



CCIF

CCIF CPA LIMITED

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AUDITORS' REPORT TO THE SHAREHOLDERS OF
FIRST DRAGONCOM AGRO-STRATEGY HOLDINGS LTD.

(Incorporated in Bermuda with Limited Liability)

We have audited the financial statements on pages 26 to 82 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 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 Institute of Certified Public 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 – Amount due from minority shareholder of a subsidiary

As further explained in note 27 to the financial statements, the Group had advanced RMB21,395,000 (approximately HK\$20,126,000) to a minority shareholder of a subsidiary, 河北省尚義縣國有北石壩林場, for the acquisition of fertiliser in 2004. Together with an interest income of RMB428,000 (approximately HK\$403,000) earned from minority shareholder of the subsidiary, there was an aggregated amount of RMB21,823,000 (approximately HK\$20,529,000) receivable from the party. At the balance sheet date, a full provision of HK\$20,529,000 against the year ended outstanding balance due from this party had been made. We have not been provided with sufficient information regarding the circumstances surrounding the amount receivable from minority shareholder of a subsidiary so as to enable us to satisfy ourselves as to either the nature and propriety of the original amount of advance for purchases and the interest income earned therefrom or the appropriateness of the provision made in respect thereof.

2. Scope limitation – Disposal of a subsidiary

The Group disposed of a subsidiary, Qionghai Juhua Feed Co. Ltd. (“Qionghai Juhua”), during the year. With regard to the loss of certain underlying books and records of Qionghai Juhua in 2003 that had been fully reflected in the Group’s audited financial statements for the year ended 31 December 2003, of which the previous auditors’ report had been qualified in this respect, there was no sufficient information and explanations to satisfy ourselves about the determination of the carrying amount of the net assets of the subsidiary on the date of disposal. As a result, we were not provided with sufficient appropriate audit evidence to determine whether the gain on disposal of approximately HK\$997,000 as shown in the consolidated income statement had been fairly stated and the details of the disposal had been properly disclosed.

3. Scope limitation – Contingent liabilities in respect of corporate guarantees

As further explained in note 39 to the financial statements, the Company had provided certain corporate guarantees of unknown amount to its former wholly owned subsidiary. In the opinion of the directors, the Group could rely on an unconditional and irrevocable guarantee that was provided by the acquirer of the subsidiary to fully indemnify itself on all costs and other losses and expenses that the Group might suffer or incur in connection with the corporate guarantees. However, we had neither been provided with sufficient appropriate audit evidence to satisfy ourselves on the completeness of contingent liabilities disclosed as at 31 December 2004 nor had obtained adequate information to assess the validity and financial capabilities of the acquirer in undertaking the guarantees. Consequently, we were unable to determine whether the contingent liabilities had been properly disclosed or provided for in the financial statements.

4. Scope limitation – Related party transactions

There was no sufficient information available for us to determine the completeness on the disclosure of related party transactions as detailed in note 42 to the financial statements. As a result, we were unable to determine whether all the related party transactions had been properly disclosed in the financial statements.

5. Scope limitation – Prior year's audit scope limitation affecting opening balances and comparative figures

As shown in the previous auditors' report, they disclaimed their opinion on the Group's financial statements for the year ended 31 December 2003 because of the significance of the possible effects of the limitation in evidence available to them in respect of certain matters set out therein, including their inability to obtain complete books and records of a subsidiary for the year ended 31 December 2003. Any adjustment found to be necessary to the opening net assets of the Group would have a consequential effect on its results for the year ended 31 December 2004. In respect of the limitation on the work of the previous auditors in the prior year described above, we were unable to express our opinion on the fairness of the balances brought forward as at 1 January 2004 and the comparative figures included in these financial statements.

6. Scope limitation – Deposits for purchases of tree seedlings and seeds

Included in prepayments and deposits were deposits for purchases of tree seedlings and seeds paid to 綠色科技園苗木股份有限責任公司(「綠色科技園」) amounting to RMB27,859,000 (approximately HK\$26,206,000) recorded in the books and records of the Group. We were unable to perform all the necessary audit procedures to obtain adequate explanations or assurance regarding the propriety of the deposits on proposed purchases of materials, the subsequent cancellation of the purchase agreement after the balance sheet date on 31 May 2005 and the re-advancement of the same amount to 綠色科技園 on 3 June 2005 as disclosed in note 26 to the financial statements.

7. Scope limitation – Investigation on cash deposit

As detailed in notes 26 and 29 to the financial statements, due to the cancellation of a proposed potential investments with 洛陽山嶺農林工程技術有限公司 made in previous accounting periods, the refund of the deposit amounting to RMB134 million (approximately HK\$126 million) was recorded as deposit in a PRC trust co-operatives union 農村信用合作社 (the "Union") on 10 June 2004. As the board of directors (the "Board") had doubt on the ownership and existence of the HK\$126 million cash deposits with the Union, an Independent Investigation Committee was established on 20 July 2005, with a view to ascertaining the existence and validity of the deposit. The results of the investigation that was concluded by representatives for the Board indicated that the deposit did not exist. The Board had reported the incident to relevant regulatory and law enforcement bodies. Public announcement was also made on 5 August 2005 with respect to the incident.

