

---

**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

---

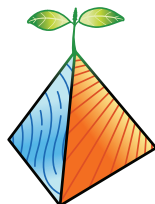
**If you are in any doubt** as to any aspect of this circular or as to the action you should take, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in Shen Nong China (Group) Limited, you should at once hand this circular to the purchaser or the transferee or to the bank manager, stockbroker or other agent through whom the sale or the transfer was effected for transmission to the purchaser or the transferee.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities.

---



**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)

**DISCLOSEABLE TRANSACTION**

**ACQUISITION OF 51% SHAREHOLDING INTEREST IN  
AN E-LEARNING BUSINESS**

**Financial adviser to the Company**



**INCU Corporate Finance Limited**

---

A letter from the board of directors of Shen Nong China (Group) Limited is set out on pages 4 to 19 of this circular.

This circular will remain on the GEM website at <http://www.hkgem.com> on the "Latest Company Announcements" page for seven days from the date of its publication.

23 June 2008

---

## CHARACTERISTICS OF GEM

---

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website at [www.hkgem.com](http://www.hkgem.com) in order to obtain up-to-date information on GEM-listed issuers.

---

## CONTENTS

---

	<i>Page</i>
<b>Definitions</b> .....	1
<b>Letter from the Board</b> .....	4
<b>Appendix – General Information</b> .....	20

---

## DEFINITIONS

---

*In this circular, unless the context requires otherwise, the following expressions shall have the following meanings when used herein:*

“Acquisition”	the proposed acquisition of the Sale Shares on the terms contained in the Agreement
“Actual Profit”	the actual audited consolidated net profit after tax and extraordinary or exceptional items of the Target Group for the financial year ending 31 August 2009
“Agreement”	the conditional agreement dated 2 June 2008 entered into among the Purchaser, the Vendor and the Guarantor in relation to the Acquisition
“Announcement”	the announcement of the Company dated 3 June 2008 in respect of the Acquisition
“Average Actual Profit”	the average of the actual audited consolidated net profits after tax and extraordinary or exceptional items of the Target Group for the financial years ending 31 August 2009 and 31 August 2010
“Board”	the board of Directors
“Business Day(s)”	a day (other than a Saturday, Sunday and public holiday) on which licensed banks are generally open for business in Hong Kong throughout their normal business hours
“Certificate”	a bond certificate in a principal amount of HK\$3,000,000 issued pursuant to the Convertible Bond
“Company”	Shen Nong China (Group) Limited, a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on GEM
“Completion”	completion of the Acquisition in accordance with the terms and conditions of the Agreement
“Consideration”	the maximum consideration for the Acquisition, being HK\$20,400,000 (subject to adjustments)
“Conversion Price”	the initial conversion price of HK\$0.18 per Conversion Share or as the case may be, per Earn Out Conversion Share, subject to adjustments, pursuant to the terms of the Convertible Bond or as the case may be the Earn Out Convertible Bond

---

## DEFINITIONS

---

“Conversion Shares”	Shares to be allotted and issued upon the exercise of the conversion rights in respect of the Convertible Bond
“Convertible Bond”	a convertible bond in a principal amount of HK\$3,000,000, to be issued by the Company in favour of the Vendor pursuant to the Agreement
“Director(s)”	the director(s), including the independent non-executive directors, of the Company
“Earn Out Conversion Shares”	Shares to be allotted and issued upon the exercise of the conversion rights in respect of the Earn Out Convertible Bond
“Earn Out Convertible Bond”	the convertible bond to be issued by the Company to the Vendor within 14 days from the date of issue of the certificate to be given by the auditors of the Company for the time being certifying that (i) the amount of the Actual Profit is equal to or higher than HK\$5,000,000; or (ii) provided that the Actual Profit is equal to or greater than HK\$4,000,000 but less than HK\$5,000,000, the Average Actual Profit is not less than HK\$5,000,000
“EGM”	the extraordinary general meeting held by the Company on 16 January 2008
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries
“Guaranteed Profit”	(i) the Actual Profit will not be less than HK\$3,000,000; or (ii) provided that the Actual Profit is equal to or greater than HK\$2,000,000 but less than HK\$3,000,000, the Average Actual Profit will not be less than HK\$3,000,000
“Guarantor”	Mr. Liu Zong Hong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

---

## DEFINITIONS

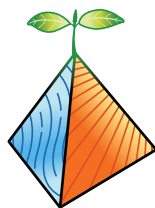
---

“Latest Practicable Date”	18 June 2008, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
“PRC”	the People’s Republic of China, which for the purpose of this circular, shall exclude Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan
“Promissory Note”	a promissory note in a principal sum of HK\$7,240,000 to be issued by the Company to the Vendor upon Completion
“Purchaser”	Wonder Link Limited, a company incorporated in the British Virgin Islands and a wholly owned subsidiary of the Company
“Sale Shares”	102 ordinary shares of the Target, representing 51% of the total issued share capital of the Target
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shares”	ordinary shares of HK\$0.05 each in the capital of the Company
“Shareholders”	holders of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target”	Start Bright Limited, a company incorporated in the British Virgin Islands and is owned as to 80% by the Vendor and as to 20% by third parties independent of the Company and its connected persons (as defined in the GEM Listing Rules)
“Target Group”	the Target and its subsidiaries
“Vendor”	Smart Great International Limited, a company incorporated in the British Virgin Islands and wholly-owned by the Guarantor
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.

