

CHAIRMAN'S STATEMENT

Dear Shareholders,

I shall present the annual report of China Silver Dragon Group Limited and together with its subsidiaries (the "Group") for the year ended 31 March 2004.

RESULTS OF THE YEAR

During the year under review, the Group underwent restructuring and streamlining of its electronic business operations leading to termination of certain loss making product lines and the addition of new but more promising product lines. Coupled with the intense competition in the calculator markets leading to loss of certain key customers, the turnover of the Group shrank to HK\$33 million from HK\$123 million, a drop of 73%. The gross loss deteriorated from HK\$3 million to HK\$20 million due to lack of economics of scale in the electronic business operations and inventories of HK\$23.5 million brought forward from last year were all included in cost of sales in current year.

The loss from operations improved from HK\$262 million last year to HK\$35 million, largely as a result of a much lower other operating expenses of HK\$1 million against HK\$238 million last year. Loss attributable to shareholders was HK\$98 million (2003: HK\$263 million), representing a net loss per share of HK47 cents (2003: HK\$1.81).

DIVIDEND

The Directors do not recommend the payment of a dividend.

BUSINESS REVIEW

Electronics business

The Directors took decisive steps to overhaul the electronics business operations of the Group by ceasing the production of a number of product lines while at the same time incorporating new and potentially profitable product lines. The Directors also added experienced personnels to upgrade the electronics business operations. By adopting this prudent approach in balancing the level of turnover and the corresponding operating expenses, the Directors believed the performance of the electronics business will improve in the future.

Urban water supply business

During the year, the Directors deployed their expertise in pursuing the steady growing business of urban water supply by forming a joint venture with an independent party in the PRC. The Group holds a 73% equity interest in the joint venture which is located at Renhua County, Guangdong Province. The joint venture water supply factory, which has a production capacity of 30,000 tons per day, is in process of expanding the water supply networks to increase the coverage areas. The Directors commenced negotiations with the local government authorities to increase water charges, which is subject to price control. By taking such actions the Directors expected that the profitability of the joint venture will improve.

Sewage treatment business

To take advantage of the increasing environmental consciousness in the PRC and acting as an integration of the urban water supply business, the Group entered into a sale and purchase agreement with an independent third party to acquire a 55% shareholding in two sewage treatment plants with aggregate consideration of HK\$17,680,000. The two sewage treatment plants, which are located in Xinle City, Hebei Province and Wuqing Development Zone, Tianjin have aggregate daily capacity of 50,000 tons.

CHAIRMAN'S STATEMENT

Short term investment held for resale

The Group holds a 10% equity interest in Shanghai Jianhua Satellite Communication Co., Ltd ("SJSC"). The Directors are carefully monitoring the investment in SJSC. However, the performance of SJSC was disappointing. In view of this, the Directors are considering the disposal of the Group's investment in SJSC when opportunities arise.

CAPITAL RAISING AND OPEN OFFER

On 11 June 2003, the Company issued an interest bearing convertible bonds in the principal sum of HK\$6 million to independent investors. The net proceeds of approximately HK\$5.8 million has been used as HK\$1.9 million to reduce certain debts of the Group, HK\$0.9 million has paid for professional fees for the re-domicile and the capital reorganisation of the Company, HK\$3.0 million used as general working capital of the Group.

On 29 August 2003, the Company issued an interest bearing convertible bonds in the principal sum of HK\$7.5 million to independent investors. The net proceeds of approximately HK\$7.3 million used as partial settlement with creditors.

On 2 October 2003, Asset Full Resources Limited ("Asset Full") entered into a placing agreement with an independent placing agent for the placing of 32,500,000 ordinary shares of the Company owned by Asset Full at a price of HK\$0.30 per share. Pursuant to a top-up agreement of the same date, Asset Full subscribed for 32,500,000 new ordinary shares of the Company at a price of HK\$0.30 per share. The net proceeds of approximately HK\$9.5 million has been used as general working capital.

