



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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2008

CHARACTERISTIC OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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INTERIM RESULTS (UNAUDITED)

The board of directors (the “Board”) of Shen Nong China (Group) Limited (the “Company”) would like to report the unaudited consolidated results of the Company and its subsidiaries (together, “the Group”) for the six months ended 30 June 2008 together with the comparative figures for the corresponding periods in 2007 as follows:–

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

For the three months and six months ended 30 June 2008

	Notes	Three months ended 30 June		Six months ended 30 June	
		2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Turnover	3				
Continuing operations		3,049	2,385	5,186	3,777
Discontinued operation		219	–	329	–
		3,268	2,385	5,515	3,777
Cost of sales		(1,455)	(1,204)	(2,841)	(1,841)
Gross profit		1,813	1,181	2,674	1,936
Other revenues and gains	5	717	–	975	338
Research and development expenses		(263)	(269)	(474)	(625)
Selling and distribution expenses		(293)	(322)	(633)	(626)
Administrative and other expenses		(14,459)	(1,695)	(19,607)	(3,131)
Finance costs		(193)	–	(193)	–
Loss from operating activities		(12,678)	(1,105)	(17,258)	(2,108)
Gain on disposal of subsidiaries		4,556	–	4,556	–
Loss before taxation	6				
Continuing operations		(6,667)	(1,105)	(9,622)	(2,108)
Discontinued operation		(1,455)	–	(3,080)	–
		(8,122)	(1,105)	(12,702)	(2,108)
Taxation	7				
Continuing operations		3,654	–	3,654	–
Discontinued operation		–	–	–	–
		3,654	–	3,654	–
Loss for the period					
Continuing operations		(3,013)	(1,105)	(5,968)	(2,108)
Discontinued operation		(1,455)	–	(3,080)	–
		(4,468)	(1,105)	(9,048)	(2,108)
Attributable to:					
Equity holders of the Company		(1,947)	(990)	(5,871)	(1,993)
Minority interests		(2,521)	(115)	(3,177)	(115)
		(4,468)	(1,105)	(9,048)	(2,108)
Loss per share – Basic	9				
From continuing and discontinued operation		<u>(0.15 cents)</u>	<u>(0.15 cents)</u>	<u>(0.44 cents)</u>	<u>(0.32 cents)</u>
From continuing operations		<u>(0.07 cents)</u>	<u>(0.15 cents)</u>	<u>(0.28 cents)</u>	<u>(0.32 cents)</u>

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2008

		30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Fixed assets		8,861	9,070
Interests in associates		50,000	–
Goodwill		71,033	51,207
Intangible assets		–	1,387
		<u>129,894</u>	<u>61,664</u>
CURRENT ASSETS			
Inventories		1,890	1,053
Trade and other receivables	10	26,739	24,772
Cash and bank balances		19,555	48,287
		<u>48,184</u>	<u>74,112</u>
CURRENT LIABILITIES			
Trade and other payables	11	7,253	8,813
Financial assistance from government		268	268
Tax payable		–	3,526
		<u>7,521</u>	<u>12,607</u>
NET CURRENT ASSETS		<u>40,663</u>	<u>61,505</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>170,557</u>	<u>123,169</u>
NON-CURRENT LIABILITIES			
Other payables	12	30,160	–
Convertible notes	13	18,721	–
Promissory note	14	7,240	4,467
Financial assistance from government		1,027	1,027
		<u>57,148</u>	<u>5,494</u>
		<u>113,409</u>	<u>117,675</u>
EQUITY			
Share capital		66,519	66,519
Reserves		29,912	33,137
		<u>96,431</u>	<u>99,656</u>
MINORITY INTERESTS		<u>16,978</u>	<u>18,019</u>
		<u>113,409</u>	<u>117,675</u>

