

REPORT OF THE DIRECTORS

The directors herein present their report and the audited financial statements of the Company and of the Group for the year ended 31 December 2001.

Change of company name

Pursuant to a special resolution of the Company passed on 21 January 2002, the name of the Company was changed from Corasia Group Limited to First Dragoncom Argo-Strategy Holdings Ltd. effective from 28 January 2002.

Principal activities

The principal activity of the Company is investment holding. The principal activities of the Group have not changed during the year and consisted of the manufacturing and sale of eel feeds and shrimp feeds under the Group's "Juhua" brand name in the People's Republic of China (the "PRC").

Segment information

An analysis of the Group's turnover and contribution to results by principal activity and geographical area of operations for the year ended 31 December 2001 is set out in note 4 to the financial statements.

Results

The Group's loss for the year ended 31 December 2001 and the state of affairs of the Company and of the Group at that date are set out in the accompanying financial statements on pages 25 to 71.

Summary financial information

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out below. The amounts for the years ended 31 December 2000, 1998 and 1997 have been adjusted for the effects of the retrospective changes in accounting policies affecting goodwill, as detailed in notes 2, 17 and 28 to the financial statements, and proposed dividends. This summary does not form part of the audited financial statements.

Summary financial information (continued)

Results

	Year ended 31 December				
	2001 HK\$'000	2000 HK\$'000 (Restated)	1999 HK\$'000	1998 HK\$'000	1997 HK\$'000
Turnover	139,341	285,102	256,735	227,776	155,062
Profit/(loss) before tax	(50,444)	45,118	64,498	60,806	45,070
Tax	(3,988)	(5,917)	(7,422)	(4,154)	(1,240)
Net profit/(loss) from ordinary activities attributable to shareholders	(54,432)	39,201	57,076	56,652	43,830

Assets and liabilities

	31 December				
	2001 HK\$'000	2000 HK\$'000 (Restated)	1999 HK\$'000	1998 HK\$'000 (Restated)	1997 HK\$'000 (Restated)
Total assets	343,085	380,591	252,723	198,772	180,484
Total liabilities	50,689	50,625	36,943	58,680	99,690
	292,396	329,966	215,780	140,092	80,794

Notes:

1. The summary of the combined results of the year ended 31 December 1997 is extracted from the Company's prospectus dated 16 June 1998. The summary for this year has been prepared from the audited financial statements of the companies comprising the Group as if the structure of the Group after the Group reorganisation completed on 5 June 1998 had been in existence throughout these financial years. The results of the Group for each of the years ended 31 December 1998, 1999, 2000 and 2001 are extracted from the financial statements.
2. The summary of net assets of the Group as at 31 December 1997 is extracted from the Company's prospectus dated 16 June 1998. The summary of net assets of the Group as at 31 December 1998, 1999, 2000 and 2001 is extracted from the audited consolidated balance sheets of the Group included in the financial statements.

Major customers and suppliers

Sales to the five largest customers of the Group accounted for less than 30% of the Group's turnover for the year.

Purchases from the five largest suppliers of the Group accounted for approximately 78% of the Group's total purchases for the year. In particular, purchases from the Group's largest supplier accounted for approximately 26% of the Group's purchases for the year.

As far as the directors are aware, neither the directors, their associates, nor those 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 suppliers.

Fixed assets

Details of movements in the fixed assets of the Company and of the Group during the year are set out in note 13 to the financial statements.

Share capital, share options and warrants

Details of movements in the Company's share capital, share options and warrants during the year, together with the reasons therefor, are set out in note 27 to the financial statements.

Reserves

Details of movements in the reserves of the Company and of the Group during the year are set out in note 28 to the financial statements.

Distributable reserves

As at 31 December 2001, the Company's reserves available for cash distribution and/or distribution in specie, comprising the contributed surplus account and accumulated losses, amounted to HK\$35,594,000. In accordance with the Companies Act 1981 of Bermuda (as amended), the contributed surplus may only be distributed in certain circumstances. In addition, the Company's share premium account with a balance of HK\$63,900,000 may be distributed in the form of fully paid bonus shares.

Charitable contributions

During the year, the Group made charitable contributions totalling HK\$45,000.

