

Dear Shareholders,

I am pleased to present the annual report of China Silver Dragon Group Limited, formerly named as Cedar Base Electronic (Group) Limited (the "Company" and together with its subsidiaries (the "Group")) for the year ended 31 March 2003.

RESULTS OF THE YEAR

The financial year ended 31 March 2003 proved to be a very difficult year for the Company as the turnover of the Group shrank to HK\$123 million from HK\$257 million, a drop of 52%. The drop was due to intense competition in the calculator market as well as the disappearance of Euro converter market, which the Group relied on in the previous year. The gross margin also turned into a gross loss this year due to lower selling prices as a result of intense competition of the industry.

The loss from operating activities deteriorated from HK\$40 million last year to HK\$262 million, largely due to write-off of slow-moving, damaged inventories and Euro converters amounting to HK\$128 million, provision for slow-moving inventories amounting to HK\$16 million, write-off of fixed assets amounting to HK\$30 million, loss on disposal of fixed assets amounting to HK\$13 million and loss in respect of discounts given in collection of trade debts amounting to HK\$33 million and write-off of deposits recoverable of HK\$10 million.

Net loss from ordinary activities attributable to shareholders was HK\$263 million (2002: HK\$63 million), representing a net loss per share of HK9.05 cents (2002: HK2.42 cents).

DIVIDEND

In view of the tight financial position of the Group, the Directors do not recommend the payment of a dividend.

CHANGE OF SINGLE LARGEST SHAREHOLDER AND MANAGEMENT

On 28 January, 2003, Asset Full Resources Limited, a company beneficially owned by me, has acquired 20.81% of the then issued share capital of the Company from Mr. Tong Yiu Lun, the ex-Chairman of the Company. On the same day, Mr. Yau Pui Kau and Mr. Chan Chi Shing, Willie resigned as an executive director and an independent non-executive director of the Company, respectively and Mr. Chen Lizhong and I were appointed as an independent non-executive director and an executive director of the Company, respectively. On 28 April, 2003, Mr. Tong Yiu Lun resigned and Mr. Tsui Chi Kin was appointed as an executive director of the Company. On 28 July 2003, Mr. Zhao Hai Hu and Ms. Huang Shao Yun were appointed as a non-executive director and an independent non-executive director of the company. In addition, nearly all of the senior management of the Group has since resigned or been replaced.

BUSINESS REVIEW

Market Fiercely Competitive and Shrinking

The electronic calculator market was fiercely competitive, in particular, at the low end of the market where the Group's products were focused. In addition, the Euro-converter market have nearly disappeared since early 2002, when Euro was officially adopted as the official currency of the European Economic Community.

Acquisitions of Fixed Assets and Inventories related to Euro Converter Product Lines

The adverse development in the Euro converter market has a major negative impact on the Group due to the previous management's acquisition of substantial amounts of fixed assets and inventories in anticipation of the expansion of the Euro-converter market. Their optimism turned out to be unrealistic and as a consequence, fixed assets and inventories related to the Euro converter product lines amounting to HK\$26 million and HK\$61 million, respectively, have to be written off.

CHAIRMAN'S STATEMENT

Write-off of Other Fixed Assets

In addition to the fixed assets related to the Euro converter product lines, the Group also wrote off other fixed assets amounting to approximately HK\$4 million. These were fixed assets related to unused capacities.

Write-off of inventories

Apart from the inventories related to the Euro converter product lines, the Group also wrote off obsolete and provided for slow-moving inventories related to other product lines amounting to HK\$47 million. The Group also wrote off certain raw materials damaged by flooding amounting to HK\$35 million during the year.

Discounts given in collection of trade debts

To partially relieve the tight financial situation of the Group, discounts amounting to HK\$33 million were offered to a number of trade debtors in respect of the early collection of trade account balances of approximately HK\$33 million.

Write-off of Deposits Recoverable

The Group wrote off deposits recoverable amounting to HK\$10 million in relation to investment in 東莞市奇美寶文具用品有限公司 in 2001. The acquisition was terminated in March 2002 and the deposit paid was agreed to be returned by instalments and up to RMB7.6 million has been received during the year. However no repayment of remaining deposit by vendor up to the date of this report. The Group considered that the recoverability of remaining deposits was remote and therefore, the Group wrote off the remained unrecovered deposit thereof.