---

## LETTER FROM THE BOARD

---



# 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)

*Executive Directors:*

Mr. Pang Hong Tao  
Mr. Mo Wai Ming, Lawrence  
Ms. Au Shui Ming, Anna

*Non-executive Director:*

Mr. Ma She Shing, Albert

*Independent non-executive Directors:*

Mr. Hsu William Shiu Foo  
Mr. Lee Kun Hung  
Mr. Kwok Chi Sun, Vincent

*Registered office:*

Caledonian Bank & Trust Limited  
Caledonian House  
P.O. Box 1043  
George Town  
Grand Cayman  
Cayman Islands

*Head office and principal place of  
business in Hong Kong:*

Unit 1601, Ruttonjee House  
Ruttonjee Centre  
11 Duddell Street  
Central  
Hong Kong

23 June 2008

*To the shareholders*

Dear Sir or Madam,

## DISCLOSEABLE TRANSACTION

### ACQUISITION OF 51% SHAREHOLDING INTEREST IN AN E-LEARNING BUSINESS

#### INTRODUCTION

Reference is made to the Announcement, in which the Company announced, among other matters, that on 2 June 2008 (after trading hours), the Purchaser, a wholly owned subsidiary of the Company, entered into the Agreement with the Vendor and the Guarantor pursuant to which the Purchaser shall purchase and the Vendor shall sell, the Sale Shares at a maximum total consideration of HK\$20,400,000 (subject to adjustment).

---

## LETTER FROM THE BOARD

---

The Acquisition constitutes a discloseable transaction on the part of the Company under the GEM Listing Rules.

The purpose of this circular is to provide you with, among other matters, further details on the Acquisition.

### THE AGREEMENT

**Date:** 2 June 2008 (after trading hour)

**Parties:**

Purchaser: the Purchaser, a wholly owned subsidiary of the Company

Vendor: the Vendor

Guarantor: the Guarantor

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Vendor and the Guarantor are third parties independent of the Company and its connected persons (as defined in the GEM Listing Rules). The Vendor is an investment holding company.

The Guarantor has agreed to guarantee in favour of the Purchaser the due and punctual performance of the obligation of the Vendor under the Agreement.

### Assets to be acquired

The Sale Shares, being 51% of the total issued share capital of the Target.

### Consideration

The maximum total consideration for the Sale Shares is HK\$20,400,000 (subject to adjustments), will be settled by the internal resources of the Group, of which HK\$12,240,000 (the "**Basic Consideration**") will be settled by the Group in the following manner:

- (a) HK\$2,000,000 was paid by the Purchaser to the Vendor as a deposit on 4 June 2008;
- (b) HK\$7,240,000 by the Purchaser procuring the Company the issuance of the Promissory Note at Completion to the Vendor; and
- (c) HK\$3,000,000 by the Purchaser procuring the Company the issuance of the Convertible Bond at Completion to the Vendor (the Certificate will be held by the Purchaser until the Guaranteed Profit is being satisfied).



---

## LETTER FROM THE BOARD

---

The remaining balance of the total consideration for the Sale Shares (excluding the Basic Consideration), being a maximum of HK\$8,160,000 (the “**Balance Consideration**”) shall be payable by the Purchaser procuring the Company to issue the Earn Out Convertible Bond provided that (i) the Actual Profit is equal to or greater than HK\$5,000,000; or (ii) provided that the Actual Profit is equal to or greater than HK\$4,000,000 but less than HK\$5,000,000, the Average Actual Profit is equal to or greater than HK\$5,000,000. If the Target fails to achieve the above earn out amount as stated in (i) or (ii), the Purchaser’s obligation to pay to the Vendor the amount of HK\$8,160,000 is deemed satisfied and fulfilled and the Purchaser has no obligation to pay the Vendor the amount of HK\$8,160,000.

### **Conditions precedent**

Completion is subject to the following conditions having been fulfilled or waived (as the case may be):

- (a) the Purchaser being satisfied with the results of the due diligence review to be conducted on the assets, liabilities, operations and affairs of the Target Group;
- (b) all necessary consents and approvals required to be obtained on the part of the Vendor and the Guarantor in respect of the Agreement and the transactions contemplated thereby having been obtained;
- (c) all necessary consents and approvals required to be obtained on the part of the Purchaser in respect of the Agreement and the transactions contemplated thereby having been obtained;
- (d) the warranties given by the Vendor under the Agreement remaining true and accurate in all respects; and
- (e) the GEM Listing Committee of the Stock Exchange granting listing of and permission to deal in the Conversion Shares and the Earn Out Conversion Shares.

Conditions (a), (b) and (d) above are waivable by the Purchaser under the Agreement. The Purchaser has no current intention to waive such conditions. Other than conditions (a), (b) and (d), the other conditions are incapable of being waived.

### **Completion**

Completion shall take place at 4:00 p.m. within three Business Days after all the conditions of the Agreement have been fulfilled or waived or such later date as may be agreed between the Purchaser and the Vendor.

Upon Completion, the Target will become a 51% owned subsidiary of the Company and the result of the Target Group will be consolidated into the Company’s accounts.

The Acquisition will not result in change in control of the Company.

