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Shen Nong China (Group) Limited
神農中國(集團)有限公司

Shen Nong China (Group) Limited

神農中國(集團)有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8175)

MAJOR TRANSACTION DISPOSAL OF PROUD DRAGON LIMITED AND

RESUMPTION OF TRADING

On 21 April 2008 (after trading hour), the Group, through its wholly-owned subsidiary, the Vendor, entered into the Agreement with the Purchaser in relation to the disposal of the Sale Shares, comprising 100% equity interests in Proud Dragon held by the Vendor for a total consideration of HK\$50,000,000.

The Disposal constitutes a major transaction on the part of the Company under the GEM Listing Rules. The Agreement will be subject to Shareholders' approval at the EGM to be convened and held by the Company.

A circular containing, among other things, further details of the Agreement and the transactions contemplated thereunder, together with the notice of the EGM will be despatched to the Shareholders as soon as practicable and in accordance with the GEM Listing Rules.

At the request of the Company, trading in the Shares has been suspended with effect from 9:30 a.m. on 22 April 2008 pending the issue of this announcement. Application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares with effect from 9:30 a.m. on 23 April 2008.

THE AGREEMENT

Date: 21 April 2008 (after trading hour)

Parties: (1) Vendor : Rise Assets Limited

(2) Purchaser : Mr. Lao Kuai Hong

To the best knowledge, information and belief of the Directors after having made all reasonable enquiries, the Purchaser is a third party independent of and not connected with the Company and any of its connected persons as defined under the GEM Listing Rules.

Assets to be disposed of

The Sale Shares, representing 100% of the equity interest of Proud Dragon.

Consideration

The total consideration for the Disposal is HK\$50,000,000. The Consideration will be satisfied in the following manners:

1. HK\$13,500,000 will be payable by the Purchaser to the Vendor within 5 Business Days from the date of the Agreement as a deposit and will be set off as part of the consideration at Completion;
2. HK\$6,000,000 will be payable by the Purchaser in cash to the Vendor at Completion;
3. HK\$10,000,000 will be payable by the Purchaser by issuing the First Promissory Note to the Vendor at Completion; and
4. HK\$20,500,000 will be payable by the Purchaser by issuing the Second Promissory Note to the Vendor at Completion.

The Consideration was arrived at after arm's length negotiations between the parties to the Agreement with reference to (i) the current status of the operation of the Proud Dragon Group as mentioned in the paragraph "Reasons for the Disposal" below; (ii) the net loss position of the Proud Dragon Group of approximately HK\$800,000 for the two months ended 29 February 2008; (iii) the unaudited consolidated net asset value of the Proud Dragon Group as at 29 February 2008 of approximately HK\$20,448,000; (iv) the consideration of HK\$47,600,000 paid by the Vendor at the time of its acquisition of the Proud Dragon Group in November 2007; and (v) the commercial benefits to be accrued to the Group from the Disposal, including but not limited to better allocation of the resources of the Group to the other investment opportunities, which are of better earning potential.

Based on the reasons above, the Board considers the Consideration to be fair and reasonable and in the interests of the Group and the Shareholders as a whole.

Conditions

The Agreement is conditional upon the passing by the Shareholders at the EGM an ordinary resolution to approve the Disposal.

Completion

Completion will take place within three Business Days after satisfaction of the above condition or on such other date as may be agreed between the parties.

Before Completion, Proud Dragon is wholly-owned by the Company. After Completion, Proud Dragon will cease to be a wholly-owned subsidiary of the Company, and the Company will no longer have any interest in Proud Dragon Group.

Upon Completion, the Sale Shares will be pledged to the Vendor as security for repayment of principal sum under the First Promissory Note and the Second Promissory Note.

TERMS OF FIRST PROMISSORY NOTE

The First Promissory Note has been negotiated on an arm's length basis and the principal terms of which are summarised below:

Parties

The Purchaser as an issuer and the Vendor as payee

Principal amount

HK\$10,000,000

Interest

The First Promissory Note will not carry any interest.

Maturity

A fixed term of one month from the date of issue of the First Promissory Note.

Early repayment

The Purchaser could, at its option, repay the First Promissory Note in whole or in part in multiples of HK\$1 million. There will not be any premium over or discount to the payment obligations under the First Promissory Note for any early repayment.

