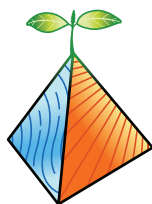

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

This circular is for information purpose only and does not constitute an invitation or offer to acquire or subscribe for securities.

If you are in any doubt as to any aspect of this circular or as to the action to be taken, 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 together with the enclosed form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected, for transmission to the purchaser or transferee.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, make 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.



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)

VERY SUBSTANTIAL DISPOSAL
INVOLVING DISPOSAL OF SILKY SKY INVESTMENTS LIMITED

AND

PROPOSED CHANGE OF COMPANY NAME

A notice convening an extraordinary general meeting of the Company to be held at Unit 1601, Ruttonjee House, Ruttonjee Centre, 11 Duddell Street, Central, Hong Kong on Monday, 22 September 2008 at 11:00 a.m. is set out on pages 109 and 110 of this circular.

Whether or not you are able to attend the extraordinary general meeting, you are requested to complete the accompanying form of proxy, in accordance with the instructions printed thereon and deposit the same at the office of the Company's branch share registrar in Hong Kong, Tricor Standard Limited, of 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the extraordinary general meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the extraordinary general meeting or any adjournment thereof should you so wish.

29 August 2008

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CHARACTERISTICS OF GEM

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Exchange. 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 of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

DEFINITIONS

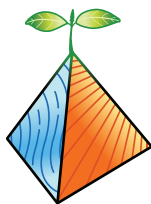
In this circular, unless the context requires otherwise, the following expressions shall have the following meanings when used herein:

“Agreement”	the conditional sale and purchase agreement dated 7 July 2008 entered into between the Vendor and the Purchaser in relation to the Disposal
“Announcement”	the announcement of the Company dated 8 July 2008 in respect of the Disposal
“Articles of Association”	the articles of association of the Company, and “ Article ” shall mean an article of the articles of association of the Company
“Board”	board of Directors from time to time
“Business Day”	a day (other than a Saturday, Sunday or public holiday) on which banks are open in Hong Kong for general banking business
“BVI”	the British Virgin Islands
“Change of Company Name”	the proposed change of the name of the Company from “Shen Nong China (Group) Limited 神農中國(集團)有限公司” to “China Digital Licensing (Group) Limited 中國數碼版權(集團)有限公司”
“Company”	Shen Nong China (Group) Limited, a company incorporated in Cayman Islands with limited liability and whose issued shares are listed on GEM
“Completion”	the completion of the Disposal in accordance with the terms and conditions of the Agreement
“Consideration”	the consideration payable by the Purchaser to the Vendor for the Disposal
“Directors”	the directors of the Company from time to time
“Disposal”	the proposed disposal of the Sale Share pursuant to the Agreement
“EGM”	the extraordinary general meeting of the Company to be convened and held to approve, among other things, the Agreement and the transactions contemplated thereunder and the Change of Company Name
“GEM”	the Growth Enterprises Market of the Stock Exchange

DEFINITIONS

“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Latest Practicable Date”	25 August 2008, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion 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”	the promissory note in a principal sum of HK\$7,000,000
“Purchaser”	Mr. Zeng Xiang Yang
“Remaining Group”	the Group excluding Silky Sky Group after Completion
“Sale Share”	one ordinary share of Silky Sky, representing the entire equity interest in Silky Sky
“SFO”	Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)
“Share(s)”	fully paid ordinary share(s) of HK\$0.05 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares of the Company
“Silky Sky”	Silky Sky Investments Limited, a company incorporated in BVI with limited liability
“Silky Sky Group”	Silky Sky and its subsidiaries
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Vendor”	Rise Assets Limited, a wholly owned subsidiary of the Company incorporated in BVI with limited liability
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“US\$”	the United States dollars, the lawful currency of the United States
“%”	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

29 August 2008

To the Shareholders

Dear Sir or Madam,

**VERY SUBSTANTIAL DISPOSAL
INVOLVING DISPOSAL OF SILKY SKY INVESTMENTS LIMITED**

AND

PROPOSED CHANGE OF COMPANY NAME

INTRODUCTION

Reference is made to the Announcement in which the Board announced that the Vendor, a wholly owned subsidiary of the Company, has entered into the Agreement with the Purchaser in relation to the disposal of the Sale Share, comprising the entire issued share capital of Silky Sky held by the Vendor for a total consideration of HK\$15,000,000 on 7 July 2008.

LETTER FROM THE BOARD

The Board also announced in the Announcement that the Company proposes to change its name.

The Disposal constitutes a very substantial disposal on the part of the Company under the GEM Listing Rules. The Agreement will be subject to Shareholders' approval at the EGM to be convened and held by the Company. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, no Shareholder has material interests in the Disposal and no Shareholder will abstain from voting at the EGM on the resolution approving the Disposal.

The purpose of this circular is to provide you with, among other matters, (i) further details of the Agreement and the transactions contemplated thereunder; (ii) further information of the proposed Change of Company Name; and (iii) a notice convening the EGM.

(1) VERY SUBSTANTIAL DISPOSAL

The agreement

Date: 7 July 2008 (after trading hour)

Parties: (1) Vendor: Rise Assets Limited

(2) Purchaser: Mr. Zeng Xiang Yang

To the best knowledge, information and belief of the Directors after having made all reasonable enquiries, the Purchaser is a third party independent of and not connected with the Company and any of its connected persons as defined under the GEM Listing Rules. The Purchaser is a merchant who has extensive experience in conducting businesses in the PRC.

Prior to the entering into of the Agreement, each of the Purchaser and his associates does not have interests in or business dealings/transaction with the Group.

Assets to be disposed of

The Sale Share, representing 100% of the equity interest of Silky Sky.

Consideration

The total consideration for the Disposal is HK\$15,000,000. The Consideration will be satisfied in the following manners:

1. HK\$1,500,000 was paid by the Purchaser to the Vendor as a deposit and will be set off as part of the consideration at Completion;
2. HK\$6,500,000 will be payable by the Purchaser in cash to the Vendor at Completion; and

LETTER FROM THE BOARD

3. HK\$7,000,000 will be payable by the Purchaser by issuing the Promissory Note to the Vendor at Completion.

The Consideration was arrived at after arm's length negotiations between the parties to the Agreement with reference to (i) the operation and business prospect of the Silky Sky Group has not been developing as expected as mentioned in the paragraph "Reasons for the Disposal" below; (ii) failure of the Silky Sky Group to meet the profit guarantee for the year ended 31 December 2007; (iii) the net loss position of the Silky Sky Group of approximately HK\$344,000 for the three months ended 31 March 2008; (iv) the unaudited consolidated net asset value of the Silky Sky Group as at 31 March 2008 attributable to the Company of approximately HK\$3,546,000, of which the Consideration represents a premium of approximately 423%; and (v) the commercial benefits to be accrued to the Group from the Disposal, including but not limited to better allocation of the resources of the Group to the other investment opportunities, in particular, the information technology businesses.

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

Conditions

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

Completion

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

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

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

PRINCIPAL TERMS OF THE PROMISSORY NOTE

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

Parties

The Purchaser as issuer and the Vendor as payee.

Principal amount

HK\$7,000,000

LETTER FROM THE BOARD

Interest

The Promissory Note will not carry any interest.