On 18 February 2004, Asset Full entered into a placing agreement with an independent placing agent for the placing of 37,500,000 ordinary shares of the Company owned by Asset Full at a price of HK\$0.315 per share. Pursuant to a top-up agreement of the same date, Asset Full subscribed for 37,500,000 new ordinary shares of the Company at a price of HK\$0.315 per share. The net proceeds of approximately HK\$11.1 million has been used as approximately HK\$5.7 million for settlement of the principal debts, interest and legal costs of Jade Electronic Company Limited and approximately HK\$2.4 million for acquisition of fixed assets and inventories of Cedar Electronic under auction in March 2004 as disclosed in the announcement dated 30 March 2004. Approximately HK\$1.8 million for payment of part of the cash consideration of acquisition of two water sewage plants as disclosed in a circular dated 8 January 2004. The remaining of approximately HK\$1.2 million will be used as general working capital of the Group.

On 22 April 2004, the Company proposed to raise approximately HK\$27.6 million, net of expenses, by issuing 146,013,900 new shares of HK\$0.01 each by way of an open offer at a price of HK\$0.20 per offer share. The Company allotted one offer share for every two existing shares held by the qualifying shareholders. Net proceeds of the open offer intend to apply approximately HK\$11 million for its general working capital, as to about HK\$2.3 million for repayment of other payables of the Company such as secretarial and professional fees and printing charges, as to about HK\$5.3 million for repayment of remaining cash consideration for acquisition of two water sewage plants as disclosed in the announcement date 18 December 2003 and the circular dated 8 January 2004 and as to about HK\$9 million for development of water supply business for the Company's joint venture located at Renhua County, Guangdong Province, the PRC.

CHAIRMAN'S STATEMENT

FUTURE PLANS AND PROSPECTS

China is the most populous country in the world, and also the country with meagrest of the water resources. Given the accelerating economic development and urbanisation of China, one of the principal tasks of the PRC Government is to ensure and increase the quality of water supply to urban areas and solve the problem of sewage treatment in urban areas.

In an effort to attract investment in water supply and waste-water treatment sectors, the PRC Government has established favourable terms and conditions in these sectors.

Given the factors above, the returns on investing in urban water supply and sewage treatment in the PRC are promising. With the Group's senior management possessing knowledge and expertise in these industries together with their extensive networks in these fields, the Directors believe that the returns will meet their expectations.

In the coming year, the Group will continuously look for strategic partners in expanding the current businesses of the Group in the electronics, urban water supply and sewage treatment areas and will continue to look for business opportunities in the PRC which will generate profits and positive cashflows for the Group.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2004, the Group has total cash and bank balances of approximately HK\$3 million (2003: HK\$123,000). The gearing ratio, calculated as percentage of total liabilities to total assets, is approximately 69.4% (2003: 62.8%) as at 31 March 2004. The current ratio is approximately 0.27 times (2003: 0.32 times) as at 31 March 2004.

In order to improve the Group's financial position, the directors have adopted various financial measures and fund raising exercises which have completed during the year and completed subsequent to the balance sheet date.

In the opinion of the directors, in light of the financial measures taken to date, the Group will have sufficient working capital to meet its financial obligations in full as they fall due in the foreseeable future.

EMPLOYEES

As at 31 March 2004, the Group has employed approximately 600 staff, principally in Hong Kong and the PRC. The remuneration package of the employees is determined by various factors including their experience and performance, the market condition, industry practice and applicable employment law.

FOREIGN EXCHANGE RISK MANAGEMENT

The Group's trading activities were principally denominated in Hong Kong dollars, United State dollars and China Renminbi. As the exchange rate of Renminbi against Hong Kong dollar was relatively stable during the year while the United States dollars are pegged against Hong Kong dollar, the management considers the fluctuations among these currencies as minimal and should not expose the Group to excessive currency fluctuation risk.

CHAIRMAN'S STATEMENT

PLEDGED OF ASSETS

As at 31 March 2004, the Group's banking facilities were secured by the following:

- (i) legal charges on certain properties owned by a joint venture partner of a subsidiary;
- (ii) legal charges on certain properties owned by one (2003: two) related parties.

CONTINGENT LIABILITIES

As at 31 March 2004, the Group did not have any material contingent liabilities.

ACKNOWLEDGEMENTS

On behalf of the Directors, I wish to express my gratitude to all staff and business associates of the Group for their continued support.

Duan Chuan Liang

Chairman

Hong Kong
23 July 2004