7. Scope limitation – Investigation on cash deposit *(Continued)*

In the course of our audit, we were neither provided with sufficient appropriate audit evidence to satisfy the existence and ownership of the recorded cash deposit with the Union nor any documentary evidence to support the circumstances surrounding the cash deposit and its entire provision for loss. Pending the further actions to be taken by the Board, the Independent Investigation Committee and the results and conclusion of the investigation by the Hong Kong Police Force, there were no practical alternative audit procedures that we could perform to determine whether the significant amount of recorded cash deposit in the Union and the provision relating thereto as determined by the directors were fairly stated in the current year's financial statements.

8. Scope limitation – Impairment of goodwill

As further explained in Note 19 to the financial statements, the Group had a goodwill with a carrying amount (before impairment) of approximately HK\$40,513,000, which arose from the acquisition of a PRC subsidiary, Hebei Bashang Nursery Company Limited ("Hebei Bashang"), in September 2002. The subsidiary is engaged in nurturing, selling and trading of tree seedlings and seeds, the business of which formed the major business activities for the Group as a whole. At the balance sheet date, a full provision for impairment of HK\$40,513,000 had been made in view of the provision for loss on cash deposit amounting to RMB134,389,000 (approximately HK\$126,845,000) as mentioned in paragraph 7 of the basis of opinion section as the directors considered that the material effect of such loss may have significant impact on Hebei Bashang's ability to continue as a going concern. We have been unable to obtain sufficient appropriate audit evidence to satisfy ourselves about the appropriateness of the impairment made in respect thereof and the amount of interests in subsidiaries in the company's balance sheet as at 31 December 2004.

9. Scope limitation – Charge on assets

As further explained in notes 16(iii) and 17(v) to the financial statements, fixed assets and biological assets with carrying amount of HK\$38,876,000 in total were pledged to secure loan granted to a related company, 深圳市龍浩世紀實業有限公司. We were not provided with supporting documents and explanations with respect to the nature and reason of these charges, and that whether the charges had been properly approved by appropriate level of the Company's management. As a result, we were unable to determine whether the charges on assets of the Group had been properly disclosed in the financial statements.

10. Scope limitation – Prior year adjustment

As explained in note 15(i) to the financial statements, the Group had made a prior year adjustment in restating the balances of the fixed assets and amount due to minority shareholder of a subsidiary as at 31 December 2002 on the basis that the Group had omitted an entry to record the acquisition of forest amounting to HK\$30 million for the year ended 31 December 2002. However, in the absence of sufficient documentary evidence on such an adjustment, we were unable to ascertain whether the prior year adjustment had been properly made in the financial statements.

11. Scope limitation – Promissory notes receivable

As fully explained in notes 7 and 25 to the financial statements, the Group disposed of two subsidiaries on 30 December 2002 for a total consideration of HK\$120 million, which was satisfied by means of a promissory note issued by the buyer in four equal tranches of HK\$30 million each, and was secured by the first legal charge on the entire issued share capital of two former subsidiaries, Corasia International (BVI) Limited and Corasia International Limited. As disclosed in the audited financial statements for the year ended 31 December 2003, the first two tranches of HK\$60 million in total were received by the Group during the year ended 31 December 2003. With respect to the last two tranches of receipts amounting to HK\$60 million, we were not provided with sufficient appropriate audit evidence to satisfy ourselves whether the receipts were genuine, properly accounted for and in accordance with the terms and conditions of the agreement.

12. Scope limitation – Recognition of deferred gain

During the year, the Group recognised a deferred gain arising from the disposal of two former subsidiaries, Corasia International (BVI) Limited and Corasia International Limited, of HK\$4,943,000 in which its recognition was upon proper settlement of the promissory notes receivable as disclosed in note 25 to the financial statements. Due to the scope limitation as set out in paragraph 11 above, we were unable to satisfy ourselves as to whether the recognition of a deferred gain has been properly accounted for in the financial statements.

We were unable to carry out alternative audit procedures to satisfy ourselves as to the matters set out in paragraphs 1 to 12 above.

Any adjustment that might have been found to be necessary in respect of the matters set out above would have a consequential effect on the financial positions of the Group and the Company as at 31 December 2004, the net loss and cash flows of the Group for the year then ended and the related disclosures 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 THE GOING CONCERN BASIS

In forming our opinion, we have considered the Company's and the Group's ability to continue as a going concern, the validity of which assumption for the preparation of the financial statements depends inter alia on the future funding available to the Company and the Group. The financial statements do not include any adjustments that would result from a failure to obtain such funding.

We consider that appropriate disclosures have been made but the inherent uncertainties surrounding the circumstances under which the Company and the Group might successfully continue to adopt the going concern basis are so extreme that we have disclaimed our opinion.

QUALIFIED OPINION: DISCLAIMER ON VIEW GIVEN BY FINANCIAL STATEMENTS

Because of the significance of the possible effects of the limitation in evidence available to us as set out in paragraphs 1 to 12 of the basis of opinion section and of the fundamental uncertainty relating to appropriateness of the going concern basis as set out above, we were 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 2004 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.

CCIF CPA Limited

Certified Public Accountants

Hong Kong, 30 December 2005

Chan Wai Dune, Charles

Practising Certificate Number P00712