Maturity

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

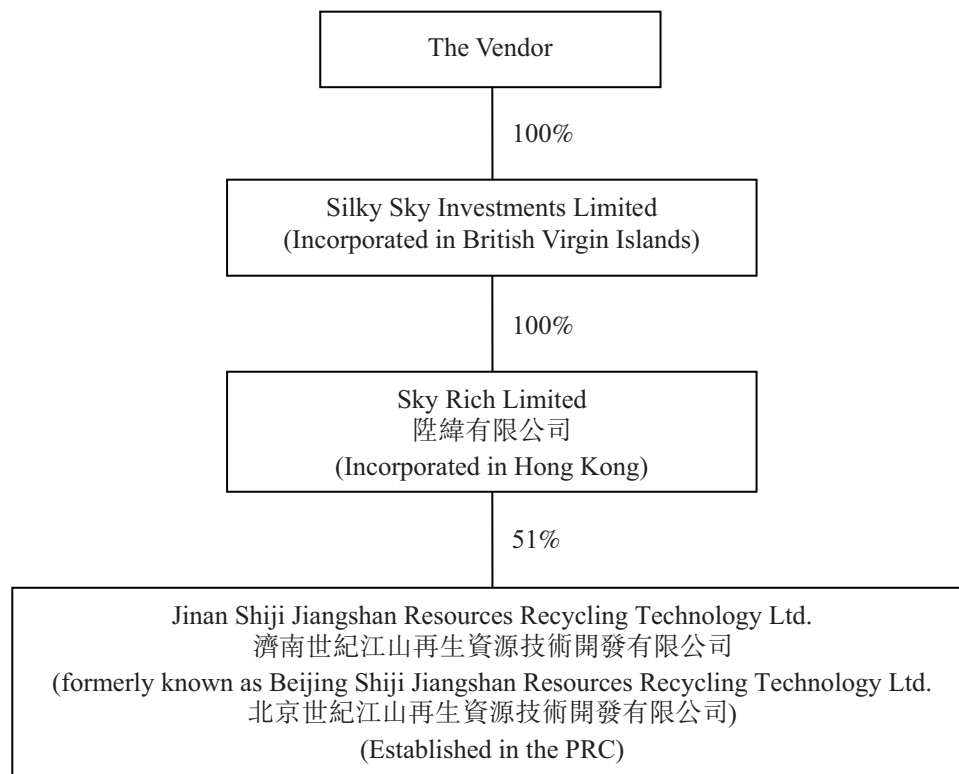
Early repayment

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

Assignment

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

SHAREHOLDING STRUCTURE OF RELEVANT ENTITIES



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

LETTER FROM THE BOARD

INFORMATION OF THE SILKY SKY GROUP

As at the Latest Practicable Date, Silky Sky is a company incorporated in BVI and is beneficially wholly owned by the Vendor. The Silky Sky Group owns 51% shareholding interest in Jinan Shiji Jiangshan Resources Recycling Technology Ltd (濟南世紀江山再生資源技術開發有限公司), which is principally engaged in the production and distribution of organic fertilizer in the PRC.

According to the audited consolidated financial statements of Silky Sky Group for the year ended 31 December 2007, there was turnover of approximately HK\$14,308,000, and the net profit before taxation and extraordinary items, net profit after taxation and extraordinary items and net profit after taxation and extraordinary items and minority interest were approximately HK\$8,231,000, HK\$4,797,000 and HK\$2,436,000 respectively. As at 31 December 2007, the net asset value of the Silky Sky Group attributable to the Company was approximately HK\$3,034,000.

According to the audited consolidated financial statements of Silky Sky Group for the six months ended 30 June 2008, there was turnover of approximately HK\$632,000, and the net loss before taxation and extraordinary items, net loss taxation and extraordinary items and net loss after taxation and extraordinary items and minority interest were approximately HK\$8,268,000, HK\$4,614,000 and HK\$2,362,000 respectively. As at 30 June 2008, the net asset value of the Silky Sky Group attributable to the Company was approximately HK\$1,360,000.

REASONS FOR THE DISPOSAL

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.

The Group acquired the organic fertilizer business in May 2007 with the view that the organic fertilizer production business is in a growing trend with immense potential. The Directors then considered that the organic fertilizer production business is a fast growing industry in the PRC leveraged on the development of the agricultural industry in the PRC and the increasing emphasis of environmental protection by the PRC Government.

The development of the Group's organic fertilizer business has not been growing as the Group expected. As stated in the announcement of the Company dated 27 March 2008, in accordance with the Regulations of Fertilizer Registration Management (肥料登記管理辦法), Temporary Registration Certificate (肥料臨時登記證) is required to be obtained before commercial production of organic fertilizer can be conducted in the PRC. Due to unexpected delay in the application procedure, the Silky Sky Group was not able to obtain such certificate until November 2007. Hence, the production schedule of organic fertilizer business was delayed.

LETTER FROM THE BOARD

The actual audited consolidated net profit after taxation and extraordinary or exceptional items of the Silky Sky Group did not meet the guaranteed profit of HK\$5 million for the year ended 31 December 2007. Accordingly, the Group received compensation of approximately HK\$2,563,900 from Mr. Yang Pei Gen (“Mr. Yang”), being the beneficial owner of the Silky Sky Group prior to the acquisition of the organic fertilizer business by the Group in May 2007, for the failure of the Silky Sky Group to meet such profit guarantee. Mr. Yang was the executive Director and chief executive officer of the Company. He was in charge of the Group’s organic fertilizer business. Mr. Yang resigned from the aforesaid roles with effect from 3 April 2008, as stated in the announcement of the Company dated 3 April 2008.

During the period from mid-January to late February 2008, there was a snowstorm, one of the most severe in the past 50 years, occurred in the PRC. According to the research and analysis of the impact of the snowstorm from www.ssn.com.tw (兩岸經貿服務網 – 大陸雪災之影響分析), more than 178 million acreage cultivated land was hit by the natural adversity and the loss on agricultural and related products amounted to more than RMB30 billion.

Such snowstorm has been significantly affecting the Group’s organic fertilizer business. Net loss for the three months ended 31 March 2008 of approximately HK\$344,000 was recorded for the Silky Sky Group.

An earthquake was occurred in Sichuan Province, the PRC in May 2008. According to the press release of the Food and Agriculture Organization of the United Nations (聯合國糧農組織), as a result of such earthquake, more than 500 thousand acreage cultivated land was hit by the earthquake and the loss on agricultural and related products amounted to more than RMB6 billion.

The Board is of the view that the aforesaid snowstorm and earthquake occurred in the PRC will, in short to medium terms, affect the growth and development of the organic fertilizer business. Whilst the snowstorm will continue to affect the Group’s organic fertilizer, of which such impact has already reflected in the financial result of the business for the first quarter of 2008, the impact of the earthquake on the organic fertilizer business will be equally detrimental. Accordingly, the realization of the profitability potential of the Silky Sky Group will be significantly reduced in short and medium terms.

The Board anticipates that in an effort to re-direct the development of the organic fertilizer business back on the right track as initially expected, extra financial resources might also be required for the promotion and marketing of the organic fertilizer business in order to acquire further market share and boost its sale of the organic fertilizer.

The Board is of the opinion that the Disposal provides a timely exit for the Group from the agriculture-related businesses in the PRC, which is expected to be affected by the aforesaid snowstorm and earthquake occurred in the PRC as a whole. The Group will then be able to focus on and direct all its financial and human recourses to its information technology businesses, which is of immense growth potential as a result of the growing economy and living standard of the people in the PRC as stated in the annual report of the Group for the year ended 31 December 2007.

LETTER FROM THE BOARD

The Board is also of the view that the Consideration is cash in nature (settled by cash and Promissory Note), and will all be gradually available in the second half of this year and will be able to utilize for future investments, in particular, the information technology businesses.