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2008

	Share capital	Share premium	Special reserve	Warrant subscription reserve	Convertible notes reserve	Exchange reserve	Employee share-based compensation reserve	Accumulated losses	Subtotal	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(Note a)								
2007											
At 1 January 2007	29,498	22,821	10,084	1,469	-	(24)	2,314	(43,881)	22,281	-	22,281
Exercise of share options	150	837	-	-	-	-	(357)	-	630	-	630
Exercise of warrants	1,000	2,349	-	(249)	-	-	-	-	3,100	-	3,100
Issue of consideration shares	6,788	10,181	-	-	-	-	-	-	16,969	-	16,969
Share issue expenses	-	(744)	-	-	-	-	-	-	(744)	-	(744)
Exchange differences arising											
from consolidation	-	-	-	-	-	8	-	-	8	-	8
Acquisition of subsidiary	-	-	-	-	-	-	-	-	-	6,678	6,678
Loss for the period	-	-	-	-	-	-	-	(1,993)	(1,993)	(115)	(2,108)
At 30 June 2007	<u>37,436</u>	<u>35,444</u>	<u>10,084</u>	<u>1,220</u>	<u>-</u>	<u>(16)</u>	<u>1,957</u>	<u>(45,874)</u>	<u>40,251</u>	<u>6,563</u>	<u>46,814</u>
2008											
At 1 January 2008	66,519	68,861	10,084	-	-	543	-	(46,351)	99,656	18,019	117,675
Share issue expenses	-	(758)	-	-	-	-	-	-	(758)	-	(758)
Employee share-based compensation	-	-	-	-	-	-	626	-	626	-	626
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	6,019	6,019
Disposal of subsidiaries	-	-	-	-	-	-	-	-	-	(4,544)	(4,544)
Issue of convertible bonds	-	-	-	-	2,279	-	-	-	2,279	-	2,279
Exchange realignment	-	-	-	-	-	499	-	-	499	661	1,160
Loss for the period	-	-	-	-	-	-	-	(5,871)	(5,871)	(3,177)	(9,048)
At 30 June 2008	<u>66,519</u>	<u>68,103</u>	<u>10,084</u>	<u>-</u>	<u>2,279</u>	<u>1,042</u>	<u>626</u>	<u>(52,222)</u>	<u>96,431</u>	<u>16,978</u>	<u>113,409</u>

Notes:

- (a) The special reserve represents the difference between the nominal amount of shares and share premium of KanHan Technologies Inc. at the date on which it was acquired by the Company and the nominal amount of the Company's shares issued as consideration pursuant to the Group reorganisation taken place in 2003.

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2008

	Six months ended 30 June 2008 HK\$'000	Six months ended 30 June 2007 HK\$'000
Net cash from/(used in) operating activities	2,649	(284)
Net cash used in investing activities	<u>(31,770)</u>	<u>(18,670)</u>
Net cash outflow before financing activities	(29,121)	(18,954)
Net cash (used in)/from financing activities	<u>(518)</u>	<u>8,897</u>
Net decrease in cash and cash equivalents	(29,639)	(10,057)
Cash and cash equivalents at beginning of the period	48,287	22,707
Effect of exchange rate fluctuations, net	<u>907</u>	<u>9</u>
Cash and cash equivalents at end of the period	<u>19,555</u>	<u>12,659</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

The Company was incorporated in the Cayman Islands on 10 October 2002 as an exempted company with limited liability under the Companies Law (Revised) of the Cayman Islands. The shares of the Company were listed on the GEM of the Stock Exchange on 25 February 2003.

The Group is principally engaged in the information technology businesses. It is engaged in the 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 is also engaged in the provision of development and provision of on-line education programs, through its self-developed websites to provide languages (English and Chinese) and mathematics learning programs to students in secondary and primary schools in Hong Kong and Macau. The Group has invested in copyright management and digital licensing business. The Group is also engaged in the agriculture-related businesses in the PRC.

2. BASIS OF PREPARATION

The unaudited consolidated results have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The measurement basis used in the preparation of these unaudited consolidated results is historical cost.

The accounting policies adopted in preparing the unaudited consolidated results are consistent with those followed in the preparation of the annual financial statements for the year ended 31 December 2007.