---

## LETTER FROM THE BOARD

---

### Profit Guarantee

Under the Agreement, the Vendor and the Guarantor irrevocably warrant and guarantee to the Purchaser that (i) the Actual Profit will not be less than HK\$3,000,000; or (ii) provided that the Actual Profit is equal to or greater than HK\$2,000,000 but less than HK\$3,000,000, the Average Actual Profit will not be less than HK\$3,000,000.

If the Target Group fails to achieve the above (i) or (ii), then the Vendor shall set off against the payment obligations of the Company under the Convertible Bond on a dollar to dollar basis in an amount calculated as follows:

$$A = (\text{Guaranteed Profit} - \text{Actual Profit or Average Actual Profit}) \times 51\%$$

where A is the amount to be set off in the event there is any shortfall of the Guaranteed Profit

- (a) if A is less than the outstanding principal amount of the Convertible Bond, the Purchaser shall cancel the Certificate and issue to the Vendor a new Certificate with a principal amount equivalent to the difference between the outstanding principal amount of the Convertible Bond and A;
- (b) if A is equal to the outstanding principal amount of the Convertible Bond, the Purchaser shall cancel the Convertible Bond and accordingly, the Certificate; and
- (c) if A is more than the outstanding principal amount of the Convertible Bond, the Purchaser can cancel the Certificate and any shortfall remaining after such set off and cancellation shall be paid by the Vendor to the Purchaser in cash.

Should Target Group record a loss for the audited consolidated net profits after tax and extraordinary or exceptional items of the Target Group for the financial years ending 31 August 2009, or as the case may be, for the average of its audited consolidated financial statements for the years ending 31 August 2009 and 31 August 2010, the actual amount of loss will be taken as Actual Profit or Average Actual Profit in the formula. Hence, the absolute value of the loss will be added to the Guaranteed Profit for calculating A.

If (i) the Actual Profit is equal to or more than HK\$5,000,000; or (ii) provided that the Actual Profit is equal to or greater than HK\$4,000,000 but less than HK\$5,000,000 and the Average Actual Profit is equal to or greater than HK\$5,000,000, the Purchaser shall procure the Company to issue the Earn Out Convertible Bond, which is calculated on the same basis of the Consideration (details of which as stated in the paragraph "Basis of the Consideration" below) as follows:

$$C = (5,000,000 - \text{Guaranteed Profit}) \times 51\% \times 8$$

---

## LETTER FROM THE BOARD

---

where 8 is the price earning multiples based on which the Consideration was arrived at and was at the low end of the price earning multiples range (7.88 to 53.34 times) of companies listed on the NASDAQ engaging in the similar business to the Target Group as stated in the paragraph “Basis of the Consideration” below.

The Company will issue an announcement upon determination of the Actual Profit or Average Actual Profit (as the case may be).

### **TERMS OF THE CONVERTIBLE BOND**

The terms of the Convertible Bond have been negotiated on an arm’s length basis and the principal terms of which are summarised below:

#### **Issuer**

The Company

#### **Principal amount**

HK\$3,000,000

#### **Interest**

The Convertible Bond will carry interest at a rate of 1% per annum, payable yearly.

#### **Maturity**

A fixed term of three years from the date of issue of the Convertible Bond.

#### **Conversion**

Pursuant to the Agreement, the Certificate will be delivered to the Purchaser upon Completion as escrow until the fulfillment of the Guaranteed Profit.

The bondholder may convert the whole or part (in multiples of HK\$1,000,000) of the Convertible Bond into the Conversion Shares at the Conversion Price for the period commencing from (1) the date when the Guaranteed Profit has been fulfilled or (2) if there is any shortfall between the Actual Profit or the Average Actual Profit and the Guaranteed Profit, the date when the Purchaser is fully compensated by the Vendor for any shortfall pursuant to the Agreement up to the maturity date of the Convertible Bond.

---

## LETTER FROM THE BOARD

---

### Conversion Price

The Conversion Price is HK\$0.18 per Conversion Share subject to adjustments.

The adjustments for Conversion Price include the following:

- (i) an alteration of the nominal amount of each Share by reason of any consolidation or subdivision;
- (ii) an issue (other than in lieu of a cash dividend) by the Company of Shares credited as fully paid by way of capitalization of profits or reserves (including any share premium account or capital redemption reserve fund);
- (iii) a capital distribution being made by the Company, whether on a reduction of capital or otherwise, to Shareholders (in their capacity as such) or a grant by the Company to Shareholders (in their capacity as such) of rights to acquire for cash assets of the Company or any of its subsidiaries;
- (iv) an offer of new Shares for subscription by way of rights, or a grant of options or warrants to subscribe new Shares being made by the Company to Shareholders (in their capacity as such);
- (v) an issue wholly for cash being made by the Company of securities convertible into or exchangeable for or carrying rights of subscription for new Shares and the total effective consideration per Share receivable for such securities is less than 70% of the market price on the date of announcement of the terms of the issue of such securities; and
- (vi) an issue of Shares wholly for cash at a price per Share which is less than 70% of the market price on the date of announcement of the terms of such issue.

The Company will issue an announcement when there is any adjustment to the Conversion Price.

The Conversion Price represents (i) a premium of approximately 38.46% over the closing price of HK\$0.13 per Share as quoted on the Stock Exchange on 2 June 2008, being the last trading day of the Shares on the Stock Exchange prior to the suspension of the trading in the Shares; (ii) a premium of approximately 38.46% over the average of the closing prices of approximately HK\$0.13 per Share for the last five trading days up to and including 2 June 2008; (iii) a premium of approximately 34.33% over the closing price of HK\$0.134 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and (iv) a premium of approximately 140% over the net asset value per Share of approximately HK\$0.075 based on the audited consolidated financial statements of the Group as at 31 December 2007.