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

FINANCIAL EFFECT OF THE DISPOSAL

It is estimated that, upon Completion, the Group may, subject to the review and confirmation by the independent accountants, record a loss on the Disposal of approximately HK\$262,000 which is based on the difference between (1) the consideration of HK\$15,000,000 and the aggregate of (2) approximately HK\$55,000 (being the audited net assets of the Silky Sky Group attributable to the Company as at 30 June 2008 of approximately HK\$1,360,000 less the exchange reserve of approximately HK\$1,305,000) and (3) approximately HK\$15,207,000, (being goodwill arisen from the acquisition of Silky Sky Group of approximately HK\$51,207,000 less the impairment of goodwill of HK\$36,000,000). The final amount of the actual gain or loss as a result of the Disposal will be determined as at the completion of the Disposal.

In view of the fact that (i) the organic fertilizer business has not been developing as expected and other rationales as stated in the paragraph "Reason for the disposal" above; and (ii) the Consideration represents a premium of approximately 423% over the audited consolidated net asset value of the Silky Sky Group as at 31 March 2008 attributable to the Company of approximately HK\$3,546,000; and (iii) the cash nature of the Consideration, the Board is of the opinion that it is justifiable for the Group to dispose the organic fertilizer business at the aforesaid loss.

INTENDED USE OF PROCEEDS

Net proceeds of approximately HK\$14,000,000 will be received by the Group as a result of the Disposal. Of such balance, the Board intends to apply (i) approximately HK\$7 million for the repayment of promissory note which was incurred in the acquisition of 51% shareholding interest in the e-learning business as stated in the announcement of the Company dated 3 June 2008 as when appropriate; (ii) approximately HK\$7 million for the future investments opportunities and general working capital, as at the Latest Practicable Date, no specific investment target was identified by the Group.

MANAGEMENT DISCUSSION AND ANALYSIS OF THE REMAINING GROUP

Based on the unaudited pro forma financial information of the Remaining Group as set out in Appendix III to this circular.

LETTER FROM THE BOARD

(i) Financial and business performance

For the six months ended 30 June 2008, the Remaining Group recorded unaudited pro forma turnover of approximately HK\$4,883,000 and unaudited pro forma net loss of approximately HK\$43,058,000. The net loss for the Remaining Group for the six months ended 30 June 2008 was mainly due to the loss on Disposal of approximately HK\$38,624,000 (after the adjustment of reversal of impairment of goodwill of HK\$36,000,000).

(ii) Capital structure

The Remaining Group's capital structure as at 30 June 2008 consisted of shareholders' equity of approximately HK\$66,519,000 as capital and negative reserves of approximately HK\$7,655,000.

(iii) Liquidity and financial resources

The Remaining Group had pro forma cash balances of approximately HK\$22,027,000 and no bank borrowing as at 30 June 2008, there were long-term liabilities of approximately HK\$57,148,000.

(iv) Significant investments

Save as investment in a copyright management and digital licensing business, as at 30 June 2008, the Remaining Group did not have any significant investment.

(v) Material acquisitions or disposals of subsidiaries and affiliated companies

Rise Assets Limited ("**Rise Assets**"), a wholly owned subsidiary of the Company, completed the acquisition of the entire interest in Proud Dragon Limited ("**Proud Dragon**") on 6 February 2008; Cheer Plan Limited ("**Cheer Plan**"), a wholly owned subsidiary of the Company, completed the subscription of 8.26% shareholding interest of Far Glory Limited ("**Far Glory**") on 21 April 2008; Rise Assets completed the disposal of the entire interest in Proud Dragon Limited on 23 May 2008; Cheer Plan completed its acquisition of 12% shareholding interest in Far Glory on 20 June 2008; and Wonder Link Limited, a wholly owned subsidiary of the Company, completed its acquisition of 51% shareholding interest in Start Bright Limited on 24 June 2008. Save as disclosed, there was no material acquisition and disposal of subsidiaries and affiliated companies.

(vi) Segment information

For the six months ended 30 June 2008, the Remaining Group's turnover and operating assets were attributable to the information technology businesses in Hong Kong and the PRC. Accordingly, no analysis by either business or geographical segment was noted.

(vii) Number of employees and remuneration policies

For the six months ended 30 June 2008, the Remaining Group had about 21 employees. Employee benefits expenses (excluding directors' remuneration) amounted to about HK\$2,880,000. Please refer to Accountants' Report of the Group as shown in Appendix I to this circular for details.

LETTER FROM THE BOARD

(viii) Charges on the Remaining Group's assets

There was no charge on the Remaining Group's assets as at 30 June 2008.

(ix) Future plans for material investments

As at the Latest Practicable Date, there are no proposed material investments of the Remaining Group.

(x) Exposure to exchange rates

Most of the transactions of the Remaining Group were denominated in Hong Kong dollars and Renminbi. As the exchange of Renminbi to Hong Kong Dollars were fairly stable. Hence, no hedging or other arrangements to reduce the currency risk were implemented.

(xi) Contingent liabilities

There were no contingent liabilities of the Remaining Group as at 30 June 2008.

(xii) Gearing

The Remaining Group had no bank borrowings as at as 30 June 2008.

FINANCIAL EFFECT OF THE DISPOSAL

Immediately following Completion, the Company will cease to have any interest in the Silky Sky Group, and therefore the Silky Sky Group will cease to be the subsidiaries of the Company.

(1) Assets

As set out in the audited consolidated balance sheet of the Group contained in Appendix I to this circular, the Group had audited total assets and audited net asset attributable to equity holders of approximately HK\$142,078,000 and approximately HK\$60,431,000 respectively as at 30 June 2008. As referred to the unaudited pro forma financial information of the Remaining Group as set out in Appendix III to this circular, after Completion, (i) the total assets will be decreased by approximately HK\$19,191,000 to approximately HK\$122,887,000; and (ii) the net asset attributable to equity holders will be decreased by approximately HK\$1,567,000 to approximately HK\$58,864,000.

(2) Earnings

The Group recorded a net loss attributable to equity holders of approximately HK\$41,871,000 for the six months ended 30 June 2008 as set out in the audited consolidated income statement of the Group contained in Appendix I to this circular. As referred to the unaudited pro forma financial information of the Remaining Group in Appendix III to this circular, after adjusting the effect of the Disposal, a pro forma net loss of approximately HK\$42,133,000 for the Remaining Group will be attributable to the equity holders of the Company for the six months ended 30 June 2008.

LETTER FROM THE BOARD

(3) Liabilities

As set out in the audited consolidated balance sheet of the Group contained in Appendix I to this circular, the Group had audited total liabilities of approximately HK\$64,669,000 as at 30 June 2008. As referred to the unaudited pro forma financial information of the Remaining Group as set out in Appendix III to this circular, after Completion, the total liabilities will be decreased by approximately HK\$1,195,000 to approximately HK\$63,474,000.

FINANCIAL AND TRADING PROSPECT OF THE REMAINING GROUP

The Group is principally engaged in the development and marketing of patented server based technology for its real time on-line communication software platform for Chinese language and the provision of software related services. The Group is also engaged in the provision of development and provision of e-learning business, through its self-developed websites to provide languages (English and Chinese) and mathematics learning programs to students. The Group also has invested in copyright management and digital licensing business.

Information technology business

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.

Investment in copyright management and digital licensing business

In an effort to further develop the information technology business of the Group in the PRC, on 14 April 2008, Cheer Plan Limited, a wholly owned subsidiary of the Company, as subscriber, entered into a subscription agreement with Far Glory Limited for the subscription of the 900 new shares of Far Glory Limited (representing approximately 8.26% of the entire issued share capital of Far Glory Limited as enlarged by the allotment and issue of the 900 new shares) at a total consideration of HK\$20,250,000. The subscription was completed on 21 April 2008. On 5 May 2008, Cheer Plan Limited, as purchaser, entered into a sale and purchase agreement with Mr. Hsu Tung Chi, as vendor and Mr. Hsu Tung Sheng, as guarantor, for the acquisition of 1,308 share of Far Glory Limited (representing approximately 12% of the entire issued share capital of Far Glory Limited) at a maximum total consideration of HK\$45,000,000. The acquisition was completed on 20 June 2008. The Group was interested in 20.26% of Far Glory Limited.

