

Production Facility

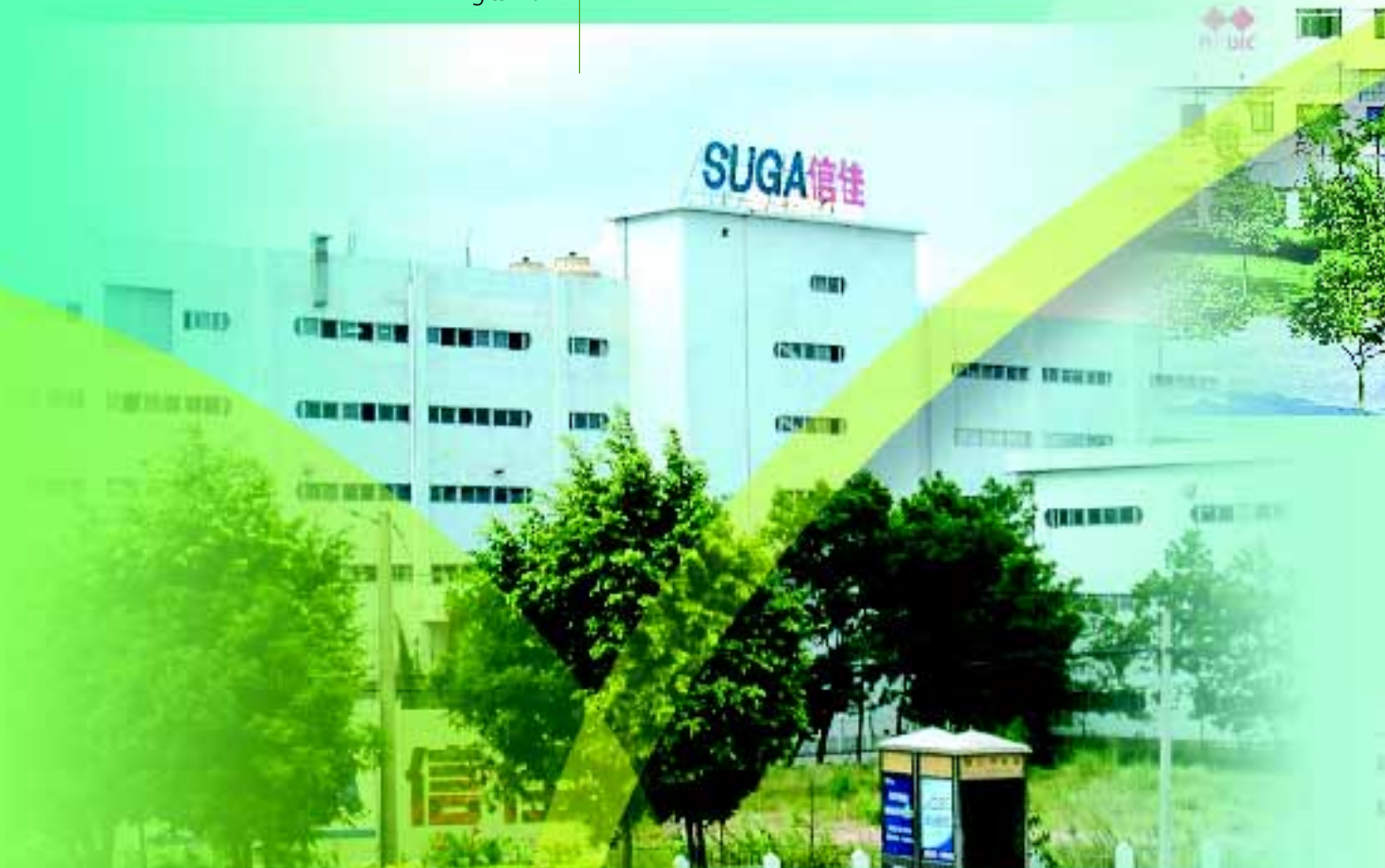
Buji Plants

Gross Floor Area: 520,000 sq.ft.

Products: Consumer Electronics

Telecommunication

Digital AV



Huizhou Plants

Gross Floor Area: 110,000 sq.ft.
Products: Moulds and Plastics Parts



Xi Xiang Plants

Gross Floor Area: 120,000 sq.ft.
Products: Networking





Systematic Management

Chairman's Statement

To our Shareholders

On behalf of the Board, I present the annual results of Suga International Holdings Limited (the "Company") and its subsidiaries ("SUGA" or the "Group") for the fiscal year ended 31 March 2006 ("fiscal year 2006").

FINANCIAL PERFORMANCE

The business environment remained challenging during fiscal year 2006 with both oil price and interest rate climbing continuously. Nevertheless, we managed to increase our overall turnover by 30.5%. During the year under review, the Group reported a turnover of HK\$772 million compared to HK\$591 million in the previous year. Despite that sales from networking products in the telecommunication products segment fell below our expectation, sales of other products, in particular, the consumer electronic appliances increased steadily.

The Group's gross profit amounted to HK\$86 million, while gross profit margin decreased from last year's 13.5% to 11.1% this year. The change was mainly attributable to the increase in raw material prices and PRC labour costs which inevitably exerted pressure on the Group's margins. The drop in networking products sales and the severe pricing pressure on digital audio-visual products also impacted our gross profit margin.

Net profit during the year was HK\$1.3 million, as compared to HK\$19.2 million in the previous year. The decline in net profit was the result of a significant increase in finance costs, staff costs and research and development costs, coupled with the trade receivable provisions of HK\$4.4 million made for our trading business and the share of loss and impairment of an associated company of HK\$2.3 million during the year.

DIVIDENDS

The Board does not recommend payment of any final dividend for the year ended 31 March 2006. An interim dividend of HK1.5 cents per share was paid on 6 January 2006.

