REPORT OF THE AUDITORS

ERNST & YOUNG
安永會計師事務所

To the members
China Silver Dragon Group Limited
(Formerly known as Cedar Base Electronic (Group) Limited)
(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

We have audited the financial statements on pages 20 to 64 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 to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes an 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 follows:

(1) Scope limitation – completeness of books and records

Due to the high turnover of management and staff within the Group during the year, particularly that in the accounting and finance department, certain underlying books and records of the Group were either lost, or could not be located. In addition, the Group experienced a significant breakdown in internal controls. Many significant transactions undertaken by the Group during the year were primarily conducted in cash without adequate supporting documentation. Accordingly, we have not been provided with adequate information and documents to satisfy ourselves as to the propriety, completeness, classification and disclosures in respect of certain significant transactions undertaken during the year ended 31 March 2003 and the related balances as at 31 March 2003, which are detailed as follows:

(a) Write-off of inventories

Included in the consolidated profit and loss account for the year ended 31 March 2003 is a charge in respect of the write-off of inventories of Euro converters, damaged and slow-moving inventories in the aggregate amount of approximately HK$128,127,000. We have not been provided with appropriate evidence to support that this sum expensed was in fact related to inventory purchases.

BASIS OF OPINION (continued)

(1) Scope limitation – completeness of books and records (continued)

(b) *Discounts given in collection of trade debts*

Included in the consolidated profit and loss account for the year ended 31 March 2003 is a charge accounted for as discounts given to a number of trade debtors in respect of the early collection of trade accounts balances of approximately HK$30,853,000. Due to the lack of reliable evidence in connection with these discounts granted, we have been unable to perform the necessary procedures we consider necessary to satisfy ourselves as to whether the discount, which has been deducted in determining the Group's trade debts, is fairly stated.

(c) *Long term investment*

Included in the consolidated balance sheet of the Group as at 31 March 2003 is a long term investment in Shanghai Jianhua Satellite Communication Co., Ltd., a company established in the People's Republic of China ("PRC"), at its cost of approximately HK$23,148,000. Due to the lack of sufficient reliable evidence with which to ascertain (i) the reasonableness of the consideration paid and (ii) to determine the recoverable amount of this long term investment and hence the impairment provision against this long term investment, if any, we have not been able to satisfy ourselves as to whether the carrying amount of this long term investment is fairly stated as at 31 March 2003.

(d) *Impairment of goodwill*

Included in the consolidated balance sheet of the Group as at 31 March 2003 is goodwill of approximately HK$11,837,000, which comprises the carrying value of goodwill arising from the acquisition of an additional equity interests in a subsidiary settled in cash of HK$6.3 million during the year and of a subsidiary holding certain factory operations in the PRC acquired in the prior year. Due to the lack of sufficient reliable evidence with which to determine the recoverable amount of the goodwill and hence the impairment provision against the goodwill, if any, we have not been able to satisfy ourselves as to whether the carrying amount of goodwill is fairly stated as at 31 March 2003.

(2) Scope limitation – Write-off and loss on disposal of fixed assets

Included in the consolidated profit and loss account for the year ended 31 March 2003 is a write-off of fixed assets of approximately HK$25,577,000 and a loss on disposal of certain fixed assets of approximately HK$6,918,000. Due to the lack of sufficient reliable evidence, we have been unable to perform the procedures we consider necessary to satisfy ourselves as to whether the write-off and disposal of fixed assets of approximately HK$25,577,000 and HK$6,918,000, respectively, against the carrying value of fixed assets as at 31 March 2003 are fairly stated.

BASIS OF OPINION (continued)

(3) Scope limitation – Provision for impairment of a subsidiary

Included in the balance sheet of the Company as at 31 March 2003 is a provision for impairment against interests in subsidiaries of approximately HK$77,800,000. Due to the scope limitations in respect of points (1) and (2) above, we have not been able to satisfy ourselves as to whether the impairment provision determined by the directors against the carrying value of such interests in subsidiaries as at 31 March 2003 is fairly stated.

Any adjustments that might have been found to be necessary in respect of each of points (1) and (2); and point (3) above would have a consequential impact on the Group's and Company's net assets, respectively, as at 31 March 2003 and their results for the year then ended, and the related disclosures thereof in the financial statements.

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 OF THE GROUP

In forming our opinion, we have considered the adequacy of the disclosures made in note 1 to the financial statements concerning the adoption of the going concern basis on which the financial statements have been prepared. As explained in note 1 to the financial statements, the directors are currently undertaking a number of measures to relieve its current lack of profitability and to solve its liquidity problem. The financial statements have been prepared on a going concern basis, the validity of which depends on the successful outcome of the proposed debt restructuring plan of the Group, the ongoing support of Group's bankers and trade creditors which would include, inter alia, the satisfactory resolution of a number of lawsuits against the Group brought by certain bankers and trade creditors, and the successful attainment of profitable and positive cash flow operations. The financial statements do not include any adjustments that may be necessary should the implementation of such measures be unsuccessful. We consider that appropriate disclosures have been made in the financial statements concerning this situation, but the fundamental uncertainty relating to whether the going concern basis is appropriate is so extreme that we have disclaimed our opinion.

DISCLAIMER OF OPINION

Because of the significance of each of (i) the possible effects of the scope limitations in evidence available to us, as set out in points (1) to (3) under the basis of opinion section of this report; and (ii) the fundamental uncertainty relating to the going concern basis, we are unable to form an opinion as to whether the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2003 and of the profit of the Company and of the loss and the cash flows of the Group for the year then ended and as to whether the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

In respect alone of the limitations on our work as set out in the basis of opinion section of this report:

(i) we have not obtained all the information and explanations that we consider necessary for the purpose of our audit; and

(ii) we are unable to determine whether proper books of accounts have been kept.

Ernst & Young
Certified Public Accountants

Hong Kong
30 July 2003