Far Glory Limited and its subsidiaries will be 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.

LETTER FROM THE BOARD

According to the Ministry of Information of the PRC, there are 548 million mobile phone users in the PRC by the end of 2007, representing an annual growth rate of 18.7%, the mobile phone penetration rate is 41.6%. The internet users in the PRC have reached 210 million by the end of 2007, representing an annual growth rate of 53.3%. According to other researches conducted by the China Internet Network Information Center, approximately 180 million internet users are using the internet for music entertainment purpose.

In view of the above and the increasing emphasis on anti-privacy placed by the PRC Government following the entry into the World Trade Organization in 2001, the Directors are of the view that the provision of legal and copyright protected items in particular, the on-line entertainment and media related items, are in high demand in telecommunication industry, music and entertainment industry as well as media industry in the PRC. Moreover, the related copyright management and digital content licensing solutions are particularly vital to the practitioners of the aforesaid industries. In view of the established leading status of e-License Inc. (Japan) in the digital media industry and the strategic business relationship between the Target Group and e-License Inc. (Japan), the Directors believe that the Target Group is well positioned to become the pioneer in the provision of legal copyright protected on-line entertainment and media related items and the related copyright management and digital content licensing solutions in the PRC. Hence, the Board considers that the copyright management and digital licensing business in the PRC is of significant growth potential and generate high profitability and the engagement of the Group in such business through the Subscription will enable the Group to pursue a new line of information technology business in the PRC and generate an additional income source to the Group in the medium term by way of dividend, which is in the interest of the Shareholders and the Company as a whole.

e-learning business

On 2 June 2008, Wonder Link Limited, a wholly owned subsidiary of the Company, as purchaser, entered into a sale and purchase agreement with Smart Great International Limited, a vendor and Mr. Liu Zong Hong, as guarantor; pursuant to which Wonder Link Limited shall purchase and Smart Great International Limited shall sell the 102 shares of Start Bright Limited at a total consideration of HK\$20,400,000. The acquisition was completed on 24 June 2008.

Start Bright Limited and its subsidiaries (the “**Start Bright Group**”) are engaged in the development and provision of on-line education programs (“**e-learning business**”) 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 Start Bright 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 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.

LETTER FROM THE BOARD

GEM LISTING RULES IMPLICATION

The Disposal constitutes a very substantial disposal on the part of the Company under the GEM Listing Rules. The Agreement will be subject to Shareholders' approval at the EGM to be convened and held by the Company. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, no Shareholder has material interests in the Disposal and no Shareholder will abstain from voting at the EGM on the resolution approving the Disposal.

(2) CHANGE OF COMPANY NAME

The Board proposes to change the name of the Company from "Shen Nong China (Group) Limited 神農中國(集團)有限公司" to "China Digital Licensing (Group) Limited 中國數碼版權(集團)有限公司"

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. As stated in this circular, the Company proposes to dispose the business of production and distribution of the organic fertilizer.

In view of the above, the Board considers that the proposed new name will better reflect the long term business development of the Group in the information technology business in the PRC, as well as refresh its corporate identity and image. The Board is therefore of the view that the proposed Change of Company Name is in the interests of the Company and the Shareholders as a whole.

The proposed Change of Company Name will be subject to the following:

1. the passing of a special resolution by the Shareholders at an extraordinary general meeting of the Company to approve the Change of Company Name; and
2. the Registrar of Companies in the Cayman Islands approving the Change of Company Name.

Subject to the approval of the Registrar of Companies in the Cayman Islands, the Change of Company Name will take effect upon the passing of the special resolution of the Shareholders at the EGM approving the Change of Company Name, or on such effective date as specified in the special resolution. The Company will then carry out all necessary filing procedures with the Companies Registry in Hong Kong.

LETTER FROM THE BOARD

The Change of Company Name will not affect any rights of the holders of securities of the Company. The existing certificates of securities in issue bearing the present name of the Company shall, after the proposed Change of the Company Name becoming effective, continue to be evidence of title to such securities and the existing share certificates will continue to be valid for trading, settlement, registration and delivery purposes. There will not be any arrangement for exchange of the existing certificates of securities.

Once the Change of Company Name becomes effective, new share certificates will be issued only in the new name of the Company. A circular containing, among other matters, details of the proposed Change of Company Name and a notice of the EGM will be despatched to the Shareholders as soon as practicable. The Company will make further announcements as and when appropriate on the arrangement relating to the Change of Company Name, the trading and dealings in the securities of the Company on the GEM under the new name of the Company and as to when the new name of the Company will become effective.

EGM

A notice convening the EGM to be held at Unit 1601, Ruttonjee House, Ruttonjee Centre, 11 Duddell Street, Central, Hong Kong on Monday, 22 September 2008 at 11:00 a.m. is set out on pages 109 and 110 in this circular. Ordinary resolutions will be proposed at the EGM to approve the Agreement and the transactions contemplated thereunder. Special Resolution will be proposed at the EGM to approve the proposed Change of Company Name. As at the Latest Practicable Date, no Shareholder is required to abstain from voting in the EGM under the GEM Listing Rules.

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and deposit the same at the offices of the Company's branch registrar in Hong Kong, Tricor Standard Limited of 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

PROCEDURE FOR DEMANDING A POLL AT GENERAL MEETING

In accordance with the Articles of Association, a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded:

- (a) by the Chairman of the meeting; or
- (b) by at least 2 Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorized representative) or by proxy for the time being entitled to vote at the meeting; or

LETTER FROM THE BOARD

- (c) by any Shareholder or Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorized representative) or by proxy and representing not less than one-tenth of the total voting rights of all the Shareholders having the right to vote at the meeting; or
- (d) by any Shareholder or Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorized representative) or by proxy and holding Shares in the Company conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the Shares conferring that right.

RECOMMENDATIONS

The Board considers that the terms and conditions of the Agreement and the proposed Change of Company Name are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Shareholders to vote in favour of the resolutions as set out in the notice of the EGM to approve the Agreement and the transactions contemplated thereunder and the proposed Change of Company Name.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices of this circular.

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

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the reporting accountants, Vision A. S. Limited.

Vision A. S. Limited Certified Public Accountants
泓信會計師行有限公司

29 August 2008

The Board of Directors
Shen Nong China (Group) Limited
Unit 1601, 16/F.
Ruttonjee House
Ruttonjee Centre
11 Duddell Street
Central
Hong Kong

Dear Sirs,

We set out below our report on the consolidated financial information (the “Financial Information”) regarding Shen Nong China (Group) Limited (the “Company”) and its subsidiaries (hereafter collectively referred to as the “Group”) for the three years ended 31 December 2007 and for the six months ended 30 June 2008 (the “Relevant Periods”) for inclusion in the circular of the Company dated 29 August 2008 (the “Circular”) in connection with the proposed disposal of the 100% issued share capital of Silky Sky Investments Limited (“Silky Sky”), an indirectly wholly-owned subsidiary of the Company (the “Disposal”).

The Company was incorporated in the Cayman Islands on 10 October 2002 with limited liability and acted as an investment holding company. The registered office of the Company is located at Caledonian House, P.O. Box 1043, George Town, Grand Cayman, Cayman Islands and its principal place of business is situated at Unit 1601, 16/F., Ruttonjee House, Ruttonjee Centre, 11 Duddell Street, Central, Hong Kong.