3. TURNOVER

Turnover comprises revenue from the following activities in the Group's business:

	Three months ended		Six months ended	
	30 June		30 June	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
E-learning business	13	–	13	–
Software business				
Sales of licensed software	1,994	1,617	2,853	2,604
Software maintenance	353	181	641	367
Software rental and subscription income	153	112	240	160
Website development	108	329	358	329
Putonghua learning platform	219	146	449	317
	<u>2,827</u>	<u>2,385</u>	<u>4,541</u>	<u>3,777</u>
Agriculture-related business				
Sales of organic fertilizers	209	–	632	–
Provision of water supply services	219	–	329	–
	<u>428</u>	<u>–</u>	<u>961</u>	<u>–</u>
	<u>3,268</u>	<u>2,385</u>	<u>5,515</u>	<u>3,777</u>

4. SEGMENT INFORMATION

(a) Business segments

The following tables present revenue, results and certain assets, liabilities and expenditure information for the Group's business segments.

	Six months ended 30 June, Continuing operations						Discontinued operation		Consolidated	
	E-learning business		Software business		Organic fertilizers		Water supply		2008	2007
	2008	2007	2008	2007	2008	2007	2008	2007	(Unaudited)	(Unaudited)
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Turnover	<u>13</u>	<u>-</u>	<u>4,541</u>	<u>3,777</u>	<u>632</u>	<u>-</u>	<u>329</u>	<u>-</u>	<u>5,515</u>	<u>3,777</u>
Segment results	<u>(1)</u>	<u>-</u>	<u>(128)</u>	<u>(934)</u>	<u>(4,596)</u>	<u>(235)</u>	<u>(3,080)</u>	<u>-</u>	<u>(7,805)</u>	<u>(1,169)</u>
Unallocated revenue									431	255
Unallocated expenses									(6,037)	(1,194)
Unallocated finance costs									(193)	-
Gain on disposal of subsidiaries									<u>4,556</u>	<u>-</u>
Loss before tax									(9,048)	(2,108)
Tax									<u>-</u>	<u>-</u>
Loss for the period									<u>(9,048)</u>	<u>(2,108)</u>

	As at 30 June, Continuing operations						Discontinued operation		Consolidated	
	E-learning business		Software business		Organic fertilizers		Water supply		2008	2007
	2008	2007	2008	2007	2008	2007	2008	2007	(Unaudited)	(Unaudited)
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Assets										
Segment assets	<u>21,131</u>	<u>-</u>	<u>2,473</u>	<u>1,775</u>	<u>85,953</u>	<u>71,155</u>	<u>80,324</u>	<u>-</u>	<u>189,881</u>	<u>72,930</u>
Unallocated assets									<u>68,521</u>	<u>6,611</u>
Discontinued operation									<u>(80,324)</u>	<u>-</u>
Total assets									<u>178,078</u>	<u>79,541</u>
Liabilities										
Segment liabilities	<u>182</u>	<u>-</u>	<u>5,626</u>	<u>4,744</u>	<u>1,217</u>	<u>3,712</u>	<u>61,502</u>	<u>-</u>	<u>68,527</u>	<u>8,456</u>
Unallocated liabilities									<u>57,644</u>	<u>24,271</u>
Discontinued operation									<u>(61,502)</u>	<u>-</u>
Total liabilities									<u>64,669</u>	<u>32,727</u>
Other segment information:										
Depreciation	<u>2</u>	<u>-</u>	<u>28</u>	<u>59</u>	<u>459</u>	<u>5</u>	<u>1,827</u>	<u>-</u>	<u>2,316</u>	<u>64</u>
Capital expenditure	<u>-</u>	<u>-</u>	<u>6</u>	<u>3</u>	<u>61</u>	<u>445</u>	<u>1,377</u>	<u>-</u>	<u>1,444</u>	<u>448</u>

(b) **Geographical segments**

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments.

