

The directors herein present their report and the audited financial statements of the Company and of the Group for the year ended 31 March 2003.

CHANGE OF COMPANY NAME

Pursuant to a special resolution passed by the shareholders in an extraordinary general meeting held subsequent to the balance sheet date on 9 June 2003, the Company changed its name from Cedar Base Electronic (Group) Limited to China Silver Dragon Group Limited. The certificate of incorporation on change of name, issued by the Registrar of Companies in the Cayman Islands on 17 June 2003, certified that the Company's name was changed and registered with effect from 17 June 2003.

CHANGE OF DOMICILE

Pursuant to a special resolution passed by the shareholders in an extraordinary general meeting held subsequent to the balance sheet date on 9 June 2003, the Company's domicile was changed from the Cayman Islands to Bermuda by way of de-registration in the Cayman Islands and continuation as an exempted company in Bermuda with limited liability. The application for the approval of de-registration in the Cayman Islands was approved by the Registrar of Companies in the Cayman Islands on 9 July 2003 with certificate of de-registration issued on 9 July 2003. The certificate of continuance as an exempted company in Bermuda with limited liability was issued to the Company on 16 July 2003. On 16 July 2003, the registered office of the Company was changed to Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. In order to comply with the Companies Law of Bermuda, a new memorandum and bye-laws were adopted to replace the previous memorandum and articles of association of the Company.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 16 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 March 2003 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 20 to 64.

The directors do not recommend the payment of any dividend in respect of the year.

REPORT OF THE DIRECTORS

SUMMARY FINANCIAL INFORMATION

The following is a summary of the published consolidated/combined results and of the assets, liabilities and minority interests of the Group prepared on the bases set out in the note below. This summary does not form part of the audited financial statements.

RESULTS

	Year ended 31 March				
	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000
TURNOVER	<u>123,464</u>	<u>256,546</u>	<u>275,622</u>	<u>366,830</u>	<u>271,276</u>
PROFIT/(LOSS) BEFORE TAX	<u>(268,317)</u>	<u>(65,359)</u>	<u>9,769</u>	<u>63,938</u>	<u>45,108</u>
Tax	<u>2,520</u>	<u>934</u>	<u>(2,364)</u>	<u>(6,940)</u>	<u>(4,681)</u>
PROFIT/(LOSS) BEFORE MINORITY INTERESTS	<u>(265,797)</u>	<u>(64,425)</u>	<u>7,405</u>	<u>56,998</u>	<u>40,427</u>
Minority interests	<u>2,387</u>	<u>1,030</u>	<u>180</u>	<u>(59)</u>	<u>(55)</u>
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	<u>(263,410)</u>	<u>(63,395)</u>	<u>7,585</u>	<u>56,939</u>	<u>40,372</u>

ASSETS, LIABILITIES AND MINORITY INTERESTS

	At 31 March				
	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000
NON-CURRENT ASSETS	<u>119,658</u>	<u>162,841</u>	<u>176,970</u>	<u>99,190</u>	<u>76,385</u>
CURRENT ASSETS	<u>26,516</u>	<u>197,497</u>	<u>177,940</u>	<u>209,202</u>	<u>79,239</u>
CURRENT LIABILITIES	<u>(82,796)</u>	<u>(64,259)</u>	<u>(123,646)</u>	<u>(106,289)</u>	<u>(73,343)</u>
NET CURRENT ASSETS/(LIABILITIES)	<u>(56,280)</u>	<u>133,238</u>	<u>54,294</u>	<u>102,913</u>	<u>5,896</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>63,378</u>	<u>296,079</u>	<u>231,264</u>	<u>202,103</u>	<u>82,281</u>
NON-CURRENT LIABILITIES	<u>(9,000)</u>	<u>(16,589)</u>	<u>(12,924)</u>	<u>(11,614)</u>	<u>(12,440)</u>
MINORITY INTERESTS	<u>-</u>	<u>(2,387)</u>	<u>(3,417)</u>	<u>(3,597)</u>	<u>(3,538)</u>
	<u>54,378</u>	<u>277,103</u>	<u>214,923</u>	<u>186,892</u>	<u>66,303</u>

SUMMARY FINANCIAL INFORMATION (continued)

Note:

The summary of the combined results of the Group for the year ended 31 March 1999 has been extracted from the Company's prospectus dated 28 September 1999. The summary has been prepared based on the audited financial statements of the companies then comprising the Group, after appropriate adjustments and reclassifications, as if the current Group structure had been in existence throughout these financial years. The results of the Group for each of the four years ended 31 March 2003 are extracted from the audited financial statements and reclassified as appropriate.

FIXED ASSETS

Details of movements in the fixed assets of the Group during the year are set out in note 14 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in notes 29 and 30 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under:

- the Company's articles of association or the laws of the Cayman Islands before the Company's de-registration in the Cayman Islands; and
- the Company's bye-laws or the laws of Bermuda where the Company continued registration as an exempted company,

which would oblige the Company to offer new shares on a prorata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

RESERVES AND DISTRIBUTABLE RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 31 to the financial statements and in the consolidated statement of changes in equity, respectively. Details of the distributable reserves of the Company are set out in note 31 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 35% of the total sales for the year and sales to the largest customer included therein amounted to approximately 11%. Purchases from the Group's five largest suppliers accounted for approximately 47% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 21%.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers.