As at the date of this report, the Company has interests in the following principal subsidiaries:

Name of subsidiary	Place of incorporation/ registration	Nominal value of ordinary share/ registered capital	Attributable equity interest held by the Company		Principal activities	Place of operation
			Directly %	Indirectly %		
KanHan Technologies Inc.	British Virgin Islands	US\$116,225	100	–	Investment holding	Hong Kong
KanHan Technologies Limited	Hong Kong	HK\$200,000	–	100	Provision of communication software platforms	Hong Kong

Name of subsidiary	Place of incorporation/ registration	Nominal value of ordinary share/ registered capital	Attributable equity interest held by the Company		Principal activities	Place of operation
			Directly %	Indirectly %		
China Rise Investments Limited	Hong Kong	HK\$1	–	100	Investment holding	Hong Kong
KanHan Technologies (China) Limited	The People's Republic of China	HK\$1,000,000	–	100	Provision of communication software platforms	The People's Republic of China
Rise Assets Limited	British Virgin Islands	US\$1	100	–	Investment holding	Hong Kong
Silky Sky Investments Limited	British Virgin Islands	US\$1	–	100	Investment holding	Hong Kong
Sky Rich Limited	Hong Kong	HK\$1	–	100	Investment holding	Hong Kong
Jinan Shiji Jiangshan Resource Recycling Technology Limited	The People's Republic of China	RMB30,000,000	–	51	Production and distribution of organic fertilizer	The People's Republic of China
Pharmanet Asia Limited	Hong Kong	HK\$1	–	100	Dormant	Hong Kong
Cheer Plan Limited	British Virgin Islands	US\$1	–	100	Investment holding	Hong Kong
Wonder Link Limited	British Virgin Islands	US\$1	–	100	Investment holding	Hong Kong
Start Bright Limited	British Virgin Islands	US\$200	–	51	Investment holding	Hong Kong
Huge Step Management Limited	British Virgin Islands	US\$100	–	51	Investment holding	Hong Kong
Smart Education Company Limited	Hong Kong	HK\$100	–	51	Development and provision of e-learning business	Hong Kong
Palm Learning Company Limited	Hong Kong	HK\$1	–	51	Investment holding	Hong Kong

For the purpose of this report, the directors of the Company have prepared the consolidated financial statements of the Group for the Relevant Periods (the “Underlying Financial Statements”) in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”), which also include all Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). For the purpose of this report, we have performed independent audit procedures on the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Financial Information set out in Sections A to B below has been prepared by the directors of the Company based on the Underlying Financial Statements. We have examined the Financial Information and have carried out such additional procedures as are necessary in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” as recommended by the HKICPA.

The preparation of the Underlying Financial Statements and the Financial Information which give a true and fair view is the responsibility of the directors of the Company. In preparing the Underlying Financial Statements and the Financial Information, it is fundamental that appropriate accounting policies are selected and applied consistently. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Group and the Company as at 31 December 2005, 31 December 2006, 31 December 2007 and 30 June 2008 and of the consolidated results and cash flows of the Group for each of the Relevant Periods.

The comparative consolidated income statements and consolidated cash flow statements of the Group for the six months ended 30 June 2007 together with notes thereon (the “2007 Comparative Financial Information”) have been extracted from the Company’s consolidated financial information for the same period which was prepared by the directors of the Company solely for the purpose of this report. We have reviewed the financial information for the six months ended 30 June 2007, in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Equity” issued by the HKICPA.

A review consists principally of making enquiries of the management and applying analytical procedures to the financial information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the 2007 Comparative Financial Information. On the basis of our review, which does not constitute an audit, we are not aware of any material modifications that should be made to the 2007 Comparative Financial Information.

A. FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENTS

	Notes	Year ended 31 December			Six months ended	
		2005	2006	2007	30 June	2008
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(audited)	(audited)	(audited)	(unaudited)	(audited)
TURNOVER	7					
Continuing operations		4,472	6,622	21,238	3,777	5,186
Discontinued operation		—	—	—	—	329
		4,472	6,622	21,238	3,777	5,515
COST OF SALES		(1,888)	(3,489)	(6,768)	(1,841)	(2,841)
Gross profit		2,584	3,133	14,470	1,936	2,674
Other revenues and gains	7	204	656	2,823	338	975
Research and development expenses		(1,250)	(1,166)	(1,101)	(625)	(474)
Selling and distribution costs		(1,062)	(1,189)	(1,171)	(626)	(633)
Administrative expenses		(5,389)	(7,707)	(10,645)	(3,131)	(15,037)
Other expenses	8	—	—	—	—	(40,570)
Finance costs	9	—	—	(236)	—	(193)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES		(4,913)	(6,273)	4,140	(2,108)	(53,258)
Gain on disposal of subsidiaries	38	—	—	—	—	4,556
Share of losses from associates		—	—	—	—	—
PROFIT/(LOSS) BEFORE TAX	10	(4,913)	(6,273)	4,140	(2,108)	(50,178)
Continuing operations		(4,913)	(6,273)	4,140	(2,108)	(50,178)
Discontinued operation		—	—	—	—	1,476
		(4,913)	(6,273)	4,140	(2,108)	(48,702)
Tax	12					
Continuing operations		—	—	(3,434)	—	3,654
Discontinued operation		—	—	—	—	—
		—	—	(3,434)	—	3,654
PROFIT/(LOSS) FOR THE YEAR/PERIOD						
Continuing operations		(4,913)	(6,273)	706	(2,108)	(46,524)
Discontinued operation		—	—	—	—	1,476
		(4,913)	(6,273)	706	(2,108)	(45,048)

	<i>Notes</i>	Six months ended				
		Year ended 31 December			30 June	
		2005	2006	2007	2007	2008
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(audited)	(audited)	(audited)	(unaudited)	(audited)
ATTRIBUTABLE TO:						
Equity holders of the Company		(4,913)	(6,273)	(2,470)	(1,993)	(41,871)
Minority interests		<u>–</u>	<u>–</u>	<u>3,176</u>	<u>(115)</u>	<u>(3,177)</u>
PROFIT/(LOSS) FOR						
THE YEAR/PERIOD		<u>(4,913)</u>	<u>(6,273)</u>	<u>706</u>	<u>(2,108)</u>	<u>(45,048)</u>
DIVIDENDS						
	15	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
LOSS PER SHARE						
From continuing and discontinued operations	16					
– Basic (HK cent)		<u>(1.13)</u>	<u>(0.88)</u>	<u>(0.27)</u>	<u>(0.32)</u>	<u>(3.15)</u>
From continuing operations						
– Basic (HK cent)		<u>(1.13)</u>	<u>(0.88)</u>	<u>(0.27)</u>	<u>(0.32)</u>	<u>(3.26)</u>