	Six months ended 30 June,					
	Mainland China		Hong Kong		Consolidated	
	2008	2007	2008	2007	2008	2007
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Segment revenue:						
Sales to external customers	<u>992</u>	<u>39</u>	<u>4,523</u>	<u>3,738</u>	<u>5,515</u>	<u>3,777</u>
Other segment information:						
Capital expenditure	<u>1,440</u>	<u>445</u>	<u>4</u>	<u>3</u>	<u>1,444</u>	<u>448</u>
	As at 30 June,					
	Mainland China		Hong Kong		Consolidated	
	2008	2007	2008	2007	2008	2007
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Segment assets	<u>86,005</u>	<u>71,305</u>	<u>92,073</u>	<u>8,236</u>	<u>178,078</u>	<u>79,541</u>

5. **OTHER REVENUES AND GAINS**

	Three months ended		Six months ended	
	30 June		30 June	
	2008	2007	2008	2007
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest income	548	–	646	338
Exchange gain, net	25	–	24	–
Release of deferred government grants	114	–	274	–
Sundry income	30	–	31	–
	<u>717</u>	<u>–</u>	<u>975</u>	<u>338</u>

6. LOSS BEFORE TAXATION

Loss before taxation is stated after charging:

	Three months ended		Six months ended	
	30 June		30 June	
	2008	2007	2008	2007
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Depreciation	1,341	33	2,316	64
Share-based payment	626	–	626	–
Property, plant and equipment written-off	394	–	394	–
Inventories written-off	1,216	–	1,216	–
Impairment allowance on other receivables	1,528	–	1,528	–
Impairment of intangible assets	1,432	–	1,432	–
	<u>1,432</u>	<u>–</u>	<u>1,432</u>	<u>–</u>

7. TAXATION

No provision for Hong Kong profits tax has been made in the financial statements as the Group did not have any assessable income arising in Hong Kong during the periods. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Three months ended		Six months ended	
	30 June		30 June	
	2008	2007	2008	2007
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current year provision				
Hong Kong profits tax	–	–	–	–
PRC enterprise income tax	–	–	–	–
Overprovision in prior year	3,654	–	3,654	–
	<u>3,654</u>	<u>–</u>	<u>3,654</u>	<u>–</u>
Tax credit/(charge) for the period	<u>3,654</u>	<u>–</u>	<u>3,654</u>	<u>–</u>

In May 2008, Jinan Shiji Jiangshan Resource Recycling Technology Limited (Shiji Jiangshan), a subsidiary of the Company, has been granted an exemption of PRC enterprise income tax by the Taxation Bureau. Shiji Jiangshan is not subject to PRC enterprise income tax for the years ended 31 December 2007 and 31 December 2008.

8. DIVIDEND

The Board does not recommend the payment of an interim dividend for the three months and six months ended 30 June 2008 respectively (2007: Nil).

9. LOSS PER SHARE

Basis loss per share is calculated by dividing the net loss attributable to shareholders by the weighted average number of ordinary shares in issue.

	Three months ended		Six months ended	
	30 June		30 June	
	2008	2007	2008	2007
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
For continuing and discontinued operations				
Loss attributable to shareholders	<u>(1,947)</u>	<u>(990)</u>	<u>(5,871)</u>	<u>(1,993)</u>
For continuing operations				
Loss attributable to shareholders	<u>(929)</u>	<u>(990)</u>	<u>(3,618)</u>	<u>(1,993)</u>
	Number of shares			
Weighted average number of ordinary shares in issue	<u>1,330,375,080</u>	<u>663,738,698</u>	<u>1,330,375,080</u>	<u>627,056,499</u>

No diluted loss per share was presented as the exercise of the outstanding share options and the conversion of the convertible bonds of the Company are anti-dilutive.

10. TRADE AND OTHER RECEIVABLES

	30 June	31 December
	2008	2007
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Trade receivables	2,129	5,167
Deposits, prepayments and other receivables	<u>24,610</u>	<u>19,605</u>
	<u>26,739</u>	<u>24,772</u>

An ageing analysis of the trade receivables is as follows:

	30 June	31 December
	2008	2007
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
0-30 days	286	4,688
31-60 days	439	312
61-90 days	150	167
Over 90 days	<u>1,254</u>	<u>—</u>
	<u>2,129</u>	<u>5,167</u>

11. TRADE AND OTHER PAYABLES

	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
Trade payables	286	2,090
Deferred income, accrued charges and other payables	6,967	6,723
	7,253	8,813

An ageing analysis of the trade payables is as follows:

	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
0-30 days	116	1,667
31-60 days	28	46
61-90 days	14	316
Over 90 days	128	61
	286	2,090

12. OTHER PAYABLES

Included in the other payables, HK\$22,000,000 represents the partial consideration for the acquisition of 12% equity interest in Far Glory Limited, which are convertible bonds that shall be issued by the Company if the vendor can fulfill the average guaranteed profit and a certain level of average actual profit. This amount is unsecured and interest-free. Details of the acquisition were set out in the circular of the Company dated 30 May 2008.