The Conversion Price was determined by the Purchaser and the Vendor on an arm's length basis with reference to the current market price of the Shares and the duration of the Convertible Bond.

---

## LETTER FROM THE BOARD

---

### **Conversion Shares**

Assuming there is an immediate exercise in full of the conversion rights attaching to the Convertible Bond at the Conversion Price by the bondholder, the Company will issue an aggregate of 16,666,667 Conversion Shares, representing (i) approximately 1.25% of the existing issued share capital of the Company; and (ii) approximately 1.24% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares. For further details, please refer to the paragraph “Changes in the shareholding structure” below.

The Conversion Shares will be allotted and issued under the general mandate granted by the independent Shareholders to the Directors in the EGM. As at the date of EGM, the Company was granted the general mandate to allot, issue and deal with a maximum of 266,075,016 Shares. As at the Latest Practicable Date, no Share has been allotted and issued under the general mandate.

### **Early redemption**

The Company may, at its discretion, redeem the Convertible Bond in whole or in part in multiples of HK\$1,000,000 at any time before the maturity date of the Convertible Bond.

### **Ranking**

The Conversion Shares, when allotted and issued, will rank pari passu in all respects with all existing Shares in issue at the date of the conversion.

### **Transferability**

The Convertible Bond may be transferred or assigned by the bondholder to any party other than a connected person of the Company from (1) the date when the Guaranteed Profit has been fulfilled or (2) if there is any shortfall between the Actual Profit or the Average Actual Profit and the Guaranteed Profit, the date when the Purchaser is fully compensated by the Vendor for any shortfall pursuant to the Agreement up to the maturity date of the Convertible Bond.

### **Voting rights**

The Convertible Bond does not confer any voting rights at any meetings of the Company.

### **Application for listing**

No application will be made by the Company for the listing of the Convertible Bond. Application will be made by the Company to the Listing Committee for the listing of, and permission to deal in, the Conversion Shares.

---

## LETTER FROM THE BOARD

---

### TERMS OF THE EARN OUT CONVERTIBLE BOND

The terms of the Earn Out Convertible Bond have been negotiated on an arm's length basis and the principal terms of which are summarised below:

#### Issuer

The Company

#### Principal amount

HK\$8,160,000

#### Interest

The Earn Out Convertible Bond will carry interest at a rate of 1% per annum, payable yearly.

#### Maturity

A fixed term of three years from the date of issue of the Earn Out Convertible Bond.

#### Conversion

The bondholder may convert the whole or part (in multiples of HK\$1,000,000) of the principal amount of the Earn Out Convertible Bond into the Earn Out Conversion Shares at the Conversion Price for the period commencing from the date of issue of the Earn Out Convertible Bond up to the maturity date of the Earn Out Convertible Bond.

#### Conversion Price

The Conversion Price is HK\$0.18 per Earn Out Conversion Share subject to adjustments.

The adjustments for Conversion Price include the following:

- (i) an alteration of the nominal amount of each Share by reason of any consolidation or subdivision;
- (ii) an issue (other than in lieu of a cash dividend) by the Company of Shares credited as fully paid by way of capitalization of profits or reserves (including any share premium account or capital redemption reserve fund);
- (iii) a capital distribution being made by the Company, whether on a reduction of capital or otherwise, to Shareholders (in their capacity as such) or a grant by the Company to Shareholders (in their capacity as such) of rights to acquire for cash assets of the Company or any of its subsidiaries;

---

## LETTER FROM THE BOARD

---

- (iv) an offer of new Shares for subscription by way of rights, or a grant of options or warrants to subscribe new Shares being made by the Company to Shareholders (in their capacity as such);
- (v) an issue wholly for cash being made by the Company of securities convertible into or exchangeable for or carrying rights of subscription for new Shares and the total effective consideration per Share receivable for such securities is less than 70% of the market price on the date of announcement of the terms of the issue of such securities; and
- (vi) an issue of Shares wholly for cash at a price per Share which is less than 70% of the market price on the date of announcement of the terms of such issue.

The Company will issue an announcement when there is any adjustment to the Conversion Price.

The Conversion Price represents (i) a premium of approximately 38.46% over the closing price of HK\$0.13 per Share as quoted on the Stock Exchange on 2 June 2008, being the last trading day of the Shares on the Stock Exchange prior to the suspension of the trading in the Shares; (ii) a premium of approximately 38.46% over the average of the closing prices of approximately HK\$0.13 per Share for the last five trading days up to and including 2 June 2008; (iii) a premium of approximately 34.33% over the closing price of HK\$0.134 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and (iv) a premium of approximately 140% over the net asset value per Share of approximately HK\$0.075 based on the audited consolidated financial statements of the Group as at 31 December 2007.

The Conversion Price was determined by the Purchaser and the Vendor on an arm's length basis with reference to the current market price of the Shares and the duration of the Earn Out Convertible Bond.