CONSOLIDATED BALANCE SHEETS

	Notes	As at 31 December			As at
		2005 HK\$'000 (audited)	2006 HK\$'000 (audited)	2007 HK\$'000 (audited)	30 June 2008 HK\$'000 (audited)
NON-CURRENT ASSETS					
Property, plant and equipment	17	334	158	9,070	8,861
Interests in associates	20	–	–	–	50,000
Goodwill	21	–	–	51,207	35,033
Other intangible assets	22	–	–	1,387	–
Total non-current assets		<u>334</u>	<u>158</u>	<u>61,664</u>	<u>93,894</u>
CURRENT ASSETS					
Inventories	23	–	62	1,053	1,890
Trade and other receivables	24	1,807	4,638	24,772	26,739
Cash and bank balances		<u>2,253</u>	<u>22,707</u>	<u>48,287</u>	<u>19,555</u>
Total current assets		<u>4,060</u>	<u>27,407</u>	<u>74,112</u>	<u>48,184</u>
CURRENT LIABILITIES					
Trade and other payables	25	2,305	3,989	8,813	7,176
Due to a director	26	–	–	–	77
Financial assistance from government	27	166	236	268	268
Tax payable		<u>–</u>	<u>–</u>	<u>3,526</u>	<u>–</u>
Total current liabilities		<u>2,471</u>	<u>4,225</u>	<u>12,607</u>	<u>7,521</u>
NET CURRENT ASSETS		<u>1,589</u>	<u>23,182</u>	<u>61,505</u>	<u>40,663</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>1,923</u>	<u>23,340</u>	<u>123,169</u>	<u>134,557</u>
NON-CURRENT LIABILITIES					
Financial assistance from government	27	1,172	1,059	1,027	1,027
Promissory notes	28	–	–	4,467	7,240
Convertible bonds	29	–	–	–	18,721
Other payables	30	–	–	–	30,160
Total non-current liabilities		<u>1,172</u>	<u>1,059</u>	<u>5,494</u>	<u>57,148</u>
Net assets		<u>751</u>	<u>22,281</u>	<u>117,675</u>	<u>77,409</u>
EQUITY					
Issued capital	31	7,004	29,498	66,519	66,519
Reserves		<u>(6,253)</u>	<u>(7,217)</u>	<u>33,137</u>	<u>(6,088)</u>
Minority interests		<u>751</u>	<u>22,281</u>	<u>99,656</u>	<u>60,431</u>
Total equity		<u>–</u>	<u>–</u>	<u>18,019</u>	<u>16,978</u>
Total equity		<u>751</u>	<u>22,281</u>	<u>117,675</u>	<u>77,409</u>

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company										
	Share capital	Share premium	Special reserve*	Warrant subscription reserve	Exchange reserve	Employee share-based compensation reserve	Convertible bonds reserve	Accumulated losses	Subtotal	Minority interests	Total
At 1 January 2005	5,837	19,323	10,084	-	-	-	-	(32,695)	2,549	-	2,549
Issue of shares under the placing	1,167	1,518	-	-	-	-	-	-	2,685	-	2,685
Share issue expenses	-	(137)	-	-	-	-	-	-	(137)	-	(137)
Employee share-based compensation	-	-	-	-	-	567	-	-	567	-	567
Loss for the year	-	-	-	-	-	-	-	(4,913)	(4,913)	-	(4,913)
At 31 December 2005 and 1 January 2006	7,004	20,704	10,084	-	-	567	-	(37,608)	751	-	751
Issue of rights shares	22,124	3,097	-	-	-	-	-	-	25,221	-	25,221
Issue of warrants under the placing	-	-	-	1,767	-	-	-	-	1,767	-	1,767
Share/warrant issue expenses	-	(2,250)	-	(298)	-	-	-	-	(2,548)	-	(2,548)
Shares issued upon exercise of share options	370	1,270	-	-	-	(567)	-	-	1,073	-	1,073
Employee share-based compensation	-	-	-	-	-	2,314	-	-	2,314	-	2,314
Exchange realignment	-	-	-	-	(24)	-	-	-	(24)	-	(24)
Loss for the year	-	-	-	-	-	-	-	(6,273)	(6,273)	-	(6,273)
At 31 December 2006	<u>29,498</u>	<u>22,821</u>	<u>10,084</u>	<u>1,469</u>	<u>(24)</u>	<u>2,314</u>	<u>-</u>	<u>(43,881)</u>	<u>22,281</u>	<u>-</u>	<u>22,281</u>

	Attributable to equity holders of the Company										
	Share capital	Share premium	Special reserve*	Warrant subscription reserve	Exchange reserve	Employee share-based compensation reserve	Convertible bonds 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
At 1 January 2007	29,498	22,821	10,084	1,469	(24)	2,314	-	(43,881)	22,281	-	22,281
Issue of shares on open offer	22,173	13,304	-	-	-	-	-	-	35,477	-	35,477
Issue of consideration shares	6,788	10,181	-	-	-	-	-	-	16,969	-	16,969
Share/warrant issue expenses	-	(978)	-	-	-	-	-	-	(978)	-	(978)
Shares issued upon exercise of share options	2,170	9,695	-	-	-	(2,931)	-	-	8,934	-	8,934
Shares issued upon exercise of warrants	5,890	13,838	-	(1,469)	-	-	-	-	18,259	-	18,259
Employee share-based compensation	-	-	-	-	-	617	-	-	617	-	617
Acquisition of subsidiaries	-	-	-	-	40	-	-	-	40	14,093	14,133
Exchange realignment	-	-	-	-	527	-	-	-	527	750	1,277
Loss for the year	-	-	-	-	-	-	-	(2,470)	(2,470)	3,176	706
At 31 December 2007 and 1 January 2008	66,519	68,861	10,084	-	543	-	-	(46,351)	99,656	18,019	117,675
Issue of convertible bonds	-	-	-	-	-	-	2,279	-	2,279	-	2,279
Share issue expenses	-	(253)	-	-	-	-	-	-	(253)	-	(253)
Open offer expenses	-	(505)	-	-	-	-	-	-	(505)	-	(505)
Employee share-based compensation	-	-	-	-	-	626	-	-	626	-	626
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	6,019	6,019
Disposal of subsidiaries	-	-	-	-	-	-	-	-	-	(4,544)	(4,544)
Exchange realignment	-	-	-	-	499	-	-	-	499	661	1,160
Loss for the period	-	-	-	-	-	-	-	(41,871)	(41,871)	(3,177)	(45,048)
At 30 June 2008	66,519	68,103	10,084	-	1,042	626	2,279	(88,222)	60,431	16,978	77,409

* The special reserve represents the difference between the nominal amount of shares and share premium of KanHan Technologies Inc. at the date which 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.

CASH FLOW STATEMENTS

	Year ended 31 December			Six months ended	
	2005	2006	2007	2007	2008
	HK\$'000 (audited)	HK\$'000 (audited)	HK\$'000 (audited)	HK\$'000 (unaudited)	HK\$'000 (audited)
OPERATING ACTIVITIES					
Profit/(loss) before tax					
Continuing operations	(4,913)	(6,273)	4,140	(2,109)	(50,178)
Discontinued operation	–	–	–	–	1,476
Adjustments for:					
Depreciation	206	173	212	64	2,316
Exchange difference	–	(25)	–	–	–
Loss on disposal of property, plant and equipment	–	53	–	–	–
Property, plant and equipment written off	–	–	–	–	394
Inventories written off	–	–	–	–	1,216
Impairment of goodwill	–	–	–	–	36,000
Impairment of intangible assets	–	–	–	–	1,432
Impairment allowance on trade receivables	–	–	–	–	2,491
Impairment allowance on other receivables	–	–	–	–	1,528
Amortisation of prepaid land lease payments	–	–	–	–	9
Amortisation of intangible assets	–	–	–	–	6
Release of government grants	–	–	–	–	(274)
Employee share-based compensation	567	2,314	617	–	626
Finance costs	–	–	236	–	193
Interest income	(27)	(585)	(400)	(338)	(646)
Gain on disposal of subsidiaries	–	–	–	–	(4,556)
Operating cash flows before movements in working capital	(4,167)	(4,343)	4,805	(2,383)	(7,967)
Decrease/(increase) in inventories	200	(62)	(926)	(25)	(2,070)
Decrease/(increase) in trade and other receivables	(511)	(2,829)	(12,938)	2,903	(1,176)
Increase/(decrease) in trade and other payables	94	1,681	4,674	(779)	(1,527)
Increase in due to a director	–	–	–	–	77
Increase in due to an associate	–	–	–	–	15,250
Cash generated from/(used in) operations	(4,384)	(5,553)	(4,385)	(284)	2,587
PRC taxes paid	–	–	–	–	(2)
NET CASH FROM/(USED IN) OPERATING ACTIVITIES	(4,384)	(5,553)	(4,385)	(284)	2,585