HK\$8,160,000 represents the partial consideration for the acquisition of 51% equity interest in Start Bright Limited, which is convertible bond that shall be issued by the Company if the vendor can fulfill the actual profit. This amount is unsecured and interest-free. Details of the acquisition were set out in the circular of the Company dated 23 June 2008.

13. CONVERTIBLE NOTES

On 20 June 2008, the Company issued the convertible bonds in the principal amount of HK\$18,000,000 which are interest bearing at 1% per annum. The convertible bonds were issued as partial consideration for the acquisition of 12% shareholding interest in Far Glory Limited. Details of the acquisition were set out in the circular of the Company dated 30 May 2008.

On 24 June 2008, the Company issued the convertible bonds in the principal amount of HK\$3,000,000 with an interest rate of 1% per annum. The convertible bonds were issued as partial consideration for the acquisition of 51% equity interest in Start Bright Limited. Details of the acquisition were set out in the circular of the Company dated 23 June 2008.

The fair values of the liability component and the equity conversion component were determined at issuance of the convertible bonds. By taking the discount rate at 5% per annum, the present value of the liability component is HK\$18,721,000 and the difference between the liability component and the face value of the convertible bonds, being HK\$2,279,000 is accounted for as a component of equity.

14. PROMISSORY NOTE

	<i>Notes</i>	<i>HK\$'000</i>
At 31 December 2007 and 1 January 2008	<i>(a)</i>	4,467
Issued during the period	<i>(b)</i>	22,840
Repaid during the period		<u>(20,067)</u>
At 30 June 2008		<u><u>7,240</u></u>

Notes:

- (a) A promissory note was issued during the year ended 31 December 2007 to Mr. Yang Pei Gen, as partial consideration for the acquisition of the entire issued share capital of Silky Sky Investments Limited, which holds indirectly a 51% interest in Jinan Shiji Jiangshan Resource Recycling Technology Limited. The promissory note was interest bearing at 2% per annum and was repayable in two years from the date of issue. During the six months ended 30 June 2008, the remaining balance of the promissory note of approximately HK\$4,467,000 was fully repaid.
- (b) On 6 February 2008, a promissory note in the principal amount of HK\$15,600,000 was issued by the Company upon the completion of the acquisition of Proud Dragon Limited as partial consideration. This promissory note was interest bearing at 1% per annum and had a fixed term of three years from the date of issue. This promissory note was fully repaid during the six months ended 30 June 2008.

On 24 June 2008, another promissory note in the principal amount of HK\$7,240,000 was issued by the Company as partial consideration for the acquisition of 51% interests in Start Bright Limited. This promissory note is interest bearing at 1% per annum and has a fixed term of three years from the date of issue.

15. COMPARATIVE FIGURES

Certain comparative figures have been re-classified to conform with current period's presentation.

MANAGEMENT'S DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the period under review, the Group has refocused on its main business of information technology and related businesses, such as digital licensing and content, which remains a promising business to be developed in the PRC.

In the first half of the financial year, there was snowstorm and earthquake occurred in the PRC which seriously affected the results of the agriculture-related business of the Group. As a result, the Group disposed of its water supply business in May 2008. Besides, the Group has entered into the sale and purchase agreement in July 2008 for the disposal of its organic fertilizer business.

The Board believes that with the continuing growth of economy and living standards of the people in the PRC, the information technology business remains a promising business to be developed in the PRC. The Group will focus on and direct all its financial and human resources to such business.

