



To the members

First Dragoncom Agro-Strategy Holdings Ltd.

(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 23 to 72 which have been prepared in accordance with accounting principles generally accepted in Hong Kong, except as further explained below.

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 financial statements and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, 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 that the scope of our work was limited as explained below.

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

As more fully explained in note 2 to the financial statements, due to the significant staff and management turnover during the year for Qionghai Juhua Feed Co., Ltd. ("Qionghai Juhua"), a wholly-owned subsidiary of the Company, certain underlying books and records of Qionghai Juhua were either lost, or could not be located. Consequently, the books and records have not been properly updated, particularly for the period subsequent to 30 June 2003, and also for the period from 1 January 2003 to 30 June 2003, and as a result, the effect of certain transactions undertaken by Qionghai Juhua cannot be satisfactorily substantiated or otherwise supported.

1. Scope limitation – Completeness of books and records *(Continued)*

As further explained in note 2 to the financial statements, the results and cash flows for Qionghai Juhua have been consolidated from 1 January 2003 to 30 June 2003, however, due to the reasons above, they were not consolidated for the period from 1 July 2003 to 31 December 2003.

As a result of the foregoing, we have been unable to obtain sufficient reliable audit evidence to satisfy ourselves as to the nature, timing, completeness, appropriateness, classification and disclosure in respect of the transactions undertaken by Qionghai Juhua and the related balances as included in the financial statements and as to whether any additional disclosures are required. Moreover, we have been unable to obtain sufficient reliable audit evidence to determine whether the provision for impairment of the Group's interest in Qionghai Juhua as at 31 December 2003 and the corresponding impairment loss recognised for the year in the consolidated profit and loss account and directly in equity amounting to approximately HK\$14.4 million and HK\$0.5 million, respectively, are appropriate.

For the same reason stated above and as more fully explained in note 2 to the financial statements, we have been unable to obtain sufficient reliable audit evidence to complete our review of subsequent events from the balance sheet date up to the date of this report. Such procedures might have resulted in the identification of adjustments to the amounts reported in the financial statements, in particular, in respect of the provision for impairment of the Group's interest in Qionghai Juhua, and/or additional disclosures in respect of the subsequent events.

2. Scope limitation – Deposits for potential future investments

Included in the consolidated balance sheet of the Group as at 31 December 2003 are deposits for potential future investments of approximately HK\$126 million (the "Deposits"), which were paid to 洛陽山嶺農林工程技術有限公司 ("山嶺農林"). 山嶺農林 is a private company and no reliable information is available to us to assess the financial position of it. Accordingly, we have been unable to obtain sufficient reliable audit evidence either to ascertain the Deposits could be recovered in full, or to determine the amount of provision, if any, required to be reflected in the financial statements.

3. Scope limitation – Interests in subsidiaries

Included in the balance sheet of the Company as at 31 December 2003 are interests in subsidiaries of approximately HK\$258.7 million, which include the following:

- (i) An interest in Qionghai Juhua of approximately HK\$31.7 million, which was fully provided as at 31 December 2003. Due to the scope limitation as set out in point 1 above, we have been unable to obtain sufficient reliable audit evidence to satisfy ourselves whether the additional provision for impairment in respect of the Company's interest in Qionghai Juhua recognised for the year ended 31 December 2003 of HK\$4.5 million is appropriate or whether any reversal of previously recognised impairment loss of HK\$27.2 million is required.

3. Scope limitation – Interests in subsidiaries *(Continued)*

- (ii) An interest in Macro-Invest Ltd. of HK\$186 million, which had an amount due from another subsidiary of the Company of HK\$126 million at the balance sheet date, which was used by that subsidiary to pay for the Deposits. Due to the scope limitation as set out in point 2 above, we have been unable to obtain sufficient reliable audit evidence to determine whether any provision for impairment in respect of the Company's interest in Macro-Invest Ltd. to the extent of HK\$126 million is required, or to determine the amount of provision, if any, required to be reflected in the financial statements.

We have been unable to carry out alternative audit procedures to satisfy ourselves as to the matters set out in points 1 to 3 above.

Any adjustment that might have been found to be necessary in respect of the matters set out in points 1 and 2 above would have a consequential effect on the net assets of the Group as at 31 December 2003, the net loss and cash flows of the Group for the year then ended and the related disclosures in the financial statements.

Any adjustment that might have been found to be necessary in respect of the matters set out in point 3 above would have a consequential effect on the net assets of the Company as at 31 December 2003, its net loss for the year then ended and the related disclosures in the financial statements.

DISCLAIMER OF OPINION

Because of the significance of the possible effects of the limitation in evidence available to us as set out in points 1 to 3 of the basis of opinion section of this report, 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 December 2003 and of the loss and 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 the report:

- (i) we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and
- (ii) we were unable to determine whether proper books of accounts have been kept.

Ernst & Young

Certified Public Accountants

Hong Kong
27 April 2004