Directors

The directors of the Company during the year were:

Executive directors:

Dr. Hon Fong Ming, Perry (<i>chairman</i>)	(appointed on 14 December 2001)
Dr. Qian Keming	(appointed on 14 December 2001)
Mr. Zhang Jiebin	(appointed on 14 December 2001)
Mr. Shang Qingling	(appointed on 14 December 2001)
Mr. Kwok Man Yu	
Mr. Lam Kwok Kam	
Mr. Yang Fang Guo	
Mr. Yu Jian Guo	(resigned on 14 December 2001)
Mr. Pan Xian Fa	(resigned on 14 December 2001)

Independent non-executive directors:

Mr. Ma Qingguo	(appointed on 14 December 2001)
Mr. Ke Yinbin	(appointed on 14 December 2001)
Mr. Wang Cheng Ming	(resigned on 14 December 2001)
Mr. Lam Ming Yung	(resigned on 14 December 2001)

Subsequent to the balance sheet date, on 15 April 2002, Mr. Ke Yinbin resigned as an independent non-executive director of the Company and was appointed as an executive director of the Company.

Subsequent to the balance sheet date, on 15 April 2002, Mr. Yu Enguang was appointed as an independent non-executive director of the Company.

The directors of the Company, including the non-executive directors, are subject to retirement by rotation or expiry of tenure and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's bye-laws, such directors will offer themselves for re-election at the forthcoming annual general meeting.

Directors' service contracts

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 shares

At 31 December 2001, the interests of the directors in the share capital of the Company or its associated corporations, as recorded in the register (the "Register") maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") or notified to the Company, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Name	Type of interest	Number of shares held
Dr. Hon Fong Ming, Perry ("Dr. Hon")	Corporate (Note)	363,950,000

Note: Dragon Delta Limited, a company incorporated in the British Virgin Islands, which is wholly and beneficially owned by Dr. Hon through Dragoncom China Investment Ltd. and Dragoncom (Hong Kong) Limited, owned 363,950,000 shares of the Company.

In addition to the above, Mr. Kwok Man Yu holds shares in certain subsidiaries of the Company in a non-beneficial capacity for the sole purpose of complying with the minimum company membership requirements.

Save as disclosed above, none of the directors or their associates had any personal, family, corporate or other interests in the share capital of the Company or any of its associated corporations which were recorded in the Register, as defined in the SDI Ordinance.

Directors' rights to acquire shares or debentures

Apart from as disclosed under the headings "Directors' interests in shares" above and "Share option scheme" below, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Company's directors or their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Share option scheme

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include executive directors and any full-time employee of the Company or its subsidiaries. The Scheme became effective on 8 June 1998 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. No option may be granted to any one person which, if exercised in full, will result in the total number of shares already issued and which may fall to be issued to him under all the options previously granted to him pursuant to the Scheme exceeding 25% of the maximum aggregate number of shares for the time being issued and which may fall to be issued under the Scheme.

Share option scheme (continued)

The offer of a grant of share options may be accepted within 28 days from the date of the offer upon payment of a nominal consideration of HK\$10 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of the offer of the share options or the expiry date of the Scheme, if earlier.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) 80% of the average of the closing prices of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for the five trading days immediately preceding the date of the offer; and (ii) the nominal value of the Company's shares.

On 23 August 2001, the Stock Exchange announced amendments to Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") in respect of share option schemes, which came into effect on 1 September 2001. In compliance with the amendments to the Listing Rules and the announcement of the Stock Exchange, the directors consider that it is in the interest of the Company to terminate the existing Scheme of the Company adopted on 8 June 1998 and to adopt a new Scheme. An ordinary resolution will be proposed at the Company's shareholders' meeting for the approval of the said adoption of the new Scheme and termination of the Company's existing Scheme. Until the adoption of the proposed new Scheme, the share options which may be from time to time granted by the Company under the existing Scheme will however not be affected by the proposed new Scheme.