E-Learning Business

In June 2008, the Group completed the acquisition of 51% equity interest in Start Bright Limited (“Start Bright”) and its subsidiaries (together, “Start Bright Group”). Start Bright Group is principally engaged in the development and provision of on-line education programs through its self-developed websites. It provides languages (English and Chinese) and mathematics learning programs to students in secondary and primary schools in Hong Kong and Macau.

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

Recently, the Start Bright Group has entered into a co-operative agreement with a value-added service provider for the provision of Cambridge learning program to the subscribers of China Network Communications Group Corporation (中國網絡通信集團公司) in Jiangsu, the PRC. In addition, a co-operative agreement has been entered into with an internet content provider in the PRC for the purchase of Cambridge learning program through the website of such content provider.

In an effort to develop the e-learning business in the PRC, Start Bright is in active negotiation with such value-added service providers for the provision of e-learning business in other provinces.

Software Business

During the period under review, the software business recorded an increase of approximately 20.2% in sales. The Board believes that with the continuing growth of economy, the information technology business, such as digital licensing and content, remains a promising business to be developed in the PRC. Hence, the Group continues to engage in its information technology business and to seek for investment opportunities in the information technology business in the PRC.

In June 2008, the Group further acquired 12% shareholding interest in Far Glory Limited and its subsidiaries (together “Far Glory Group”) which are principally engaged in the provision of copyright management solution and the related consultancy services, the digital content licensing solution and the distribution of copyright protected items (such as on-line entertainment and media related items) in the PRC. Following such acquisition, the Group owns as to 20.26% equity interest in Far Glory Group.

Beijing YiLaiShen Technology Company Limited (北京易來申科技有限公司) (“Beijing e-License”), a subsidiary of Far Glory has commenced its operation in late August 2008. Beijing e-License has entered into an agreement with Unicom NewSpace Corporation Limited (“聯通新時訊通信有限公司”) (“Unicom NewSpace”), a wholly owned subsidiary of China Unicom Limited (中國聯通股份有限公司), for the provision of authorized music content to the subscribers of Unicom NewSpace through co-operation with the reputable music content providers in the PRC.

FINANCIAL REVIEW

For the six months ended 30 June 2008, the Group recorded a turnover of approximately HK\$5,515,000 representing an increase of 46.0% compared to the same period last year. Turnover from the software business accounted for 82.3% of the Group’s total turnover, and also recorded an increase of 20.2% to approximately HK\$4,541,000 compared to the previous corresponding period.

The agriculture-related business achieved a turnover of approximately HK\$961,000. During the period under review, there was a server snow storm and earthquake occurred in the PRC which seriously affected the performance of this business.

The Group reported a net loss attributable to shareholders of approximately HK\$5,871,000 for the six months ended 30 June 2008, compared to a net loss of approximately HK\$1,993,000 in the previous corresponding period. Administrative and other expenses significantly increased to approximately HK\$19,607,000 for the six months ended 30 June 2008 from approximately HK\$3,131,000 for the same period last year. Such increase was primarily due to (i) the increase in legal and professional expenses associated with the acquisition and disposal of subsidiaries; (ii) impairment allowances on intangible assets and doubtful debts; (iii) the written-off of inventories; (iv) the share-based payment arising from granting of share options; and (v) the consolidation of the operating expenses of Silky Sky Group and Proud Dragon Group.

Liquidity and financial resources

As at 30 June 2008, the Group had current assets of approximately HK\$48,184,000 (31 December 2007: HK\$74,112,000). The current assets comprised cash and bank balances of HK\$19,555,000 (31 December 2007: HK\$48,287,000) together with trade and other receivables of HK\$26,739,000 (31 December 2007: HK\$24,772,000). The Group's current liabilities comprised mainly trade and other payables of approximately HK\$7,253,000 (31 December 2007: HK\$8,813,000). The Group had no bank borrowings at 30 June 2008 (31 December 2007: Nil) but an outstanding loan granted by government of approximately HK\$1,295,000 at 30 June 2008 (31 December 2007: HK\$1,295,000).

The Group principally finances its operations and investing activities with its operating revenue and internal resources. The directors of the Company believe that the Group has a healthy financial position and has sufficient resources to satisfy its capital expenditure and working capital requirement.

