the "Option Scheme"), the Company may grant options to the directors or employees, any business consultants, business partners, suppliers, customers, agents or financial or legal advisers of the Company or any of its subsidiaries, for the recognition of their contributions, to subscribe for shares in the Company with a payment of HK\$1.00 upon each grant of options offered.

The exercise price of the share option will be determined at the highest of:

- (i) the closing price of the Company's shares on the Stock Exchange on the date of grant;
- (ii) the average of closing prices of shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the option; and
- (iii) the nominal value of the shares.

The share options are exercisable at any time during a period of not more than 10 years from the date of grant, subject to the terms and conditions of the Option Scheme, or any conditions stipulated by the board of directors.

The maximum number of shares in respect of which options may be granted shall not exceed 10% of the number of shares of the Company in issue from time to time. Unless further shareholders' approval has been obtained pursuant to the conditions set out in the Option Scheme, no person shall be granted an option which, if all the options granted to the person (including both exercised and outstanding options) in any 12 month period up to the date of grant are exercised in full, would result in such person's maximum entitlement exceeding 1% of the number of issued shares of the Company.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended December 31, 2007

7. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

The following table discloses movements of the share options of the Company held by the Company's directors or employees during the period:

Type of grantee	Date of grant (Note 2)	Exercise price (Note 1)	Number of share options			
			Outstanding at July 1, 2007	Granted during the period	Forfeited during the period	Outstanding at December 31, 2007
Directors	July 30, 2005	HK\$1.02	2,500,000	–	–	2,500,000
Employees	July 30, 2005	HK\$1.02	3,240,000	–	(180,000)	3,060,000
Employees	December 16, 2006	HK\$2.05	1,100,000	–	–	1,100,000
Employees	December 27, 2007	HK\$1.76	–	3,050,000	–	3,050,000
Total			<u>6,840,000</u>	<u>3,050,000</u>	<u>(180,000)</u>	<u>9,710,000</u>

Notes:

- The closing prices of the Company's shares immediately before July 30, 2005, December 16, 2006 and December 27, 2007, the dates of grant of the options, were HK\$1.02, HK\$2.05 and HK\$1.76, respectively.
- The share options are vested in stages as follows:

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

Options granted on July 30, 2005, December 16, 2006 and December 27, 2007 are exercisable until July 31, 2015, December 15, 2016 and December 26, 2017, respectively.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended December 31, 2007

7. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

The estimated fair values of the options granted on December 27, 2007 using The Binomial model are HK\$2,523,000.

The inputs into the model were as follows:

	Share options granted on December 27, 2007
Share price	HK\$1.72
Exercise price	HK\$1.76
Expected volatility	49.86%
Suboptimal exercise factor	2.2
Risk-free rate	3.469%
Expected dividend yield	0%

Expected volatility was determined by using the historical volatility of the Company's share price since the shares are listed on the Stock Exchange.

The suboptimal exercise factor was to account for the early exercise behavior of the share options granted by the Company.

The Group recognised total expense of HK\$316,000 for the period ended December 31, 2007 (7.1.2006 to 12.31.2006: HK\$166,000) in relation to share options granted by the Company.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended December 31, 2007

8. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

	Six months ended December 31,	
	2007	2006
	HK\$'000	HK\$'000
Earnings for the purposes of basic and diluted earnings per share		
Profit attributable to equity holders of the Company	30,432	14,956
	<i>Number of shares</i>	
Weighted average number of ordinary shares for the purposes of basic earnings per share	536,073,304	508,682,000
Effect of dilutive potential ordinary shares in respect of share options	2,315,274	2,275,658
Weighted average number of ordinary shares for the purposes of diluted earnings per share	538,388,578	510,957,658

9. MOVEMENTS IN INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

The directors are of the opinion that the carrying value of the Group's investment properties as at December 31, 2007 is not materially different from the fair value of the investment properties as at June 30, 2007. Accordingly, no valuation movement has been recognised in respect of the Group's investment properties in the period.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended December 31, 2007

9. MOVEMENTS IN INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT (Continued)

During the period, the Group spent approximately HK\$9,008,000 (7.1.2006 to 12.31.2006: HK\$19,882,000) on additions of property, plant and equipment. The Group also disposed of property, plant and equipment with a carrying amount of HK\$315,000 (7.1.2006 to 12.31.2006: HK\$1,161,000), resulting in a loss of HK\$197,000 (7.1.2006 to 12.31.2006: HK\$1,161,000).

10. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 30 days to 120 days to its trade customers.

The following is an aged analysis of trade receivables at the balance sheet date:

	December 31, 2007 HK\$'000	June 30, 2007 HK\$'000
0 – 30 days	130,268	142,285
31 – 60 days	73,780	64,633
61 – 90 days	28,439	30,090
91 – 180 days	25,311	23,705
More than 180 days	2,906	36,443
	260,704	297,156

During the period, the directors reviewed the carrying amounts of certain long outstanding trade receivables from two debtors in light of the on-going disputes with these debtors. The directors identified an impairment loss on trade receivables of HK\$31,673,000 (7.1.2006 to 12.31.2006: HK\$3,355,000) and the amount has been recognised in the income statement accordingly.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended December 31, 2007

11. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables at the balance sheet date:

	December 31, 2007 HK\$'000	June 30, 2007 HK\$'000
0 – 30 days	126,718	171,637
31 – 60 days	92,814	99,959
61 – 90 days	58,944	74,432
91 – 180 days	68,341	45,411
181 – 365 days	7,134	1,476
	353,951	392,915

12. BANK AND OTHER BORROWINGS

During the current period, the Group raised new bank loans in the amount of approximately HK\$335,496,000 and obtained other loans of HK\$24,865,000. The new bank loans bear interest at prevailing market rate. The Group also repaid bank loans of approximately HK\$328,076,000 and other loans of HK\$30,753,000 during the period. The net proceeds were used as general working capital.

13. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.10 each Issued and fully paid		
At July 1, 2007	508,682,000	50,868
Issue of new shares	48,000,000	4,800
At December 31, 2007	556,682,000	55,668

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended December 31, 2007

14. CAPITAL COMMITMENTS

	December 31, 2007 HK\$'000	June 30, 2007 HK\$'000
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of acquisition of property, plant and equipment	149	443

15. RELATED PARTY TRANSACTIONS

- (I) During the period, the Group had the following transactions with related parties:

Relationship	Nature of transaction	Six months ended December 31, 2007 HK\$'000	2006 HK\$'000
Associate	Sales of finished goods	–	2,270

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended December 31, 2007

15. RELATED PARTY TRANSACTIONS (Continued)

(II) Compensation of key management personnel

The remuneration of directors and other members of key management during the period was as follows:

	Six months ended December 31, 2007 HK\$'000	2006 HK\$'000
Short-term employee benefits	6,015	5,482
Post-employment benefits	28	40
	6,043	5,522

In the opinion of the directors, the remuneration of directors and key executives is determined having regard to the performance of individuals and market trends.

16. EVENT AFTER BALANCE SHEET DATE

In January 2008, the Company approved the acquisition of Intelligent Digital Services GmbH, a company registered in Germany and engaged in the business of research and development, for a consideration of EUR1,800,000 (equivalent to approximately HK\$21,092,000), payable in cash. No agreement has been signed up to the report date.



REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION



**TO THE BOARD OF DIRECTORS OF
SANDMARTIN INTERNATIONAL HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)**

INTRODUCTION

We have reviewed the interim financial information set out on pages 11 to 30, which comprises the condensed consolidated balance sheet of Sandmartin International Holdings Limited as of December 31, 2007 and the related condensed consolidated income statement, statement of changes in equity and cash flow statement for the six-month period then ended and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.



REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

March 13, 2008