Assignment

The First Promissory Note may be transferred or assigned by the Vendor to any person.

TERMS OF SECOND PROMISSORY NOTE

The Second Promissory Note has been negotiated on an arm's length basis and the principal terms of which are summarised below:

Parties

The Purchaser as an issuer and the Vendor as payee

Principal amount

HK\$20,500,000

Interest

The Second Promissory Note will not carry any interest.

Maturity

A fixed term of two months from the date of issue of the Second Promissory Note.

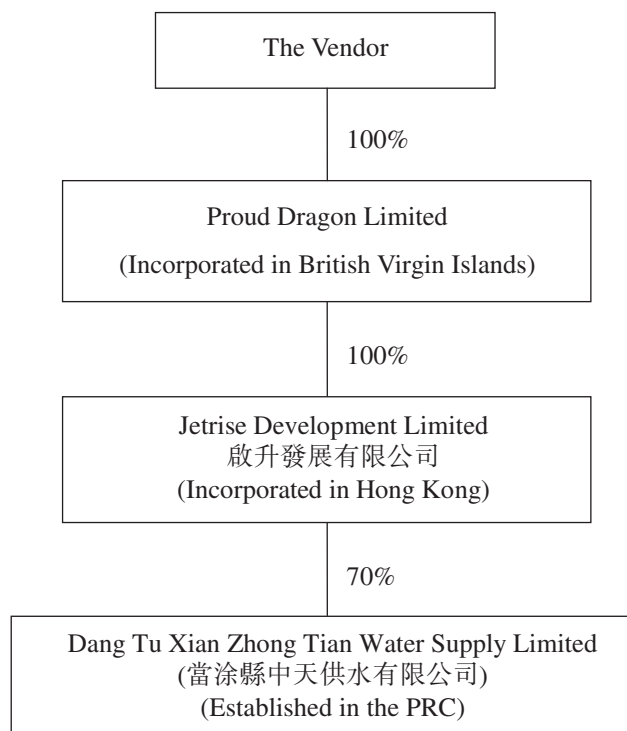
Early repayment

The Purchaser could, at its option, repay the Second Promissory Note in whole or in part in multiples of HK\$1 million. There will not be any premium over or discount to the payment obligations under the Second Promissory Note for any early repayment.

Assignment

The Second Promissory Note may be transferred or assigned by the Vendor to any person.

SHAREHOLDING STRUCTURE OF RELEVANT ENTITIES



Save for the change of the ultimate beneficial owner from the Vendor to the Purchaser, there will be no change in connection with the shareholding as well as group structures of the Proud Dragon Group upon Completion.

INFORMATION ON THE PROUD DRAGON GROUP

As at the date of this announcement, Proud Dragon is a company incorporated in BVI and is beneficially wholly owned by the Vendor. The Proud Dragon Group is principally engaged in the management of water plants and the provision of water supply service in the rural areas of the agricultural province, Anhui (安徽省) in the PRC. Currently, Proud Dragon Group operates three water plants in Maanshan City (馬鞍山市), Anhui Province (安徽省).

According to the unaudited consolidated financial statements of Proud Dragon for the period from 30 August 2007, being the date of incorporation, to 31 December 2007, there was no turnover, and the net loss before and after taxation and extraordinary items was approximately HK\$22,000. As at 31 December 2007, the net liability value of the Proud Dragon was approximately HK\$20,000.

HK Subsidiary is an investment holding company. According to the unaudited financial statements of the HK Subsidiary for the period from 4 July 2007, being the date of incorporation, to 31 December 2007, there was no turnover, and the net loss before and after taxation and extraordinary items was approximately HK\$15,000. As at 31 December 2007, the net liability value of the HK Subsidiary was approximately HK\$15,000.

According to the unaudited financial statements of Zhong Tian Water Supply for the year ended 31 December 2007, the turnover was approximately HK\$220,000, and the net loss before and after taxation and extraordinary items was approximately HK\$2,043,000. As at 31 December 2007, the net asset value of the Zhong Tian Water Supply was approximately HK\$3,298,000.