Most of the trading transactions, assets and liabilities of the Group are denominated in Hong Kong dollars and Renminbi. The Group adopts a conservative treasury policy with most of the bank deposits being kept in Hong Kong dollars, or in the local currencies of the operating subsidiaries to minimize exposure to foreign exchange risks. As at 30 June 2008, the Group had no foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purposes.

Foreign exchange risk

Since almost all transactions of the Group are denominated either in Renminbi and Hong Kong dollars and most of the bank deposits are being kept in Hong Kong dollars, or in the local currencies of the operating subsidiaries to minimize exposure to foreign exchange risk, the directors believe that there is no significant foreign exchange risk to the Group. Therefore, the Group has not implemented any formal hedging or other alternative policies to deal with such exposure.

Contingent liabilities

As at 30 June 2008, the group had no material contingent liabilities.

Employee information

As at 30 June 2008, the Group had 42 (31 December 2007: 40) full-time employees. The salary and benefit levels of the Group's employees are kept at a competitive level and employees are rewarded on a performance related basis with the general framework of the Group's salary and bonus system which is reviewed annually. Selected benefit programs including medical coverage and provident funds are also provided.

The Group also adopts employee share option scheme to provide eligible employees a performance incentive for continuous and improved service with the Group and to enhance their contributions to increase profits by encouraging capital accumulation and share ownership.

MATERIAL ACQUISITIONS OR DISPOSAL OF SUBSIDIARIES AND AFFILIATED COMPANIES

- (a) On 6 February 2008, Rise Assets Limited (“Rise Assets”), a wholly-owned subsidiary of the Company completed the acquisition of 100% equity interest in Proud Dragon Limited with a total consideration of HK\$47,600,000. The Proud Dragon Group is principally engaged in the provision of water supply in the rural areas of Anhui, the PRC.

Details of the acquisition were set out in the circular of the Company dated 18 January 2008.

- (b) On 14 April 2008, Cheer Plan Limited (“Cheer Plan”), a wholly-owned subsidiary of the Company entered into a conditional agreement with Far Glory Limited (“Far Glory”) in relation to the subscription of 8.26% of the entire issued share capital of Far Glory and such subscription was completed on 21 April 2008.

Following the completion of the above subscription, Cheer Plan entered into a conditional agreement with Mr. Hsu Tung Chi (the “Vendor”) on 5 May 2008 in relation to the acquisition of 12% equity interest held by the Vendor in Far Glory. Upon the completion of the acquisition on 20 June 2008, Cheer Plan holds 20.26% equity interest in Far Glory.

Far Glory and its subsidiaries are principally engaged in the provision of copyright management solution and the related consultancy services, the digital content licensing solution and the distribution of copyright protected items (such as on-line entertainment and media related items) in the PRC.

Details of the subscription were set out the circular of the Company dated 5 May 2008, while the details of acquisition were set out in the circular dated 30 May 2008.

- (c) On 21 April 2008, Rise Assets entered into a conditional Sales and Purchase Agreement (the “Agreement”) with Mr. Lao Kuai Hong (“the Purchaser”), in relation to the disposal of the 100% equity interest in Proud Dragon Group held by Rise Assets for a total consideration of HK\$50,000,000. The disposal transaction was completed on 23 May 2008.

Details of the disposal were set out in the circular of the Company dated 5 May 2008.

- (d) On 2 June 2008, Wonder Link Limited, a wholly-owned subsidiary of the Company entered into the conditional agreement with Smart Great International Limited in relation to the acquisition of 51% equity interest in Start Bright Limited (“Start Bright”) and such acquisition was completed on 24 June 2008.

Start Bright and its subsidiaries are principally engaged in the development and provision of on-line education programs, through its self-developed websites to provide languages (English and Chinese) and mathematics learning programs.

Details of the acquisition were set out in the circular of the Company dated 23 June 2008.

POST BALANCE SHEET EVENT

On 7 July 2008, Rise Assets entered into the agreement to dispose of its 100% equity interest in Silky Sky Investments Limited (“Silky Sky”) for a total consideration of HK\$15,000,000. Silky Sky and its subsidiaries are principally engaged in the development, production and distribution of organic fertilizer in the PRC.