REPORT OF THE DIRECTORS

DIRECTORS

The directors of the Company during the year were as follows:

Executive directors:

Mr. Duan Chuan Liang (Chairman)	(appointed on 28 January 2003)
Mr. Tong Yiu Lun	
Mr. Yau Pui Kau	(resigned on 28 January 2003)
Ms. Wu Pik Ying	(resigned on 26 November 2002)

Independent non-executive directors:

Mr. Chen Lizhong	(appointed on 28 January 2003)
Ms. Choi Yik Ling, Kathy	(appointed on 16 December 2002)
Mr. Chan Chi Shing, Willie	(resigned on 28 January 2003)
Dr. Fong Wang Fun	(resigned on 2 October 2002)

Subsequent to the balance sheet date, on 28 April 2003, Mr. Tong Yiu Lun resigned as an executive director of the Company and Mr. Tsui Chi Kin was appointed as an executive director of the Company on the same date. 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, respectively.

In accordance with article 108 of the Company's articles of association, Ms. Choi Yik Ling, Kathy and Mr. Chen Lizhong will retire at the forthcoming annual general meeting and Mr. Chen Lizhong, being eligible, will offer himself for re-election. Apart from Mr. Duan Chuan Liang, all the other directors of the Company, including the independent non-executive directors, are subject to retirement by rotation and re-election in accordance with the provisions of the Company's articles of association/bye-laws upon continuance for registration as an exempted company with limited liability.

DIRECTORS' BIOGRAPHICAL DETAILS

Biographical details of the directors of the Company and the senior management of the Group are set out on page 8 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Except for Mr. Duan Chuan Liang and Mr. Tsui Chi Kin, each of the executive directors has entered into a service contract with the Company for an initial term of three years commencing from 1 September 1999 which will continue thereafter until terminated by not less than three months' notice in writing served by either party to the other.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 36 to the financial statements, no director had a material interest, either direct or indirect, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN SHARES

At 31 March 2003, the interests of certain directors and their associates in the share capital of the Company or its associated corporations (as defined in the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")), as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance, were as follows:

Name of director	Number of shares held and nature of interest
	Corporate
Mr. Duan Chuan Liang (Note)	<u>637,333,332</u>

Note: These shares are beneficially owned by and registered in the name of Asset Full Resources Limited, a company incorporated in the British Virgin Islands, whose entire issued capital is legally and beneficially owned by Mr. Duan Chuan Liang.

10,000 non-voting deferred shares in Marine Union Limited, two non-voting deferred shares in Century Hope Limited and 500,000 non-voting deferred shares in Cedar Base Electronic Limited are beneficially owned by Mr. Tong Yiu Lun.

In addition to the above, certain directors have non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum membership requirements.

Save as disclosed above, none of the directors or their associates had any personal, family, corporate or other interest in the equity or debt securities of the Company or any of its associated corporations (as defined in the SDI Ordinance) as recorded in the register required to be kept under Section 29 of the SDI Ordinance or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

Due to the adoption of Hong Kong Statement of Standard Accounting Practice No. 34 "Employee benefits" during the year, most of the detailed disclosures relating to the Company's share option scheme have been moved to note 30 to the financial statements.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS

At 31 March 2003, the following interests of 10% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name	Number of shares held	Percentage of the Company's issued share capital
Asset Full Resources Limited (Note)	<u>637,333,332</u>	<u>20.8%</u>

Note: The shareholding is duplicated in the "Directors' interests in shares" disclosed above.

Save as disclosed above, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests in shares" above, had registered an interest in the share capital of the Company that was required to be recorded pursuant to Section 16(1) of the SDI Ordinance.

RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

Details of the related party transactions and connected transactions of the Group are set out in note 36 to the financial statements.

PRACTICE NOTE 19 OF THE LISTING RULES

As a result of the Group's losses and the Group's prevailing financial position, the Group has had difficulty in repaying the bank loans and finance lease payables on time. Thus, certain financial and other covenants specified in the loan agreements in respect of the bank loans and finance lease payables were not maintained as at 31 March 2003. The Group also has received notices of various lawsuits against the Group from a number of bankers. Subsequent to the balance sheet date, the Group has entered into settlement agreements with certain bankers which the Group agrees to settle the outstanding debts by ten to twelve monthly cash instalments commencing on April 2003. Details of the litigations of the Group are set out in note 37 to the financial statements.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 38 to the financial statements.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), throughout the accounting period covered by the annual report, except that the non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation in accordance with the Company's articles of association.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the two independent non-executive directors of the Company.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Duan Chuan Liang

Chairman

Hong Kong
30 July 2003