According to the audited financial statements of Zhong Tian Water Supply for the year ended 31 December 2006, the turnover was approximately RMB1,395,000, and the net loss before and after taxation and extraordinary items was approximately RMB1,838,000. As at 31 December 2006, the net asset value of the Zhong Tian Water Supply was approximately RMB4,861,000.

According to the unaudited consolidated financial statements of the Proud Dragon Group for the two months ended 29 February 2008, the turnover was approximately HK\$54,000, and the net loss before and after taxation and extraordinary items was approximately HK\$800,000. As at 29 February 2008, the net asset value of the Proud Dragon Group was approximately HK\$20,448,000.

REASONS FOR THE DISPOSAL

The Group is principally engaged in the development and marketing of patented server based technology for its real time on-line communication software platform for Chinese language and the provision of software related services. The Group is also engaged in the agriculture-related businesses in the PRC. As stated in the announcement of the Company dated 15 April 2008, the Group proposed to subscribe 8.26% interest in a copyright management and digital licensing business and such subscription was completed on 21 April 2008.

As stated in the announcement of the Company on 2 November 2007, the Group entered into the agreement in relation to the acquisition of the Proud Dragon Group and such acquisition was completed on 6 February 2008. The principal activity of the Proud Dragon Group is the provision of water supply service in the rural areas of Maanshan City (馬鞍山市), Anhui Province (安徽省). The Proud Dragon Group operates three water plants in such rural areas. It was then expected that all the three water supply plants will be in full operation by the first half of 2008.

During the period from mid-January to late February 2008, there was a severe snow storm, one of the most severe in the past 50 years, occurred in the PRC. Anhui Province (安徽省) was one of the provinces on which such severe storm has imposed detrimental effect. As a result, the Board anticipates that such severe snow storm will significantly delay the construction of the establishments of the water plants. It is now expected that the water plants of the Proud Dragon Group will not be in full operation as initially scheduled in the first half of 2008. Accordingly, the realization of the profitability potential of the Proud Dragon Group will be significantly reduced in short and medium terms. The Board anticipates that extra financial resources might also be required for the restoration of the water plants to its normal operation and the delay in the construction of the establishments of the water plants due to such severe snow storm.

In view of the fact that: (i) the Consideration represents a premium over the consideration of HK\$47,600,000 paid by the Vendor at the time of its acquisition of the Proud Dragon Group in February 2008 and a financial gain of approximately HK\$2.9 million will be generated from the Disposal as stated in the paragraph “Financial effect of the Disposal” below; (ii) such financial gain represents an instant return on the initial acquisition of the Proud Dragon Group which was entered into and subsequently completed in November 2007 and February 2008 respectively; (iii) the Disposal will be able to release the Group from any future financial commitments on restoration and construction of water plants as mentioned above; (iv) the Consideration will be settled by cash and promissory notes; and (v) as stated in the paragraph “Financial effect of the Disposal” below, part of the Consideration will be applied on the full repayments of the convertible bond and promissory note in relation to the initial acquisition of the Proud Dragon Group and thus the gearing position of the Group will be reduced, the Board considers that the Disposal provides a good opportunity for the Company to realize its investment in Proud Dragon Group given the present situation and any future financial commitments of the Group in connection with the operation of the Proud Dragon Group will be released. Accordingly, financial resources of the Group will be enhanced and better allocated to investment opportunities which will be of higher profitability to the Group and Shareholders as a whole.

The Directors (including independent non-executive Directors) are of the view that the terms of the Agreement are fair and reasonable and the entering into of the Agreement is in the interests of the Company and the Shareholders as a whole.

FINANCIAL EFFECT OF THE DISPOSAL

It is preliminarily estimated that, upon Completion, the Group may, subject to the review and confirmation by the independent accountants, record a gain on the Disposal of approximately HK\$2,960,000 which is based on the difference between (1) the consideration of HK\$50,000,000 and the aggregate of (2) the Group’s unaudited net assets of Proud Dragon Group as at 29 February 2008 of approximately HK\$15,220,000 and (3) goodwill arisen from the acquisition of Proud Dragon Group of approximately HK\$31,820,000. The final amount of the actual gain or loss as a result of the Disposal will be determined as at the completion of the Disposal.

