

RSM! Nelson Wheeler

羅 申 美 會 計 師 行

Certified Public Accountants

**TO THE SHAREHOLDERS OF
CHINA WATER AFFAIRS GROUP LIMITED
(FORMERLY KNOWN AS 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 20 to 62 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 Institute of Certified Public Accountants. 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 and performed 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. 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

We have considered the adequacy of the disclosures made in note 2(a) to the financial statements which explains that in preparing the financial statements, the directors have given consideration to the future financing of the Group. As explained in note 2(a) to the financial statements, for the year ended 31 March 2005, the Group incurred a consolidated loss attributable to shareholders of HK\$29,269,000 and had net current liabilities of HK\$11,562,000 as at 31 March 2005.

The financial statements have been prepared on a going concern basis, the validity of which depends on (i) the Group's ability to attain profitable and positive cash flow operation in the longer term and (ii) financial support from a substantial shareholder and joint venture partner. The financial statements do not include any adjustments that would result from the failure of obtaining a profitable operation and financial support. We consider that appropriate disclosures have been made and our opinion is not qualified in this respect.

OPINION

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 2005 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.

RSM Nelson Wheeler
Certified Public Accountants

Hong Kong
27 July 2005