REDOMICILE, CAPITAL REORGANISATION AND NAME CHANGE

On 9 June 2003, the shareholders of the Company in an extraordinary general meeting approved to:

- (A) change the domicile of the Company from Cayman Islands to Bermuda,
- (B) implement of the capital reorganisation which involved (i) a reduction in the nominal value of each share from HK\$0.10 to HK\$0.0005 by way of capital reduction and subdivision; (ii) a diminution of the authorised share capital from HK\$1,000,000,000 to HK\$200,000,000; and (iii) a consolidation of every 20 reduced shares of HK\$0.0005 each into 1 consolidated share of HK\$0.01 each.
- (C) change the name of the Company from Cedar Base Electronic (Group) Limited to China Silver Dragon Group Limited.

The change of domicile of the Company to Bermuda became effective on 9 July 2003 and the capital reorganisation became effective on 25 July 2003.

CAPITAL RAISING AND AGREEMENTS WITH CREDITORS

Subsequent to the year end, the Company raised HK\$5.8 million and HK\$7.3 million after expenses in two convertible bond issues mainly to finance the working capital requirements of the Company and pay off part of the outstanding creditors.

As at 20 May 2003, the Company has overdue debts of approximately HK\$152 million due to 209 creditors. Out of such debts, the Company has entered into settlement agreements with 3 secured and 51 unsecured creditors with total outstanding debts amounting to approximately HK\$8.1 million and HK\$8.1 million, respectively. The secured debts were agreed to be paid in full by 10 to 12 instalments commencing from April 2003. The

unsecured debts were agreed to be settled at approximately HK\$5.6 million, representing approximately 70% of their outstanding amount. Approximately HK\$2.8 million will be settled by cash instalments commencing from May 2003 and approximately HK\$2.8 million will be settled by the Company issuing 14,092,250 new consolidated shares at HK\$0.20 each. The Company is continuing to seek settlement agreements with the remaining 3 secured and 152 unsecured creditors who were owed approximately HK\$0.9 million and HK\$35 million, respectively. With the settlement agreements in place, the Group will be in better financial position to take on future challenges facing the Group.

FUTURE PLANS AND PROSPECTS

The Group is principally engaged in the manufacturing and sale of electronic products, mainly calculators. The outlook for the World economy remained uncertain, yet there are positive signs that the U.S. and Asian economies are recovering, which will benefit the electronics industry as a whole and the calculator industry in particular. The Group will continue to upgrade its product ranges and expand its customer base. Coupled with cost cutting measures, there is a more than even opportunity that the Group will be able to reverse the loss situation. But difficulties remain. In order to improve the long term future of the Group, the Directors are continuing looking for diversification opportunities into other profitable and strong cashflow businesses.

Electronics Industry

The Group will place more efforts on the research and development for electronics products through strategic alliances and acquisitions in order to upgrade the product lines which will generate higher gross margin. On 28 June 2003, the Group entered into a sales and purchase agreement to acquire a 55% equity interest in Graham Industrial Limited ("Graham"), at a consideration of HK\$10,480,000 which were settled by the issue of 7% interest bearing notes of the same amount. The vendor guaranteed the net asset value of Graham at 30 June 2003 will not be less than HK\$20 million. Graham was principally involved in the manufacturing of electronic toys and other electronic products with its principal manufacturing facilities located in Dongguan, Guangdong Province, PRC. New production lines in Graham's factory will be set up to produce premium calculators.

Diversification

Subsequent to the balance sheet date, the Company entered into a joint venture agreement with a PRC independent third party to establish a Sino-foreign owned joint venture enterprise under the PRC laws. Pursuant to the joint venture agreement, the joint venture is engaged in the supply of water and the Company will hold 60% equity interest in the joint venture. The establishment of the joint venture has not yet completed. Pursuant to the joint venture agreement, the proposed registered capital of the joint venture is approximately RMB5 million. As a long term strategy, the Group will continue to look for similarly profitable and strong cashflow businesses.

ACKNOWLEDGEMENTS

On behalf of the Directors, I wish to express my gratitude to all staff, suppliers and bankers of the Group for their support despite the financial difficulties faced by the Group.

Duan Chuan Liang

Chairman

Hong Kong
30 July 2003