Net proceeds of approximately HK\$49,000,000 will be received by the Group as result of the Disposal. Of such balance, the Board intends to apply (i) approximately HK\$25.6 million for the full repayments of the convertible bond and promissory note in relation to the initial acquisition of the Proud Dragon Group in November 2007; (ii) approximately HK\$15.3 million for the settlement of the outstanding balance of consideration in relation to the acquisition of the copyright management and the digital licensing business as stated in the announcement of the Company dated 15 April 2008 and (iii) approximately HK\$7 million for future investments opportunities and as at the date of this announcement, no specific investment target was identified by the Group; and (iv) the balance of approximately HK\$1.1 million for general working capital purpose.

LISTING RULES IMPLICATION

The Disposal constitutes a major transaction on the part of the Company under the GEM Listing Rules. The Agreement will be subject to Shareholders' approval at the EGM to be convened and held by the Company.

A circular containing, among other things, further details of the Agreement and the transactions contemplated thereunder together with the notice of the EGM will be despatched to the Shareholders as soon as practicable and in accordance with the GEM Listing Rules.

RESUMPTION OF TRADING

At the request of the Company, trading in the Shares has been suspended with effect from 9:30 a.m. on 22 April 2008 pending the issue of this announcement. Application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares with effect from 9:30 a.m. on 23 April 2008.

DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise.

“Agreement”	the conditional sale and purchase agreement dated 21 April 2008 entered into between the Vendor and the Purchaser in relation to the Disposal
“Board”	board of Directors
“Business Day”	a day (other than a Saturday, Sunday or public holiday) on which banks are open in Hong Kong for general banking business
“BVI”	the British Virgin Islands
“Company”	Shen Nong China (Group) Limited, a company incorporated in Cayman Islands with limited liability and whose issued shares are listed on GEM
“Completion”	the completion of the Disposal in accordance with the terms and conditions of the Agreement
“Consideration”	the consideration payable by the Purchaser to the Vendor for the Disposal

“Disposal”	the proposed disposal of the Sale Shares pursuant to the Agreement
“Directors”	the directors of the Company
“EGM”	the extraordinary general meeting of the Company to be convened and held to approve, among other things, the Agreement and the transactions contemplated thereunder
“First Promissory Note”	the promissory note in a principal sum of HK\$10,000,000
“GEM”	the Growth Enterprises Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries
“HK Subsidiary”	Jetrise Development Limited, a company incorporated in Hong Kong with limited liability and is wholly and beneficially owned by Proud Dragon
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“PRC”	the People’s Republic of China, which for the purpose of this announcement, shall exclude Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan
“Proud Dragon”	Proud Dragon Limited, a company incorporated in BVI with limited liability
“Proud Dragon Group”	Proud Dragon and its subsidiaries, including the HK Subsidiary and Zhong Tian Water Supply
“Purchaser”	Lao Kuai Hong
“Sale Shares”	476 ordinary shares of Proud Dragon, representing 100% of the equity interest in Proud Dragon
“Second Promissory Note”	the promissory note in a principal sum of HK\$20,500,000
“Share(s)”	fully paid ordinary share(s) of HK\$0.05 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares of the Company

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Vendor”	Rise Assets Limited, a wholly-owned subsidiary of the Company incorporated in BVI with limited liability
“Zhong Tian Water Supply”	Dang Tu Xian Zhong Tian Water Supply Limited (當塗縣中天供水有限公司), a company established in the PRC with limited liability and is owned as to 70% of its equity interest indirectly by Proud Dragon through the HK Subsidiary
“RMB”	Renminbi, the lawful currency of the PRC
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.

By Order of the Board
Shen Nong China (Group) Limited
Pang Hong Tao
Chairman

Hong Kong, 22 April 2008

As at the date of this announcement, the executive Directors are Mr. Pang Hong Tao, Mr. Mo Wai Ming, Lawrence and Ms. Au Shui Ming, Anna. The non-executive Director is Mr. Ma She Shing, Albert. The independent non-executive Directors are Mr. Hsu William Shiu Foo, Mr. Lee Kun Hung and Mr. Kwok Chi Sun, Vincent.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this announcement is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

This announcement will remain on GEM website on the “Latest Company announcements” page for at least 7 days from the date of its posting and on the website of the Company at www.kanhan.com.