



Systematic Management

CHAIRMAN'S STATEMENT

To our Shareholders,

On behalf of the board of directors (the "Directors"), I am pleased to present the annual results of Suga International Holdings Limited (the "Company") and its subsidiaries (together "SUGA" or the "Group") for the year ended 31 March 2004.

Fiscal year 2004 has been successful for SUGA as our commitment to quality products and customer satisfaction enabled us to achieve a record turnover and profit. During the past year the Group was able to overcome the market challenges, such as SARS and declining market demand for handheld TVs, and continued to do well with its existing business in telecommunication and consumer electronics. We are now well positioned to continue the sales and profit momentum gained during this year into the future with the long standing customer relationships in combination with our strengths in R&D, manufacturing, distribution, and logistics capabilities. Fiscal year 2004 demonstrates our strengths in expanding sales and achieving operational efficiency, and our commitment to continue increasing shareholder's value in the long-term as a leading Electronic Manufacturing Services ("EMS") provider in Hong Kong and Mainland China.

FINANCIAL PERFORMANCE

SUGA achieved record turnover and profit figures for the year ended 31 March 2004 by pursuing new client opportunities, increasing our operating efficiencies, and leveraging our advanced technology and manufacturing capabilities. The overall sales by 33% to a robust HK\$601 million, with the telecommunication business segment experiencing the largest increase in sales. Operating profit rose 31% to HK\$49 million, and profit attributable to shareholders increased 47% to HK\$42.8 million (in both cases excluding the one-off gain of HK\$9 million from the disposal of a subsidiary in fiscal year 2003). This profit growth reflects our success in focusing on increasing customer orders and our continued commitment to lowering manufacturing costs and strengthening overall efficiency.

FINAL DIVIDEND

The Directors have recommended a final dividend of HK3.0 cents per share (2003: HK2.5 cents per share) to shareholders whose names appeared on the register of members of the Company on 19 August 2004. Together with the interim dividend of HK2.5 cents per share (2003: HK2.5 cents per share), total dividend for the year will amount to HK5.5 cents per share (2003: HK5.0 cents per share). The final dividend will be payable on or before 30 August 2004. The dividend payment is in line with our dividend goal of paying out to shareholders 25% or more of the Group's after tax profit.

BUSINESS OVERVIEW

Telecommunication

During the past year, SUGA's telecommunication business improved production capability and flexibility, allowing us to produce networking equipment that requires higher technological standards. As a result, sales increased 75% to HK\$360 million, making it our largest business segment. The increase was primarily driven by the escalating market demand for networking products in China, which we believe will continue in the future.

Our stringent quality control measures and proactive engineering support have enabled us to build a strong relationship with Beijing Harbour Networks Limited ("Harbour Networks"), one of the top network solution providers in the PRC market. This relationship has given us broad market recognition, which has, in turn, allowed us to secure new customers in the industry.

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In April 2004, we made the first shipment of new telephone products, including the key telephone systems and voice-over-internet-protocol ("VoIP") phones, to our long-standing Japanese customer, NEC. We believe that telephone products will become an important contributor to overall sales, as the trend of VoIP phones becomes more widely accepted worldwide.

In order to exploit the strong growth potential of the networking products market, we increased our interest in Suga Networks Hong Kong Limited by 15% in November 2003, making it a wholly-owned subsidiary of the Group. This move has enabled us to fully capture the entire profit contribution from the networking product business. By purchasing this 15% stake by issuing 1,800,000 new shares, we also increased the market capitalization and liquidity of SUGA's shares.

Consumer Electronic Appliances

This business segment continues to grow steadily while maintaining higher profit margins. Sales of consumer electronic appliances, excluding handheld TVs, grew 20% and increased to HK\$218 million in fiscal year 2004. Sales of handheld TVs declined, as we anticipated, due to consumers shifting preferences towards digital audio-visual products.

Over the past year, we launched several new pet training devices, including tracking systems and chip scanners. These new products demonstrate our ability to excel at product development, and as there are more pets than people in America (according to the American Pet Products Manufacturers Association), we believe that our expertise in this market offers good growth opportunities.

Digital Audio-Visual ("A/V")

In view of the rapid growth of the worldwide digital A/V market, Suga Digital, a wholly-owned subsidiary, was set up in June 2004 to capitalize on the enormous opportunities in this market. During the past year, our R&D team has been developing a series of advanced digital A/V products.

The first digital A/V product, a portable MPEG-4 player, was introduced in October 2003 and subsequently received the "HKEIA Award for Outstanding Innovation and Technology Products" 2003 bronze award. First shipment will begin in July 2004. We believe this business will be a tremendous growth driver over the next few years.

Environmental Protection

Our continued efforts in implementing effective environmental protection measures were rewarded. We obtained the ISO14001 Environmental Management System accreditation in March 2004. In addition, we continued to adopt environmental friendly ideas such as lead-free production in our manufacturing processes. We are committed to continuously upgrading our business and operation processes with further enhancing environmental protection in mind.

Share placement

In order to broaden our shareholder's base and enhance stock market liquidity, SUGA successfully placed 20,000,000 new shares to independent institutional investors at HK\$1.40 in June 2003, raising a net proceed of HK\$27 million. This placement represented 9.1% of expanded capital, with the proceeds used to finance business development.

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LOOKING AHEAD

As a value-added EMS provider, we do more than simply manufacture products; we strive to anticipate and meet customer needs through design services, logistics planning, and stringent quality assurance processes. We are committed to investing in research and development and production capabilities. SUGA's integrated services enable us to respond quickly and efficiently to customer's requirements.

SUGA's telecommunication business is succeeding in capturing the rapidly growing market in the PRC. As our strategic partner, Harbour Networks, continues to expand, this business segment will be a significant revenue growth driver for the Group in the future. Our engagement to become the strategic manufacturer for NEC's key telephone systems and VoIP phones will also generate lucrative opportunities over the coming years. Our established market reputation will further enable us to secure new customers, which will further enrich our income stream. Stepping into fiscal year 2005, orders have increased sharply. The Group is processing 40% more orders over the same period last year.

Our consumer electronic business will continue to provide stable income to the Group. Well established in the American market, our pet training devices partner is planning to widen its product range and to expand its market share in the Asian market. With the expansion of R&D capabilities and the ability of providing a comprehensive range of logistics support based on our extensive knowledge of the PRC market, SUGA will be able to effectively assist the American partner in achieving its new product as well as market development goals. We believe this business will grow in parallel with our partner's growth.

Recognising that many of our existing customers wish to penetrate the PRC market, we have been relentless in improving our EMS leveraging our sales and distribution networks in Hong Kong and the PRC. To extend our networks further, we have introduced the "Nachus" Korean brand to create a sales and distribution channel. We believe that our sales and distribution channels, market knowledge, and logistics support will allow us to assist customers in their strategic objectives in the PRC market. SUGA's integrated manufacturing facilities, technical and logistics services, and PRC market knowledge make us their first choice as an EMS partner in Hong Kong and the PRC.

Appreciation

On behalf of SUGA, I would like to extend my gratitude to our customers and business partners for their business and support. I would also like to thank my colleagues for their hard work and continuous effort over the past year. Their excellent work has contributed significantly to our favorable results.

In summary, we are excited about SUGA's future. We have strong fundamentals, an experienced and capable workforce, and a healthy financial outlook to expand customer relationships, drive growth and profitability, and increase shareholder value.

NG Chi Ho

Chairman

Hong Kong, 29 June 2004