	Year ended 31 December			Six months ended	
	2005	2006	2007	30 June	
	HK\$'000 (audited)	HK\$'000 (audited)	HK\$'000 (audited)	2007 HK\$'000 (unaudited)	2008 HK\$'000 (audited)
INVESTING ACTIVITIES					
Purchases of items of property, plant and equipment	(73)	(49)	(8,892)	(4)	(1,444)
Purchases of intangible assets	-	-	(1,387)	-	-
Interests received	27	585	400	338	646
Investment in an associate	-	-	-	-	(25,250)
Acquisition of subsidiaries	-	-	(19,444)	(19,004)	(4,147)
Disposal of subsidiaries	-	-	-	-	(1,575)
NET CASH FROM/(USED IN) INVESTING ACTIVITIES	(46)	536	(29,323)	(18,670)	(31,770)
FINANCING ACTIVITIES					
Interest on promissory note paid	-	-	-	-	(130)
Other interests paid	-	-	(181)	2,986	(1)
Net proceeds from issue of shares	2,685	26,294	62,670	-	-
Proceeds from issue of warrants	-	1,767	-	-	-
Share/warrant issue expenses	(137)	(2,548)	(978)	-	(253)
Open offer expenses	-	-	-	-	(505)
Redemption of convertible bonds	-	-	-	-	(10,000)
Repayment of promissory notes	-	-	(17,000)	-	(20,067)
Receipt of promissory note receivable	-	-	-	-	30,500
Repayment of financial assistance from government	(81)	(43)	-	-	-
Capital injection from minority shareholders	-	-	13,419	5,911	-
NET CASH FROM/(USED IN) FINANCING ACTIVITIES	2,467	25,470	57,930	8,897	(456)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS					
Cash and cash equivalents at beginning of year/period	4,216	2,253	22,707	22,707	48,287
Effect of foreign exchange rate changes, net	-	1	1,358	9	909
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD	2,253	22,707	48,287	12,659	19,555
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS					
Cash and bank balances	2,253	22,707	48,287	12,659	19,555

BALANCE SHEETS

	Notes	As at 31 December			As at
		2005 HK\$'000 (audited)	2006 HK\$'000 (audited)	2007 HK\$'000 (audited)	30 June 2008 HK\$'000 (audited)
NON-CURRENT ASSETS					
Interests in subsidiaries	19	<u>2,041</u>	<u>132</u>	<u>67,971</u>	<u>131,463</u>
Total non-current assets		<u>2,041</u>	<u>132</u>	<u>67,971</u>	<u>131,463</u>
CURRENT ASSETS					
Trade and other receivables	24	181	2,804	550	105
Cash and bank balances		<u>30</u>	<u>22,150</u>	<u>31,675</u>	<u>13,047</u>
Total current assets		<u>211</u>	<u>24,954</u>	<u>32,225</u>	<u>13,152</u>
CURRENT LIABILITIES					
Accrued liabilities and other payables		<u>369</u>	<u>532</u>	<u>818</u>	<u>1,385</u>
Total current liabilities		<u>369</u>	<u>532</u>	<u>818</u>	<u>1,385</u>
NET CURRENT ASSETS/(LIABILITIES)		<u>(158)</u>	<u>24,422</u>	<u>31,407</u>	<u>11,767</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>1,883</u>	<u>24,554</u>	<u>99,378</u>	<u>143,230</u>
NON-CURRENT LIABILITIES					
Promissory notes	28	–	–	–	7,240
Convertible bonds	29	–	–	–	18,721
Other payables	30	<u>–</u>	<u>–</u>	<u>–</u>	<u>22,000</u>
Total non-current liabilities		<u>–</u>	<u>–</u>	<u>–</u>	<u>47,961</u>
Net assets		<u><u>1,883</u></u>	<u><u>24,554</u></u>	<u><u>99,378</u></u>	<u><u>95,269</u></u>
EQUITY					
Issued capital	31	7,004	29,498	66,519	66,519
Reserves	34	<u>(5,121)</u>	<u>(4,944)</u>	<u>32,859</u>	<u>28,750</u>
		<u><u>1,883</u></u>	<u><u>24,554</u></u>	<u><u>99,378</u></u>	<u><u>95,269</u></u>

B. NOTES TO FINANCIAL INFORMATION**1. GENERAL INFORMATION**

The Company is a limited liability company incorporated in the Cayman Islands. The Company's shares have been listed on the Growth Enterprise Market ("GEM") of the Stock Exchange of Hong Kong Limited ("the Stock Exchange"). The registered office of the Company is located at Caledonian House, P.O. Box 1043, George Town, Grand Cayman, Cayman Islands and its principal place of business is situated at Unit 1601, 16/F., Ruttonjee House, Ruttonjee Centre, 11 Duddell Street, Central, Hong Kong.

The Company's principal activity has not changed during the Relevant Periods and consisted of investment holding. Details of the principal activities of its subsidiaries are set out in note 19 to the Financial Information.

By a special resolution passed on 16 January 2008, the name of the Company was changed from "KanHan Technologies Group Limited 看漢科技集團有限公司" to "Shen Nong China (Group) Limited 神農中國（集團）有限公司".

2. BASIS OF PREPARATION

The Financial Information has been prepared in accordance with all applicable HKFRSs issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the Financial Information comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules"). The Financial Information has been prepared under the historical cost convention. The Financial Information is presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

3. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The HKICPA has issued a number of new and revised HKFRSs which are effective during the Relevant Periods. For the purpose of preparing and presenting the Financial Information, the Group has applied all these new and revised HKFRSs throughout the Relevant Periods.

3.1 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Company has not early applied the new HKFRSs that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new HKFRSs will have no material impact on the Financial Information.

4. PRINCIPAL ACCOUNTING POLICIES**(a) Basis of consolidation**

The Underlying Financial Statements incorporate the financial statements of the Company and its subsidiaries for the Relevant Periods. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant inter-company transactions and balances within the Group are eliminated on consolidation.

The acquisition of subsidiaries during the Relevant Periods has been accounted for using purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries.

(b) Subsidiaries

A subsidiary is an entity in which the Company controls, directly or indirectly, its financial and operating policies so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

(c) Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Company has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's investment in an associate is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively.

The result of associate is included in the Company's income statement to the extent of dividends received and receivable. The Company's investment in an associate is treated as non-current assets and is stated at cost less any impairment losses.

(d) Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is initially recognised in the consolidated balance sheet as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination, from the acquisition date, allocated to each of the Group's cash generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 "Segment Reporting".

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

(e) Impairment of assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required other than inventories and financial assets, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at each balance sheet date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

(f) Related parties

A party is considered to be related to the Group if:

- (i) directly, or indirectly through one or more intermediaries, the party (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;
- (ii) the party is an associate;
- (iii) the party is a jointly-controlled entity;
- (iv) the party is a member of the key management personnel of the Group or its parent;
- (v) the party is a close member of the family of any individual referred to in (i) or (iv);
- (vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or
- (vii) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

(g) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses, except that when an item of property, plant and equipment is classified as held for sale, it is not depreciated and is measured at the lower of carrying amount and fair value less costs to sell. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment and the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	3 $\frac{1}{3}$ %
Leasehold improvements	10% – 33 $\frac{1}{3}$ %
Plant and machinery	9 $\frac{1}{2}$ % – 10%
Water pipelines	10%
Furniture, fixtures and office equipment	18% – 20%
Motor vehicles	20%
Computer equipment	33 $\frac{1}{3}$ %

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the asset.

