

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors (the "Board"), I am pleased to present to you the first annual report of Alltronics Holdings Limited (the "Company", and together with its subsidiaries, the "Group") for the year ended 31 December 2005.

The fiscal year of 2005 was a remarkable year for the Company. During the year, we have devoted our efforts in growing the business and also in preparing for the listing (the "Listing") of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). With the support from our dedicated staff, the Group was successfully listed on the Main Board on 15 July 2005. The gross proceeds from the Listing amounted to HK\$72 million. The Listing represents a milestone for the Company and provides a solid base for the Group's future expansion.

The Group is one of the leading manufacturers in Hong Kong and The People's Republic of China ("PRC") for home improvement electronic products and components. We position ourselves as a "total solution provider" to our customers, capable of providing a wide range of services ranging from the initial research and development stage to the final mass production stage and after sale services. One of our competitive edges is that we have a very strong team of engineers who possess extensive technical knowledge and the required expertise for the development of new electronic products for our customers. We have the ability to adapt to the changing trends in the electronics industry. The unique "one product, one customer" approach adopted by the Group has secured long-term business partnership with most of its customers. Besides, our commitment to quality and timely delivery also contributed to our success.

During the year 2005, the Group continued the growth momentum and achieved a total turnover of HK\$317 million, which represents an increase of 8.4% as compared with the turnover of HK\$292 million from last year. Although the demand from our customers continued to be strong, the fact that the main factory for the production of electronic products has already exceeded 90% of its production capacity during the year has restricted the growth potential of the Group. In view of this, the Group has leased additional factory premises to expand its production capacity for electronic products. The new factory premises have a total gross floor area of approximately 9,400 sq. m. and have commenced operation since December 2005. We expect the sales of electronic products, in particular irrigation controllers, carbon monoxide detectors and audio equipment, will have significant growth in the year 2006.

In addition, in order to cope with the increasing demand for the Group's electronic product components, the factory for the production of these components has also been relocated to new premises during the year with enlarged production capacity and a total gross floor area of approximately 13,200 sq. m., as compared to 5,500 sq. m. at the old factory. The new factory has commenced operation since November 2005. The expanded production capacity will provide a strong base for the Group's expansion in future.

Despite the growth in turnover achieved in the year 2005, the gross profit margin has been decreased by approximately 5% during the year. As a result of the global energy crisis, the unit prices of certain plastic and metal components have been increasing constantly during the year, particularly in the second half of 2005. The large fluctuation in the unit prices of these raw materials has adversely affected the results of the Group and led to a drop in gross profit margin. In addition, in accordance with the requirements of the labour laws in the PRC, the average wages level for the workers in the PRC factories has been increased in July 2005 and this has resulted in an increase in the overall labour costs during the year. The relocation of the electronic product components manufacturing process to a larger factory and the leasing of additional factory premises for the manufacture of electronic products have also increased the overall rental expenses of the Group.

CHAIRMAN'S STATEMENT (Continued)

In order to overcome the increases in material, labour and overhead costs, the Group had exercised tighten controls over production costs and overheads. Furthermore, the Group has negotiated with most of its customers to raise the unit selling prices of its products so as to mitigate the effect on rising raw material prices and overhead costs.

The change in product mix during the year has also resulted in a lower average gross profit margin for the year.

Beginning the year of 2006, the unit prices for most of the raw materials have remained fairly stable and we expect that the fluctuation in unit prices of raw materials would not be as severe as that in 2005. The Group has confident that the performance for the year 2006 can be improved and the gross margin will be raised.

United States is currently our major market, which accounted for 69% and 73% of the Group's total turnover for the year 2005 and 2004 respectively. However, we will continue to devote significant efforts to explore other markets in Europe, Japan and other Asian countries so that the turnover by geographical locations can be spread more evenly.

In the last quarter of 2005, the Group has increased its equity interest in its associated company, Southchina Engineering and Manufacturing Limited, from 25% to a controlling stake of 51%. We believe that this move is essential and will enhance the Group's overall ability in mould making and ensure a constant supply of high quality plastic components for the Group's electronic products. The acquisition is also expected to generate synergy effect to the Group's overall business and broaden the customer base. The Group will continue to look for other investment opportunities actively in the electronics industry, either in Hong Kong or overseas, so as to expand its operation horizontally and vertically.

Looking ahead, we have strong confidence in the future. We are very clear about our responsibility towards our shareholders and their expectation. The Listing provides a platform for the Group to become a stronger leader in the global electronics industry. Although there are challenges ahead in terms of competition and fluctuation in raw material costs, we are confident that we will overcome these challenges because we have a well distributed worldwide customer base, consistently high quality products and timely delivery, strong engineering and development support to our customers, an experienced and dedicated management team and our highly skilled and efficient workforce.

In appreciation of the support from our shareholders, the Board proposed the payment of a final dividend of HK1.5 cents per share. Together with the interim dividend of HK2 cents per share and the special interim dividend of HK1.5 cents per share paid in October 2005, the total dividends paid for the year 2005 will be HK5.0 cents per share, represents a dividend payout of 55.7% on the net profit of the year 2005. All dividends are paid out from funds generated from the Group's operations.

Finally, on behalf of the Board, I would like to thank all of those who had contributed to the Group's successfully listing and performance in 2005. I also wish to express my sincere gratitude to all our shareholders, customers, business partners and staff for their continuing support.

Lam Yin Kee

Chairman and Executive Director

Hong Kong, 24 April 2006