

CHAIRMAN'S STATEMENT

To our shareholders

On behalf of the board of directors (the "Directors"), I am pleased to present the first annual report of Suga International Holdings Limited (the "Company") and its subsidiaries (together "SUGA" or the "Group"), since its successful listing on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 18 September 2002.

This past year has been an important year for SUGA. We successfully issued 50,000,000 shares, raising approximately HK\$38 million to fund our future expansion and improve our competitiveness. This significant achievement marked a major milestone for SUGA and demonstrated strong investor and public support for the Group.

During the year, we grew both sales and profits and strengthened relationships with rapidly growing customers. Through aggressive sales and marketing efforts, we secured a new customer, Beijing Harbour Networks Co., Ltd. ("Harbour Networks"), a well-financed and rapidly growing broadband IP network equipment provider in the PRC. Riding on the cooperation with this new customer, we successfully extended our market reach into the PRC market and broadened our business horizons into networking products. In addition, building on our solid business relationship with our long-standing customer in the pet training market in the US, the sales contribution from the US market surged 66%, in spite of the sluggish US economy.

FINANCIAL PERFORMANCE

Benefitting from new customers, such as Harbour Networks, and expansion with long-term customers, the Group's turnover for the year rose a significant 86% to reach HK\$453 million. Gross profit for the year was HK\$72 million representing an increase of 17%. Net profit improved to HK\$39 million, representing 43% growth over 2002. Earnings per share were HK22 cents (2002: HK18 cents). Return on equity was maintained at an enviable rate of 35%. This outstanding performance once again proves the success of the management's strategic vision and implementation skills.

DIVIDENDS

The Directors propose to pay a final dividend of HK2.5 cents per share for the year ended 31 March 2003 to members whose names appear on the register of members of the Company on 21 August 2003. Subject to approval at the forthcoming annual general meeting, the proposed final dividend will be distributed to shareholders on or before 8 September 2003. Together with the interim dividend payment of HK2.5 cents per share, the annual dividend will be HK5.0 cents per share. This dividend payment is in line with our policy of paying out not less than 25% of the Group's profits attributable to our shareholders.



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BUSINESS AND MARKET HIGHLIGHTS

Over the years, we have consistently invested in research and development and integrated new knowledge into our manufacturing and logistic processes. Capitalizing on these well-rounded capabilities and market diversification strategies, we have developed an advanced and comprehensive manufacturing and marketing business in China.

We have successfully extended our reach to the PRC market via the cooperation with Harbour Networks starting in April 2002. During the year, we manufactured over 400 different networking products, ranging from networking switches and routers to IP voice messaging products and wireless access devices. With the substantial contribution from this customer, our turnover from the PRC market has been strongly boosted, surging from 5.9% last year to 42.6% this year, with a total turnover of HK\$193 million.

In addition to the PRC market, we have made every effort to maintain our business in the US market. During the year, the Iraqi war hit the already stagnating US economy hard. SUGA, however, working hand-in-hand with its US customers, produced more specialised products for the pet training market during the year. We were able to perform well during the year, recording a turnover of HK\$138 million from the US market which represented a 66% growth over the previous year.

Sales to Asia-Pacific region (excluding PRC), mainly to Japanese customers, for the year was HK\$120 million, representing a decrease of approximately 18% over the previous year. The decrease was a result of the unfavorable market sentiment in Japan in 2002 and the Group's strategy of shifting resources from contracting processing units to turnkey units. However, the outsourcing trend from Japan is strongly growing. With our long-established relationship with Japanese customers, we shall be able to reap more benefits in the future opportunities.

Along the way, we have strived to maintain market balance and to increase our market mix in a bid to mitigate the potential risks of over-reliance on a few markets. On one hand, we will work to maintain our position in the well-established US and Japanese markets, while on the other hand, we will place additional efforts into the exploration of the high-growth PRC market.

INVESTMENT STRATEGIES

During the year, the Group's total capital expenditure was HK\$17 million, which was spent in four major areas to strengthen the Group's foundations in anticipation of future needs.

