

## AUDITORS' REPORT

---

# RSM! Nelson Wheeler

羅 申 美 會 計 師 行

Certified Public Accountants

TO THE SHAREHOLDERS OF  
**CHINA SILVER DRAGON GROUP LIMITED**

*(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)*

We have audited the financial statements on pages 17 to 60 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

### **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### **BASIS OF OPINION**

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants except the scope of our work was limited as explained below.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. However, the evidence available to us was limited as set out below.

## AUDITORS' REPORT

During the year, two wholly owned subsidiaries namely, Cedar Base Electronic Limited ("Cedar Base Electronic") and 東莞易達興業電子有限公司 ("Dongguan Cedar") were liquidated respectively. Since the Group no longer has control over Cedar Base Electronic and Dongguan Cedar, the two subsidiaries were deconsolidated from the Group from the date when the Group lost control. We were unable to obtain sufficient evidence to satisfy ourselves as to whether the loss on deconsolidation of these two subsidiaries of HK\$14,020,000 was fairly stated.

There were no other satisfactory audit procedures that we could adopt to satisfy ourselves as to the matters set out above. Any adjustments to the above figures would affect the net assets of the Company and the Group as at 31 March 2004 and the results and cash flows of the Group for the year then ended.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

### FUNDAMENTAL UNCERTAINTY RELATING TO GOING CONCERN

In forming our opinion, we have considered the adequacy of the disclosure made in the financial statements concerning the basis of preparation of financial statements made by the directors. As explained in note 2 to the financial statements, the Group incurred a consolidated loss attributable to shareholders of HK\$97,618,000 for the year ended 31 March 2004 and had net current liabilities of HK\$28,822,000 as at 31 March 2004.

The financial statements have been prepared on a going concern basis, the validity of which depends upon (i) the open offer to strengthen the Company's capital base and to enhance its financial position and (ii) the financial support by the Chairman of the Company of not more than HK\$2.5 million to finance the working capital requirement of the Company. Details of the open offer and the circumstances relating to this fundamental uncertainty are described in note 2 to the financial statements. We consider that the fundamental uncertainty has been adequately disclosed in the financial statements and our opinion is not qualified in this respect.

## AUDITORS' REPORT

---

### OPINION

Except for any adjustments that might have been found to be necessary had we been able to obtain sufficient evidence concerning the loss on deconsolidation of the two subsidiaries referred to in the basis of opinion section of this report, in our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 March 2004 and of the results and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

In respect alone of the limitation on our work as set out in the basis of opinion section of this report, we have not obtained all the information and explanations that we considered necessary for the purpose of our audit.

**RSM Nelson Wheeler**

*Certified Public Accountants*

Hong Kong

23 July 2004