### **Earn Out Conversion Shares**

Assuming there is an immediate exercise in full of the conversion rights attaching to the Earn Out Convertible Bond in the aggregate principal amount of HK\$8,160,000 at the Conversion Price by the bondholder, the Company will issue an aggregate of 45,333,333 Earn Out Conversion Shares, representing approximately (i) 3.41% of the existing issued share capital of the Company; and (ii) approximately 3.30% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares and the Earn Out Conversion Shares. For further details, please refer to the paragraph "Changes in the shareholding structure" below.

The Earn Out Conversion Shares will be allotted and issued under the general mandate granted by the Shareholders to the Directors in the EGM. As at the date of EGM, the Company was granted the general mandate to allot, issue and deal with a maximum of 266,075,016 Shares. As at the date of the Latest Practicable Date, no Share has been allotted and issued under the general mandate.

---

## LETTER FROM THE BOARD

---

### **Early redemption**

The Company may, at its discretion, redeem the Earn Out Convertible Bond in whole or in part in multiples of HK\$1,000,000 at any time prior to the maturity date of the Earn Out Convertible Bond.

### **Ranking**

The Earn Out Conversion Shares, when allotted and issued, will rank pari passu in all respects with all existing Shares in issue at the date of the conversion notice.

### **Transferability**

The Earn Out Convertible Bond may be transferred or assigned by the bondholder to any party other than a connected person of the Company.

### **Voting rights**

The Earn Out Convertible Bond does not confer any voting rights at any meetings of the Company.

### **Application for listing**

No application will be made by the Company for the listing of the Earn Out Convertible Bond. Application will be made by the Company to the Listing Committee for the listing of, and permission to deal in, the Earn Out Conversion Shares.

## **TERMS OF THE PROMISSORY NOTE**

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

### **Issuer**

The Company

### **Principal amount**

HK\$7,240,000

### **Interest**

The Promissory Note carries interest at a rate of 1% per annum, payable yearly.



---

## LETTER FROM THE BOARD

---

### **Maturity**

A fixed term of three years from the date of issue of the Promissory Note.

### **Early repayment**

The Company could, at its option, repay the Promissory Note in whole or in part in multiples of HK\$1,000,000 by giving a prior written notice to the Vendor, commencing on the date of the Promissory Note up to the date immediately prior to the maturity date. There will not be any premium or discount to the payment obligations under the Promissory Note for any early repayment.

### **Assignment**

The Promissory Note may be transferred or assigned by the holder of the Promissory Note to any party other than a connected person of the Company in multiples of HK\$1,000,000.

## **CHANGES IN SHAREHOLDING STRUCTURE**

As at the date of the Latest Practicable Date, the Company has 1,330,375,080 Shares in issue, 48,600,000 outstanding share options and 40,000,000 convertible bonds issued on 6 February 2008. Of the 48,600,000 outstanding share options, 12,300,000 are held by connected persons of the Company. Save for the above, the outstanding share options and all the 40,000,000 convertible bonds are held by third parties independent of the Company and its connected persons (as defined in the GEM Listing Rules).

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the following table sets out the shareholding structure of the Company (i) as at the date of the Announcement; (ii) immediately after full conversion of the Convertible Bond into the Conversion Shares; (iii) immediately after full conversion of the Convertible Bond and the Earn Out Convertible Bond into the Conversion Shares and the Earn Out Conversion Shares; assuming no further Shares (including conversion of convertible bonds and exercise of share options) will be issued or no Shares will be repurchased before the allotment and issue of the Conversion Shares and the Earn out Conversion Shares; and (iv) immediately after exercise of 12,300,000 share options and after full conversion of the Convertible Bond and the Earn Out Convertible Bond into the Conversion Shares and the Earn Out Conversion Shares:

## LETTER FROM THE BOARD

Shareholders	As at the date		Immediately after full		Immediately		Immediately after exercise of	
	of the Announcement		conversion of the		after full conversion of		12,300,000 options	
	Number of	Approximate	Number of	Approximate	after full conversion of	Approximate	and after full conversion	Approximate
	Shares	%	Shares	%	the Convertible	%	of the Convertible	%
			Convertible Bond into		Bond and the Earn Out		Bond and the Earn Out	
			the Conversion Shares		Convertible Bond		Convertible Bond into the	
					into the Conversion		Conversion Shares	
					Shares and the Earn		and the Earn	
					Out Conversion Shares		Out Conversion Shares	
					Number of	Approximate	Number of	Approximate
	Shares	%	Shares	%	Shares	%	Shares	%
Manciple Enterprises Limited (Note 1)	299,478,238	22.51	299,478,238	22.23	299,478,238	21.51	299,478,238	21.32
The Vendor	-	-	16,666,667	1.24	62,000,000	4.45	62,000,000	4.41
Directors (Note 2)								
Pang Hong Tao	10,500,000	0.79	10,500,000	0.78	10,500,000	0.75	16,800,000	1.20
Mo Wai Ming, Lawrence	21,385,920	1.61	21,385,920	1.59	21,385,920	1.54	21,385,920	1.52
Au Shui Ming, Anna	22,500,000	1.69	22,500,000	1.67	22,500,000	1.62	28,500,000	2.03
Ma She Shing, Albert	870,000	0.07	870,000	0.06	870,000	0.06	870,000	0.06
sub-total	55,255,920	4.16	55,255,920	4.10	55,255,920	3.97	67,555,920	4.81
Public	975,640,922	73.33	975,640,922	72.43	975,640,922	70.07	975,640,922	69.46
Total	<u>1,330,375,080</u>	<u>100</u>	<u>1,347,041,747</u>	<u>100</u>	<u>1,392,375,080</u>	<u>100</u>	<u>1,404,675,080</u>	<u>100</u>

*Note:*

1. Manciple Enterprises Limited, a company incorporated in the British Virgin Islands which is wholly and beneficially owned by Mr. Lau Kim Hung, Jack (“**Mr. Lau**”). Accordingly, Mr. Lau is deemed to be interested in 299,478,238 Shares.
2. Mr. Pang Hong Tao, Mr. Mo Wai Ming, Lawrence and Ms. Au Shui Ming, Anna are executive Directors. Mr. Ma She Shing, Albert is a non-executive Director.