Research and development capabilities – During the year, we employed 10 talented professionals to strengthen our in-house R&D team. We continued to develop valuable proprietary technologies while maintaining cooperative links with research institutions. Since our customers shared our R&D investment costs, research and development costs during the year were less than HK\$1 million.

New production facilities – We set up a new production facility in Xi Xiang, Shenzhen, the PRC in October 2002. With annual production capacities of 180,000 units and the ability to expand to 360,000 units, the Xi Xiang plant solely manufactures networking products which require substantial product testing and development. Advanced manufacturing equipment, including high precision fully automated SMT, micro-BGA, soldering, and lead-free production have been installed to enhance the Group's production efficiencies. Total investment cost in this area was HK\$13 million.

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Logistic service investment – Making it easier for our worldwide customers to check real-time production and shipment information, we launched a new online platform. The system, which is now in full operation, has substantially enhanced our logistic services.

Quality investment – Quality is naturally paramount at every level of SUGA's research and development, manufacturing and distribution processes. In addition to ISO9001 certification for our systems and processes, we are committed to the environmental protection and will soon apply for an ISO14000 accreditation.

ENHANCING MARKET LIQUIDITY

With a view to broadening the Group's investor base and enhancing stock market liquidity, on 2 June 2003, the Company agreed to issue 20,000,000 new shares to more than six independent institutional investors by the way of placing of existing shares and subscription of new shares at a price of HK\$1.40 per share, representing a premium of 110% per share over the net asset value of the Group as at 31 March 2003. After the completion of the placement, the number of shares in public hands was increased which, in turn, has improved the market liquidity of the Company's shares.

PROSPECTS

Looking ahead, we will continue to marshal our talented employees to foster our long-standing commitment to innovation, to expand our proactive total solutions model, and to provide highly specialised niche products.

SUGA has identified networking products as one of the main growth drivers for our future. Market demand for networking products in the PRC market is escalating. Through our cooperation with Harbour Networks, we have gained increasing recognition in the PRC markets. We will stay alert to market trends, providing new manufacturing services in a cost efficient and timely manner. A number of negotiations are under way, with several soon to be finalized.

SUGA's second major growth driver for the future is pet training devices, which are experiencing increased demand in the US market. Catering for customer needs, a series of new pet training devices are coming to the market. Apart from training devices, the product scope will be enlarged to include other pet-related products, such as tracking systems and pet chip scanners, to be introduced to the market in the second half of 2003. The introduction of these new products will strengthen the Group's product portfolio.

In addition, we have been proactively developing our own electronics application solutions for digital entertainment products, which we view as a new growth driver for the Group. This solution not only strengthens our product mix, but also broadens our income stream since we are the owner of this proprietary technology.

Apart from creating new products, we will be enhancing our comprehensive total solutions and broadening our income stream through collaborations with new customers. In the second half of 2003, we will be entering into a collaboration with a well-known corporation for the manufacture and distribution of its well-known brand of products in Hong Kong and the PRC. Riding on this opportunity, we will be able to establish our distribution network in the PRC and pave the way for further marketing efforts in Asia.

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To prepare for the above future growth, more resources will be committed to research and development. We will further strengthen our in-house team to ensure that talented and motivated people are primed and ready for new assignments and also closely cooperate with educational institutions.

To streamline our production capabilities and shorten lead-time, we will be upgrading our Enterprise Resources Planning (ERP) system via a new Oracle System. The new system will be in operation by the end of 2003.

In view of our many growth opportunities, together with our commitment in enhancing our research and development, manufacturing, logistics, and sales and distribution capabilities, we are optimistic about SUGA's future.

On behalf of SUGA, I would like to extend my ongoing gratitude to our customers, vendors, bankers and business partners for their continuous co-operation and support. I would also like to thank my fellow Directors for the many contributions they have made to the Group, and my colleagues for their efforts and hard work over the past years. Their excellent work has contributed significantly to the Group's favourable results and achievements. In the future, we will remain focused and committed in bringing even better returns for our investors.

NG Chi Ho
Chairman

Hong Kong, 15 July 2003