



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 31 to 90 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 of Bermuda, 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 Hong Kong Standards on Auditing 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 circumstances of the Company and the Group, 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 – Prior year’s audit scope limitation affecting opening balances and comparative figures

As shown in the previous auditors’ report, we disclaimed our opinion on the Group’s financial statements for the year ended 31 December 2004 because of the significance of the possible effects of the limitation in evidence available to us in respect of certain matters set out therein. 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 2005. In respect of the limitation on our work 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 2005 and the comparative figures included in these financial statements.

2. 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 RMB29,174,000 (approximately HK\$28,016,000) 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 on 31 May 2005, the re-advancement of the same amount to 綠色科技園 on 3 June 2005 and the further advancement of RMB1,315,000 to 綠色科技園 as disclosed in note 23(c) to the financial statements.

3. Scope limitation – Investigation on cash deposit

As detailed in the previous year’s auditors’ report and note 24 to the financial statements, we were neither provided with sufficient appropriate audit evidence to satisfy the existence and ownership of the recorded cash deposit amounting to approximately HK\$126 million with a PRC trust co-operative union 農村信用合作社 (the “Union”) nor any documentary evidence to support the circumstances surrounding the propriety of 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 previously were fairly stated in the current year’s financial statements.

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

As explained in note 31 to the financial statements, the Company had provided certain corporate guarantees of unknown amount to its former wholly owned subsidiary. However, we had neither been provided with sufficient and appropriate audit evidence to satisfy ourselves on the completeness of contingent liabilities disclosed as at 31 December 2005 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.

We were unable to carry out alternative audit procedures to satisfy ourselves as to the matters set out in paragraphs 1 to 4 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 2005, 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 pervasive 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 4 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 2005 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, 27 April 2006

Chan Wai Dune, Charles

Practising Certificate Number P00712