---

## LETTER FROM THE BOARD

---

### INFORMATION ON THE TARGET GROUP

The Target Group is principally engaged in the development and provision of on-line education programs (“**e-learning business**”). The Target Group, through its self-developed websites, provides languages (English and Chinese) and mathematics learning programs to students in secondary and primary schools in Hong Kong and Macau.

The Target Group entered into agreements with reputable multi-national educational institutions and teaching materials publisher, namely, Cambridge University Press, British Broadcasting Corporation (“BBC”) and the Commercial Press (H.K.) Ltd, for the provision of teaching materials and contents on its websites.

As at the date of the Latest Practicable Date, over 200,000 students in over 250 primary and secondary schools in Hong Kong and Macau are the subscribers of the e-learning business developed by the Target Group.

According to the unaudited consolidated management accounts of the Target Group for the period commencing from 30 August 2007, the date of incorporation to 30 April 2008, turnover was approximately HK\$325,000, the net profit before and after taxation and extraordinary items was approximately HK\$167,000.

As at 30 April 2008, the principal assets of the Target Group was cash and bank balances of approximately HK\$976,000 and the net assets of the Target Group was approximately HK\$168,000. On 26 May 2008, the Target capitalized shareholders’ loan of HK\$999,220, the net assets of the Target Group after such capitalization was approximately HK\$1,167,000.

It is the future plan of the Target Group to, by application of its current business model, expand and develop its business in the PRC. The Target Group is in final negotiation stage with its existing reputable multi-national teaching materials and contents providers for extension of such provisions into the PRC. The Target Group is also in final negotiation stages to cooperate with an internet content provider and various distributors for the establishment of e-learning business in the PRC in the future. It is also the future plan of the Target Group to extend the provision of its e-learning business through mobile telecommunication devices in the PRC. The Target Group is in negotiation for possible cooperation with a reputable mobile telecommunication provider in the PRC for the provision of such service.

### BASIS OF THE CONSIDERATION

The Basic Consideration is calculated based on the Guaranteed Profit times price earnings multiples of eight and the equity interest to be acquired in the Target Group, i.e. HK\$3,000,000 x 8 x 51% = HK\$12,240,000 while the Balance Consideration is calculated based on the excess of HK\$5,000,000 over the Guaranteed Profit of HK\$3,000,000 times price earning multiples of eight and the equity interest to be acquired in the Target Group, i.e. HK\$2,000,000 x 8 x 51% = HK\$8,160,000.

---

## LETTER FROM THE BOARD

---

The consideration was agreed after arm's length negotiations under normal commercial terms after considering: (i) the compatibility of the Target Group's "e-learning business" concept with the prevailing emphasis of Internet in the societies of the Greater China Region; (ii) the established business co-operation relationships between the Target Group and the multi-national educational institutions and teaching materials publishers and the established customer base as mentioned in the paragraph "Information of the Target Group" above; (iii) the potential of the business development of the Target Group in the PRC as mentioned in the paragraph "Information of the Target Group" above; (iv) the Guaranteed Profit, a justification to the future profitability of the Target Group; (v) the current price earning ratios of companies listed on the NASDAQ engaging in the similar business to the Target Group ranging from about 7.88 to 53.34 times, and that the Directors are of the view that NASDAQ is a similar stock exchange market to GEM and thus listed companies on NASDAQ engaging in similar business to the Target Group are relevant for the price earning multiples comparison purpose; and (vi) the Directors' belief that the Acquisition, will provide an additional and stable income source to the Group in the medium term by consolidation of the accounts of the Target Group. Hence, the Directors consider that the Consideration is fair and reasonable and are in the interest of the Company and the Shareholders as a whole.

### REASONS FOR THE ACQUISITION

The Group is principally engaged in the information technology business of development and marketing of patented server based technology for its real time on-line communication software platform for the Chinese language and the provision of software related services. The Group has invested in copyright management and digital licensing business. The Group is also engaged in the agriculture-related businesses in the PRC.

The Group recorded net profit of approximately HK\$0.7 million for the year ended 31 December 2007 and a cash position of about HK\$48 million as at 31 December 2007. As stated in the annual report of the Group for the year ended 31 December 2007, the Directors believe that with the continuing growth of economy, in particular, the information technology industry and the telecommunication industry, and the living standard of people in the PRC, the information technology business, such as digital content, remains a promising business to be developed in the Greater China Region. Hence, the Directors have always been active in seeking investment opportunities in the information technology business in the PRC in order to increase the value of the Company.