BUSINESS OVERVIEW

Telecommunication Products

Sales of telecommunication products increased by 7.7% to HK\$293 million, which accounted for 38.0% of the Group's total turnover. The increase was mainly driven by the higher demand for voice-over-internet-protocol ("VoIP") phones.

During the year under review, the Group captured orders for key telephone systems and VoIP phones from a major customer in Japan, resulting in significant growth in sales. The Group is an early mover in providing Electronics Manufacturing Services ("EMS") services for VoIP phones thus enjoys well-established relationship with its customers, giving it an advantage in capturing further growth in this market.

As for the Group's networking products, market consolidation and keen competition dampened sales, especially in the second half of the year. The sales of networking products dropped by 16.6% compared with last year. The slowdown in sales of networking products created idle production capacity during the year, which added to overhead costs and affected the segment's profitability.

Consumer Electronic Appliances

Sales from the consumer electronic appliances segment grew significantly by 48.7% to HK\$421 million, and accounted for 54.5% of the Group's turnover.

Posing healthy organic growth and satisfactory gross margin, pet training devices continued to be the segment's major income contributor. SUGA enjoys an unique position in the pet training device market founded on its over a decade's experience in developing and manufacturing the products. We are confident of sustaining the growth momentum of the consumer electronic appliances segment thereby securing a stable source of income.

Chairman's Statement

Digital Audio-Visual ("A/V") Products

Sales of digital A/V products increased to HK\$49 million from HK\$19 million last year. Despite the increase in sales, the segment faced intense competition and rising raw material costs during the year, which affected its profit margins. The segment recorded an operating loss of HK\$18 million.

SUGA designs and develops digital A/V products and markets them on ODM basis to overseas customers. During the year under review, the Group launched a new digital product – a digital photo album, with the first shipment to a leading US retailer in the second quarter of the year under review.

While ODM business enables us to enjoy better profit margin, we will focus on this higher margin business and partner with major customers to design and develop more new ODM products. As for the trading business, continuous pressure on pricing is anticipated for the next few years. To cut losses from the business segment, the Group has resolved to adopt a prudent approach and cease putting new resources into the digital A/V products trading business in the future. The scale of the trading business will significantly reduce.

VERTICAL INTEGRATION

The Group's wholly-owned subsidiary – Precise Computer Tooling Company Limited ("Precise"), is specialized in the manufacture of plastic parts that based in Huizhou, Guangdong. Since the acquisition completed in 2004, Precise has enabled us to secure a stable supply of plastic parts. Leveraging its board customer base, it has also generated a stable source of revenue to the Group.

ENVIRONMENTAL PROTECTION

As a value-added EMS provider, the Group is committed to ensuring its production processes are environmentally friendly and comply with all relevant environmental standards required by customers. New stringent European Union requirements for electronic products, such as the Waste Electrical & Electronic Equipment (WEEE) Directives and the Restriction for use of certain Hazardous Substances (RoHS) Directives, became effective in early 2006. Heeding the advent of the new requirements, in 2005 SUGA set up a Green Product Management System ("GPMS"), which was audited by SGS-CSTC Standards Technical Services Co., Ltd. and certified to

have met all required standards. Our commitment to employing the best manufacturing practices gives us the edge to secure more European clients, who see green manufacturing as a prerequisite in selecting their manufacturers.

PROSPECT

As a one-stop EMS provider, the Group is committed to maintaining its focus on higher margin products backed by its research and development expertise, effective logistic planning and stringent quality assurance processes. Going forward, we will carefully allocate more resources on developing higher margin products for our major customers. In addition, we target to secure new OEM customers, particularly among top tier electronics brands. Discussion with certain potential customers has already reached final stage. At the same time, we will work with our major customers and seek to provide them with more ODM services.

In the telecommunication product category, the Group sees tremendous potential for VoIP phones as they persistently gain popularity worldwide. According to IDC forecast, residential VoIP services subscribers in the US will grow from 3 million in 2005 to 27 million by the end of 2009. To capture such huge market potential, the Group will continue to explore business opportunities with potential overseas customers. During the year, we secured an additional overseas customer for VoIP phones and the first shipment of products to the new customer was made in June 2006.

As for networking products, having mastered the skills and expertise in manufacturing such products, we are capable of expanding our reach to both China and overseas markets. With the reputation established in the industry, we have already secured several new customers. However, the Group was recently informed by one of our major networking customers that it would be selling part of its business to another leading networking products provider in China. This move is going to bring us both challenges and opportunities. One of the challenges is business from the existing networking customer may reduce and we have to negotiate a new service agreement with the new buyer. As for opportunities, this sizable potential customer, if secured, is likely to give a strong impetus to sales of the telecommunication products segment.

The Group expects its consumer electronic appliances business, in particular that of pet training devices, to continue to generate stable revenue and profits. The Group will also reallocate its research and development resources and expertise from the digital A/V products like the MP3 and MPEP-4, which are facing fierce competition, to develop some other niche products with fewer competitors. We will also focus our resources to support existing key customers with an aim to fortify the relationship with our clients; and to grow with them.

Given the digital A/V segment is under keen competition, the Group will cease to inject further resources into the business. The saved sales and marketing expenses will be allocated to support expansion of other segments and development of higher margin products.

The Group expects the future to be still full of challenges. However, the Group will continue to improve production efficiency and implement stringent cost control measures to ensure its competitiveness and profitability.

APPRECIATION

On behalf of SUGA, I would like to extend my sincere gratitude to our business partners for their business and support. I would also like to thank our management team and staff for their hard work in the past year. Last but not least, my thanks also go to our shareholders for their unwavering support to the Group over the years.

NG Chi Ho

Chairman

Hong Kong, 24 July 2006