

**BEA securities**

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HONG KONG RESEARCH**28th April 2005**

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Main Board Listing – Research**Sandmartin International Holdings Limited [Stock Code: 0482]****Sole Sponsor** : Kingston Corporate Finance Limited**Lead Manager and Bookrunner** : G. K. Goh Securities (H.K.) Limited**Sector** : Information Technology**Business** : Electronic Equipment Manufacturing**Total share offer:** 125,000,000 shares
(25.0% of the enlarged share capital)**Public Offer:** 12,500,000 shares (10%)**Placing:** 112,500,000 shares (90%)**Greenshoe:** 18,750,000 shares**Price:** HK\$1.08 – HK\$1.50 per share**Market Cap.:** HK\$540 million – HK\$750 million**Forecast FY2004/05 P/E:** 5.60x – 7.77x
(pro-forma)**Adjusted NTA per share:** HK\$0.67 – HK\$0.73**Staffing:** 5,101 (as of 20th April 2005)**HK Public Offer period:**
28th April 2005 – 4th May 2005**Receiving bank:** Standard Chartered Bank (Hong Kong) Limited**Share registrar:** Computershare Hong Kong Investor Service Limited**Listing date:** 12th May 2005**Business of Sandmartin**

Founded in 1987, the Group mainly engages in the design, manufacture, and distribution of satellite TV reception products and communications related products. Principal manufacturing facilities of the Group are all situated in Zhongshan city, Guangdong province of the PRC.

The Group's products could be divided into two major categories: satellite TV reception products and communications related products. Satellite TV reception products include digital video broadcasting receivers ("DVB"), low-noise block downconverters ("LNB") and DiSEqC switches ("DiS"), which are mainly manufactured on ODM basis. Communications related products comprise cables, connectors and assorted electronic accessories, which are mainly manufactured on both ODM and OEM basis.

Since establishment, the Group has developed an extensive distribution network with a sales team of 92 personnel in Taiwan, the PRC and the US. The Group is now selling products to 341 clients, mainly electronic chain retailers and distributors, in 74 countries, with Middle East being the Group's largest origin of revenue in FY2003/04.

Major Shareholders after Listing (Assuming the over-allotment option is not exercised)

Hung Tsung Chin* – Founder and president of the Group	29.5%
Wang Yao Chu* – Co-founder	22.2%
Liao Wen I* – Co-founder	15.1%
Independent Third Parties – mainly engineers and other employees of the Group	8.2%
	<u>75.0%</u>

* : Including family interests.

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Use of Proceeds

Net proceeds from the offer are estimated to be HK\$86 million

(Assuming the over-allotment option is not exercised, and at an issue price of HK\$1.29 each, which is the mid-point of the indicative price range)

	HK\$ million
For the establishment of a portion of the new production complex, including the acquisition of product lines and machinery, the initial instalments of land cost and the construction of factory buildings.	50
For the establishment of a new research and development centre.	12
For product research and development.	10
For further market promotion and sales activities	10
For general working capital	Remaining balance

Financial Highlights

	30 th June 2002 HK\$'000	Year ended 30 th June 2003 HK\$'000	30 th June 2004 HK\$'000	4 months ended 31 st October 2004 HK\$'000
Turnover	410,043	664,736	1,265,357	480,638
Gross profit/(loss)	93,839	133,011	211,476	84,763
Operating profit/(loss)	47,020	58,967	108,920	41,527
Net profit/(loss)	41,813	53,372	96,466	37,413

Breakdown of Turnover by Business Segments

	30 th June 2002 HK\$ million	%	Year ended 30 th June 2003 HK\$ million	%	30 th June 2004 HK\$ million	%	4 months ended 31 st October 2004 HK\$ million	%
Satellite TV reception products:								
1. DVB	34.4	8	227.8	34	574.4	45	234.3	49
2. LNB	118.1	29	113.7	17	148.1	12	54.5	11
3. DiS	<u>31.7</u>	<u>8</u>	<u>47.0</u>	<u>7</u>	<u>49.0</u>	<u>4</u>	<u>11.8</u>	<u>3</u>
Subtotal	184.2	45	388.5	58	771.5	61	300.6	63
Communication related products:								
1. Cables	80.3	20	124.9	19	155.4	12	68.5	14
2. Connectors	98.5	24	83.1	13	75.8	6	38.5	8
3. Assorted electronic accessories	<u>47.0</u>	<u>11</u>	<u>68.2</u>	<u>10</u>	<u>262.7</u>	<u>21</u>	<u>73.0</u>	<u>15</u>
Subtotal	225.8	55	276.2	42	493.9	39	180.0	37
Total turnover	<u>410.0</u>	100	<u>664.7</u>	100	<u>1,265.4</u>	100	<u>480.6</u>	100

Breakdown of Turnover by Geographical regions

	30 th June 2002 HK\$ million	%	Year ended 30 th June 2003 HK\$ million	%	30 th June 2004 HK\$ million	%	4 months ended 31 st October 2004 HK\$ million	%
North America	194.6	47	219.2	33	283.1	22	102.3	21
Middle East	97.2	24	277.0	42	605.5	48	242.5	51
Europe	81.8	20	120.3	18	298.6	24	88.9	19
South America	25.9	6	22.8	3	15.8	1	20.7	4
Asia	2.9	1	22.3	3	55.1	4	10.8	2
Other regions	7.6	2	3.2	1	7.2	1	15.4	3
Total turnover	<u>410.0</u>	100	<u>664.7</u>	100	<u>1,265.4</u>	100	<u>480.6</u>	100

Strengths/Opportunities

- ✓ According to industry researchers, satellite TV will become the most popular platform for digitalisation of TV signal. The number of household using satellite TV would exceed 100 million worldwide this year. Besides, researchers forecast that the number of household using digital TV would grow at a CAGR of 30% via 2008 in Europe and a CAGR of 12% via 2007 in the US. Higher market penetration of digital TV usage should help boost the demand for satellite TV reception products.
- ✓ The Group's financial position stayed sound, with gearing ratio at 33.2% (30/06/2003: 35.9%) and net debt to equity ratio at 17.3% (30/06/2003: net cash) as of 30/06/2004.
- ✓ The Group's management revealed that it intends to maintain future dividend policy payout ratio at 35%-40%, but subject to the board's discretion and business conditions.

Weaknesses/Threats

- × For the four months ended 31st October 2004, revenue from the five largest customers accounted for over 50% of the Group's total turnover. Concentration of client base would add extra risk to the Group's operations, while profitability may be negatively affected if business relationship with major clients turns sour.
- × Average selling price of the Group's major product – digital video broadcasting receiver ("DVB") – has dropped to HK\$353 in 2003/04 and HK\$355 in the first four months of 2004/05 from HK\$452 in 2002/03. Due to declining average selling price, the Group's gross profit margin was lowered to 16.7% in 2003/04 from 20.0% in 2002/03 and 22.9% in 2001/02.
- × The Group's production capacities have been almost fully utilised during the four months ended 31st October 2004. The first of the new factory buildings is expected to be completed by the end of 2005. Lack of new production capacity may hinder the top line growth in 2004/05.
- × Pricing at 5.60x – 7.77x FY2003/04 P/E, the valuations are not demanding given the Group's strong bottom-line growth and sound fundamentals. However, depressing average selling price and saturating capacity should remain a concern among investors, which may fetter the upside potential of the counter.

Recommendation: Trading Buy