The Directors are of the view that on-going pursuit of quality education is the prevailing atmosphere in the societies of the Greater China Region, in particular, the PRC, with its growing economy and improving living standard. On the other hand, Internet is the most common platform and media of global communication nowadays, especially for the young generations. As mentioned in the paragraph "Information of the Target Group" above, it is also the future plan of the Target Group to extend the provision of "e-learning business" through mobile telecommunication devices in the PRC and the Target Group is already in negotiation for possible cooperation with a reputable mobile telecommunication provider in the PRC for the provision of such service.

---

## LETTER FROM THE BOARD

---

Hence, the Directors are of the view that the Target Group's "e-learning business" concept serves the needs of the societies in the Greater China Region for the provision of education programs on a common communication media and platform. On the other hand, the provision of such programs through Internet and probably, mobile telecommunication device, in the future will be able to capitalize on the fast growing usage of Internet and mobile telecommunication device in the PRC. Accordingly, the Board considers that the provision of e-learning programs business of the Target Group is of significant growth potential and generate high profitability and the engagement of the Group in such business through the Acquisition, will enable the Group to pursue a new line of information technology business in the Greater China Region and generate an additional income source to the Group in the medium term, which is in the interest of the Shareholders and the Company as a whole.

The Acquisition was determined by the Board after taken into consideration of the internal financial resources of the Group.

Taking into account the benefits of the Acquisition, the Board is of the view that the terms of the Acquisition are fair and reasonable and the Acquisition is in the interests of the Company and the Shareholders as a whole.

### **FINANCIAL EFFECT OF THE ACQUISITION**

After Completion, the Company holds indirectly 51% equity interest in the Target and that the Target becomes a subsidiary of the Company with the accounts of the Target Group being consolidated with that of the Group.

The total assets of the Group will be increased by approximately HK\$21,587,000, representing the aggregate of (i) approximately HK\$1,355,000, being the combined total assets of the Target Group; and (ii) goodwill of approximately HK\$20,232,000 arising from the Acquisition. The total liabilities of the Group will also be increased by approximately HK\$19,587,000, representing the aggregate of (i) approximately HK\$1,187,000, being the combined total liabilities of the Target Group; (ii) HK\$7,240,000, being an increase as a result of the issue of the Promissory Note; and (iii) HK\$11,160,000, being other payables of Convertible Bond and Earn Out Convertible Bond.

In terms of earnings, the Group will be consolidating revenue from the provision of e-learning business from the Target Group, in particular, revenue to be generated from the business opportunities to be arisen from the e-learning business in the PRC.

The above financial analysis is based on the unaudited consolidated management accounts of the Target Group as at 30 April 2008 prepared by the Vendor in accordance with the generally accepted accounting principles in Hong Kong.

### **GEM LISTING RULES IMPLICATIONS**

The Acquisition constitutes a discloseable transaction on the part of the Company under the GEM Listing Rules. A circular containing, among other matters, further details of the Acquisition will be despatched to the Shareholders in compliance with the GEM Listing Rules.

---

## LETTER FROM THE BOARD

---

### ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendix to this circular.

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

## 1. RESPONSIBILITY STATEMENT

This circular, 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 Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:

- (1) the information contained in this circular 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 circular misleading; and
- (3) all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

## 2. DISCLOSURE OF INTERESTS

### (a) Director's interests and short positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the following Director had or was deemed to have interests or short positions in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were, pursuant to rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors to be notified to the Company and the Stock Exchange:

#### (i) Interest in Shares

Name of Director	Nature of interest	Number of Shares held	Approximate percentage of issued share capital of the Company
Mr. Pang Hong Tao	Beneficial	10,500,000(L)	0.79%
Mr. Ma She Shing, Albert	Beneficial	870,000(L)	0.07%
Mr. Mo Wai Ming, Lawrence	Beneficial	21,385,920(L)	1.61%
Ms. Au Shui Ming, Anna	Beneficial	22,500,000(L)	1.69%

(L) denotes long position

*(ii) Interest in share options*

<b>Name of Director</b>	<b>Number of share options outstanding</b>	<b>Approximate percentage of issued share capital of the Company</b>
Mr. Pang Hong Tao	6,300,000	0.47%
Ms. Au Shui Ming, Anna	6,000,000	0.45%

*Note:* The exercise price of the share options is HK\$0.151 per Share with exercise period commencing from 18 January 2008 and ending on 20 December 2017.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were, pursuant to rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors to be notified to the Company and the Stock Exchange.



**(b) Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial Shareholders**

So far as is known to the Directors, as at the Latest Practicable Date, the following person (not being Directors or chief executive of the Company) had, or was deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name of Shareholder	Nature of interest	Number of Shares held	Approximate percentage of issued share capital of the Company
Mr. Lau Kim Hung, Jack (Note 1)	Interest of controlled corporation	299,478,238(L)	22.51%
Ms. Chan Yiu Kan Katie (Note 1)	Deemed	299,478,238(L)	22.51%
Manciple Enterprises Limited (Note 1)	Beneficial	299,478,238(L)	22.51%
Ms. Wong Chau Wan, Sanny (Note 2)	Beneficial	1,210,000(L)	9.56%
	Deemed	125,944,400(L)	
Mr. Wong Ming Kerry (Note 2)	Beneficial	11,474,400(L)	
	Interest of controlled corporation	114,470,000(L)	
	Deemed	1,210,000(L)	9.56%
Digital Epoch Profits Limited (Note 2)	Beneficial	114,470,000(L)	8.60%
Mr. Hsu Tung Chi (Note 3)	Beneficial	222,222,222(L)	16.70%
Ms. Chuang Meng Hua (Note 3)	Deemed	222,222,222(L)	16.70%

