

CHAIRMAN'S STATEMENT

BUSINESS REVIEW

For Datronix, 2006 has been a year filled with excitement and improvement. The Group reported strong growth for both turnover and profit with 30% and 29% respectively for full year ended 2006. Turnover for the year ended 31 December 2006 were HK\$272.1 million, compared to HK\$208.6 million in 2005. Profit for year ended 31 December 2006 were HK\$78.4 million, compared to HK\$60.8 million in 2005. The continued growth was supported with our strong sales of magnetics to energy saving devices, communication equipment and military products. The Company remains well position to make future investment and acquisition, thanks to our continued positive cash flow and strong balance sheet.

The Group's most challenging issues in 2006 were the appreciation of Renminbi, rising cost of raw materials and labour. The Group responded to these challenges with high automation in production to improve efficiency, productivity and yields. In addition, the Group stepped up development of new products for medical devices and aerospace applications; while the continuation of lean process implementation in many phases of the Group's activities aided to meet the challenging environment. Proactive measures were also taken to control costs and reduce expenses.

The Group continues to believe that a strong growth in its legacy customized, military, medical device, aerospace applications and high reliability magnetic components business will increase in the next few quarters and in the future.

MARKET REVIEW

Communication

For the year ended 2006, communication market sales increased 47% to HK\$86 million from HK\$58.6 million for year ended 2005. The driver for this market sale increase was mainly due to the strong DC-DC converter business with our end customers, who have successful launch of their products to the market.

Data Processing

The data processing market reported sales of HK\$13.2 million as of year 2006, rose 6% from HK\$12.4 million as of year 2005. This market is stable and enjoying organic growth from our end customers.

Industrial Application

Industrial application market enjoys a 31% increase of sales to HK\$63.4 million for the year ended 2006. The significant improvement in sales was driven by few factors: organic growth, new projects, and new products launched.

MARKET REVIEW (Continued)

Military, Aerospace and Healthcare

The high end market includes our military, aerospace and healthcare market. Sales growth was satisfied with an increase of 23% to HK\$109.5 million for year 2006. Military projects sales growth is healthy. Existing health care products remain stable; while we are in the development stage of supplying few critical medical devices' components starting 2007. We expected the overall market growth remains healthy and is sustainable.

LOOKING AHEAD

The growth took place in 2006 will continue during 2007 as we foresee the demand in military, health care and energy saving device markets. With our strong vendor capabilities and investment in automation, we will keep the rising cost impact at minimal. In 2007, we will continue to focus on product innovation along with our customers. Our plant expansion in Shunde will be underway in order to ensure adequate manufacturing capacity to meet strong demand from existing customers.

We will continue to follow the strategy that has served us so well in the past. With our broad product portfolio, our ongoing program to continue our core business, cost reductions, introduction of new products and new technologies, and our solid financial position, we look ahead with confidence to new challenges and opportunities.

ACHIEVEMENT AND AWARDS

In recognition of the quality, value of its products and of the Group's service and performance, the Group has to date received 35 awards from customers including three awards presented by Medtronic "Supplier of the Year", Lutron "Customer Service Award" and Dataforth "Vendor of the Year" in 2006.

ACKNOWLEDGEMENT

We are sincerely grateful to our employees for their commitment to Datronix. We thank our key partners – customers, vendors, and stockholders – for their loyalty.

SIU Paul Y.

Chairman

Hong Kong, 23 April 2007