The disposal constitutes a very substantial disposal on the part of the Company and will be subject to shareholders’ approval at the extraordinary general meeting to be held by the Company.

DIRECTORS’ AND CHIEF EXECUTIVE’S INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2008, the interests and short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO, including interests or short positions which they were deemed or taken to have under such provisions of the SFO, or which were required, pursuant to section 352 of the SFO, to be entered in the register to therein, or which were required, pursuant to the 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, were as follows.

Long positions 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	0.79%
Mr. Ma She Shing, Albert	Beneficial	870,000	0.07%
Mr. Mo Wai Ming, Lawrence	Beneficial	21,385,920	1.61%
Ms. Au Shui Ming, Anna	Beneficial	22,500,000	1.69%

Save as disclosed above, as at 30 June 2008, none of the directors nor chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO, including interests or short positions which they were deemed or taken to have under such provisions of the SFO, or which were required, pursuant to section 352 of the SFO, to be entered in the register to therein, or which were required, pursuant to the 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.

SHARE OPTION SCHEME

On 24 January 2003, a Share Option Scheme (the “Scheme”) was approved by a written resolution of the Company. Details of the movements in the number of share options during the period under the Scheme were as follows:

Categories of grantees	As at 1 January 2008	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding at 30 June 2008	Exercise price HK\$	Grant date	Exercisable period
<i>Directors</i>								
Pang Hong Tao	-	6,300,000	-	-	6,300,000	0.151	21/12/2007	18/1/2008 – 20/12/2017
Au Shui Ming, Anna	-	6,000,000	-	-	6,000,000	0.151	21/12/2007	18/1/2008 – 20/12/2017
Employees	-	36,300,000	-	(30,000,000)	6,300,000	0.151	21/12/2007	18/1/2008 – 20/12/2017
	<u>-</u>	<u>48,600,000</u>	<u>-</u>	<u>(30,000,000)</u>	<u>18,600,000</u>			

SUBSTANTIAL SHAREHOLDERS

Interests of substantial shareholders

So far as is known to the directors, as at 30 June 2008, the following persons (not being directors or chief executive of the Company) had, or were 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 and section 336 of the SFO or, who were or were expected, 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 shareholders	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 Deemed	1,210,000(L) 125,944,400(L)	9.56%
Mr. Wong Ming Kerry (Note 2)	Beneficial Interest of controlled corporation Deemed	11,474,400(L) 114,470,000(L) 1,210,000(L)	9.56%
Digital Epoch Profits Limited (Note 2)	Beneficial	114,470,000(L)	8.60%

(L) denotes long position

Notes:

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.

Save as disclosed above, as at 30 June 2008, the directors were not aware of any other person (other than the directors and the chief executive the Company) who 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 and section 336 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.

COMPETING INTERESTS

The directors believe that none of the directors or the management shareholders (as defined in the GEM Listing Rules) of the Company had an interest in a business which competes or may compete with business of the Group.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

During the period ended 30 June 2008, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.68 of the GEM Listing Rules. The Company was not aware of any non-compliance with such required standard of dealings and its code of conduct regarding securities transactions throughout the period ended 30 June 2008.

COMPLIANCE WITH CODE OF CORPORATE GOVERNANCE

During the six months ended 30 June 2008, the Company has complied with the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules except that no nomination committee of the Board is established.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

AUDIT COMMITTEE

The Company established an audit committee on 24 January 2003 with written terms of reference in compliance with Rules 5.28 and 5.29 of the GEM Listing Rules. The audit committee comprises Mr. William Hsu Shiu Foo, Mr. Lee Kun Hung and Mr. Kwok Chi Sun, Vincent, who are the independent non-executive directors of the Company.

The Group's unaudited consolidated financial statements for the six months ended 30 June 2008 have been reviewed by the audit committee, which was of the opinion that the preparation of such statements complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

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.

By Order of the Board
Pang Hong Tao
Chairman

Hong Kong, 13 August 2008

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.