The following share options were outstanding under the Scheme during the year:

Category of participant	At 1 January 2001	Granted during the year	Number of share options		At 31 December 2001	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK\$	Share price***	
			Exercised during the year	Cancelled during the year					At grant date of options HK\$	At exercise date of options HK\$
Other employees	30,800,000	-	20,800,000	10,000,000	-	11 March 2000	11 March 2000 to 7 June 2008	0.19616	-	0.27962
	46,200,000	-	46,200,000	-	-	16 March 2000	16 March 2000 to 7 June 2008	0.21856	-	0.26268
	-	10,000,000	10,000,000	-	-	12 June 2001	12 June 2001 to 7 June 2008	0.22800	0.28500	0.22600
	<u>77,000,000</u>	<u>10,000,000</u>	<u>77,000,000</u>	<u>10,000,000</u>	<u>-</u>					

* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

Share option scheme (continued)

- ** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.
- *** The price of the Company's shares disclosed as at the date of grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of grant of the options. The price of the Company's shares disclosed as at the date of the exercise of the share options is the weighted average of the Stock Exchange closing prices over all of the exercises of options within the disclosure category.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Share options which are cancelled prior to their exercise date are deleted from the register of outstanding options.

The directors do not consider it appropriate to disclose a theoretical value of the share options granted during the year to an employee, because in the absence of a readily available market value for share options on the ordinary shares of the Company, the directors were unable to arrive at an accurate assessment of the value of the share options.

Directors' interests in contracts

Save as disclosed in note 33 to the financial statements, no director had a significant beneficial 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.

Substantial shareholders

At 31 December 2001, the following interests of 10% or more in 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 share capital
Dragon Delta Limited	363,950,000	29%

Save as disclosed above, no other person had registered an interest in the share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

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.

Pre-emptive rights

There are no provisions for pre-emptive rights under the Company's bye-laws or articles of association or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Post balance sheet events

Details of the significant post balance sheet events of the Group are set out in note 34 to the financial statements.

Compliance with the Code of Best Practice

In the opinion of the directors, the Company has complied with the Code of Best Practice, as set out in Appendix 14 of the Listing Rules throughout the year, except that the independent non-executive directors of the Company are not appointed for specific terms. In addition, on 1 September 2001, the Company has established an audit committee in accordance with paragraph 14 of the Code of Best Practice.

Connected transactions

Details of the significant related party transactions of the Group during the year, which also constitute connected transactions of the Group, are set out in note 33 to the financial statements.

Included in the aforementioned significant related party transactions are certain ongoing connected transactions of the Group, which are summarised as follows:

Ongoing connected transactions

Name of related party	Nature of transactions	Notes	2001	2000
			HK\$'000	HK\$'000
Fujian Province Xiangjiang (Group) Co. Ltd. ("FPX")	Sales of finished goods	(i)	6,602	530
Ningxia Xiangji Starch Co., Ltd. ("NXS")	Purchases of raw materials	(ii)	103	2,550

Mr. Kwok Man Yu ("Mr. Kwok"), a director of the Company, is indirectly interested in the transactions, as he is a director and beneficial shareholder of FPX and of NXS.

Notes:

- (i) The sales to FPX were carried out in the ordinary and usual course of business of the Group and were effected on prices and terms similar to other unrelated customers.
- (ii) The directors consider that purchases of raw materials from NXS were carried out in the ordinary and usual course of business of the Group and were effected on prices and terms similar to other customers of NXS. The balance due to NXS at 31 December 2001 was nil (2000: HK\$195,000).

Connected transactions (continued)

With respect to the ongoing connected transactions entered into by the Group as set out above, the Stock Exchange, on application by the Company, granted to the Company a waiver from the requirement for such transactions to be approved by shareholders as set out in the Listing Rules. In the opinion of the independent non-executive directors, the on-going connected transactions were:

- (i) conducted in the ordinary and usual course of business of the Group;
- (ii) on normal commercial terms (by reference to transactions of a similar nature and as made by similar entities in the PRC) or (where there is no available comparison) on terms no less favourable than those available to third parties;
- (iii) in accordance with the terms of the respective agreements governing such transactions;
- (iv) fair and reasonable so far as the shareholders of the Company are concerned; and
- (v) within the relevant annual cap amounts in respect of the waiver for the connected transactions granted by the Stock Exchange, that is:
 - the sales of eel feeds and soft-shelled turtle feeds supplied by the Group to FPX accounted for 4.74%, less than the cap amount of 13% on the Group's turnover; and
 - the purchase of starch from NXS accounted for 0.08%, less than the cap amount of 8% on the Group's turnover.

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

Dr. Hon Fong Ming, Perry

Chairman

Hong Kong
22 May 2002