(L) denotes long position

*Note:*

1. Manciple Enterprises Limited (“**Manciple**”) is wholly and beneficially owned by Mr. Lau Kim Hung, Jack (“**Mr. Lau**”). Manciple beneficially owns 299,478,238 Shares. Under the SFO, Mr. Lau is deemed to be interested in 299,478,238 Shares. Ms. Chan Yiu Kan Katie, the wife of Mr. Lau, is also deemed to be interested in 299,478,238 Shares.
2. Digital Epoch Profits Limited (“**Digital Epoch**”) is wholly and beneficially owned by Mr. Wong Ming Kerry (“**Mr. Wong**”). Digital Epoch beneficially owns 114,470,000 Shares. Under the SFO, Mr. Wong is deemed to be interested in the said 114,470,000 Shares.

Mr. Wong is personally interested in 11,474,400 Shares, and his wife, Ms. Wong Chau Wan, Sanny (“**Ms. Wong**”), also beneficially owns 1,210,000 Shares. Being spouses, Mr. Wong and Ms. Wong are deemed to be interested in their respective shareholding in the Company under the SFO.

3. According to the sale and purchase agreement entered into among Cheer Plan Limited, a wholly owned subsidiary of the Company, Mr. Hsu Tung Chi (“**Mr. Hsu**”) and Mr. Hsu Tung Sheng on 5 May 2008, subject to the fulfillment of certain conditions, the Company will allot a maximum of 222,222,222 convertible bonds to Mr. Hsu.

Ms. Chuang Meng Hua is deemed to be interested in 222,222,222 convertible bonds of the Company by virtue of her being the spouse of Mr. Hsu.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the Shares or underlying Shares (including any interests in options in respect of such capital), which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

### 3. SHARE CAPITAL

The authorised share capital of the Company as at the Latest Practicable Date and immediately following the allotment and issue of the Conversion Shares and the Earn Out Conversion Shares are as follows:

<i>Authorised</i>	<i>HK\$</i>
2,000,000,000 Shares	100,000,000
 <i>Issued and to be issued, fully paid or credited as fully paid</i>	
1,330,375,080 Shares in issue as at the Latest Practicable Date	66,518,754
16,666,667 Conversion Shares to be allotted and issued upon full conversion of the Convertible Bond	833,333.35
45,333,333 Earn Out Conversion Shares to be allotted and issued upon full conversion of the Earn Out Convertible Bond	2,266,666.65
1,392,375,080 Shares	69,618,754

#### 4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors has entered into any service contract or management agreement, proposed or otherwise with any member of the Group (excluding contracts expiring or terminable by the employer within one year without payment of compensation other than statutory compensation).

#### 5. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

#### 6. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or the management Shareholders (as defined in the GEM Listing Rules) or substantial Shareholder or any of their respective associates has any interest in business which competes with or may compete with the business of the Group or has any other conflict of interests which any person has or may have with the Group.

#### 7. MISCELLANEOUS

- (a) The registered office of the Company is located at Caledonian Bank & Trust Limited, Caledonian House, P.O. Box 1043, George Town, Grand Cayman, Cayman Islands.
- (b) The head office and principal place of business of the Company in Hong Kong is Unit 1601, Ruttonjee House, Ruttonjee Centre, 11 Duddell Street, Central, Hong Kong.
- (c) The company secretary and qualified accountant of the Company is Ms. Au Shui Ming, Anna, who is a certified practicing accountant of CPA Australia and a fellow member of the Hong Kong Institute of Certified Public Accountants.
- (d) The compliance officer of the Company is Mr. Mo Wai Ming, Lawrence who is also an executive Director.
- (e) The English text of this circular shall prevail over the Chinese text in the case of any inconsistency.
- (f) The Company has established an audit committee with written terms of reference prepared and adopted with reference to the guidelines recommended by the Hong Kong Institute of Certified Public Accountants. The audit committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the Group's audit. It also reviews the effectiveness of both the external and internal audit and of internal controls and risk evaluation. The audit committee comprises three members, namely Mr. Hsu Shiu Foo, William, Mr. Lee Kun Hung and Mr. Kwok Chi Sun, Vincent who are all independent non-executive Directors. Further details of them are set out below:

Mr. Lee Kun Hung, aged 42, is an independent non-executive Director and audit committee member of the Company. Mr. Lee has over 15 years of manufacturing experience in the watch industry. Mr. Lee holds a Bachelor of Arts degree from Boston College, Massachusetts, US. Mr. Lee has not held any directorship in any listed company.

Mr. Hsu Shiu Foo, William, aged 57, is an independent non-executive Director and audit committee member of the Company. Mr. Hsu has over 10 years of global business experience in tourism and service-oriented related fields in various international corporations. Mr. Hsu holds a Bachelor degree in Arts from Brigham Young University, Hawaii and a Master degree in Hotel Administration from Cornell University, New York. Mr. Hsu is currently an independent non-executive director or other listed companies.

Mr. Kwok Chi Sun, Vincent, aged 45, is an independent non-executive Director and audit committee member of the Company. Mr. Kwok is a sole proprietor of Vincent Kwok & Co., and is a Certified Public Accountant. He is an independent non-executive director of other listed companies.