Construction in progress represents buildings, water pipelines, plant and machineries under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

(h) Prepaid land lease payments

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms, except where an alternative basis is more representative of the pattern of benefits to be derived from the land leased.

(i) Intangible assets (other than goodwill)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Production technology

The production technology has indefinite useful life and is stated at cost less any impairment losses.

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalized and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

(j) Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

(k) Investment and other financial assets

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date i.e., the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on investments held for trading are recognised in the income statement.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Other long term investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost. Amortised cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contracts that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sales financial assets are those non-derivative financial assets in listed and unlisted equity securities that are designated as available-for-sale or are not classified in any of the other three categories. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; a discounted cash flow analysis and option pricing models.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at financial assets at fair value through profit or loss, of which interest income is included in net gains or losses.

(I) Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available-for-sale are not reversed through profit or loss.

(m) Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial asset) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; or
- the Group has transferred its right to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group’s continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group’s continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

(n) Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. The Company’s financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss has two subcategories, including financial liabilities held for trading and those designated as at fair value through profit or loss on initial recognition.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near future; or
- it is a part of an identified portfolio of financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

At each balance sheet date subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any interest paid on the financial liability.

Other financial liabilities

Other financial liabilities (including bank and other borrowing, trade payables and other payables) are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis other than those financial liabilities designated as fair value through profit or loss, of which the interest expense is included in net gains or losses.

(o) Convertible bonds

Convertible bonds that can be converted to share capital at the option of the holder, where the number of shares issued does not vary with changes in their fair value, are accounted for as compound financial instruments which contain both a liability component and an equity component. At initial recognition the liability component of the convertible bonds is calculated as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expenses recognised in the income statement is calculated using the effective interest method. The equity component is recognised in the convertible bonds reserve until either the note is converted or redeemed.

If the note is converted, the convertible bonds reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the note is redeemed, the convertible bonds reserve is released directly to retained profits.

(p) Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existed liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

(q) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis, and in the case of work in progress and finished goods, comprises direct materials, direct labor and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

(r) Contracts for services

Contract revenue on the rendering of services comprises the agreed contract amount. Costs of rendering services comprise labour and other costs of personnel directly engaged in providing the services and attributable overheads.

Revenue from the rendering of services is recognised based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers.

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

(s) Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

(t) Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(u) Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

(v) Financial assistance from government

The Innovation and Technology Fund ("ITF") of the Hong Kong Special Administrative Region Government has provided financial assistance to the Group to assist in a specific product development. The funding is unsecured, non-interest bearing and repayable to ITF when revenue is generated from the specific product. The amount repaid, if any, will be in stages and calculated with reference to the revenue generated and received.

(w) Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (i) from the sales of organic fertilizers, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (ii) software maintenance service income, which is received or receivables from customers when the maintenance service contracts are entered into, is amortised and credited to the income statement on a straight-line basis over the term of the maintenance service contract;
- (iii) software rental and subscription income from software application, website development and Putonghua learning platform are derived from providing software application to customers. The income is recognised when services are provided;
- (iv) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset;
- (v) sales of licensed software are recognised on transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and titles has been passed, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (vi) income from e-learning business is recognised when online education materials are delivered and installation services are rendered; and
- (vii) revenue arising from water supply is recognized based on water supplied as recorded by meters read during the year.

(x) Employee benefits*Equity-settled share-based payment transactions*

The Group operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employee is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 32. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A contingent liability is disclosed in respect of possible future long service payments to employees, as a number of current employees have achieved the required number of years of service to the Group, to the balance sheet date, in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated in the circumstances specified. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

Pension scheme and other retirement benefits

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Company's subsidiary which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute certain percentage of its payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

(y) Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Group's functional and presentation currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the date of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are currencies other than Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Group at the exchange rates ruling at the balance sheet date, and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

(z) Borrowing costs

Borrowing costs are recognised as expenses in the income statement in the period in which they are incurred.

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES**(a) Judgements**

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements.

Impairment of assets

In determining whether an asset is impaired or whether the event previously causing the impairment no longer exists, the Group has to exercise judgement in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may affect the asset value, or such an event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows, which are estimated based upon the continued use of the asset or derecognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could have a material effect on the net present value used in the impairment test.

(b) Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at each balance sheet dates and the details are given in note 21.

Impairment of trade receivables

The Group performs ongoing credit evaluations of its customers and adjusts credit limits based on payment history and the customer's current credit-worthiness, as determined by a review of their current credit information. The Group continuously monitors collections and payments from its customers and maintain a provision for estimated credit losses based upon its historical experience and any specific customer collection issues that it has identified.

6. SEGMENTAL INFORMATION

Segment information is presented byway of two segment formats: (a) on a primary segment reporting basis, by business segment; and (b) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

- (i) the server-based technology segment provides language communication software and platforms;
- (ii) the e-learning business segment provides online education programs and development of related products;
- (iii) the organic fertilizers segment produces and distributes organic fertilizers; and
- (iv) the water supply segment provides water supply services.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of customers, and assets are attributed to the segments based on the location of the assets.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

For the years ended 31 December 2005 and 2006, more than 90% of the Group's turnover and operating assets were attributable to the development of server-based language technologies in Hong Kong. Accordingly, no analysis by either business or geographical segment for the years ended 31 December 2005 and 31 December 2006 are included in the Financial Information.

(a) Business segments

The following tables present revenues, results and certain assets, liabilities and expenditure information for the Group's business segments for the six months ended 30 June 2008, the six months ended 30 June 2007 and the year ended 31 December 2007.

Six months ended 30 June 2008

	Continuing operations			Discontinued operation	Consolidated
	Server-based technology	E-learning business	Organic fertilizers	Water supply	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(audited)	(audited)	(audited)	(audited)	(audited)
Segment revenue					
Sale to external customers	4,541	13	632	329	5,515
Segment results	(128)	(2)	(44,250)	1,476	(42,904)
Unallocated revenue					431
Unallocated expenses					(6,037)
Unallocated finance costs					(192)
Loss before tax					(48,702)
Tax					3,654
Loss for the period					(45,048)
At 30 June 2008					
Assets and liabilities					
Segment assets	2,473	21,131	49,953	–	73,557
Unallocated assets					68,521
Total assets					142,078
Segment liabilities	5,626	182	1,217	–	7,025
Unallocated liabilities					57,644
Total liabilities					64,669
Other segment information					
Depreciation	28	2	459	1,827	2,316
Capital expenditure	6	–	61	1,377	1,444

Six months ended 30 June 2007

	<u>Continuing operations</u>		Consolidated <i>HK\$'000</i> (unaudited)
	Server-based technology <i>HK\$'000</i> (unaudited)	Organic fertilizers <i>HK\$'000</i> (unaudited)	
Segment revenue			
Sale to external customers	<u>3,777</u>	<u>-</u>	<u>3,777</u>
Segment results	<u>(934)</u>	<u>(235)</u>	(1,169)
Unallocated revenue			255
Unallocated expenses			(1,194)
Unallocated finance costs			<u>-</u>
Loss before tax			(2,108)
Tax			<u>-</u>
Loss for the period			<u>(2,108)</u>
At 30 June 2007			
Assets and liabilities			
Segment assets	1,775	71,155	72,930
Unallocated assets			<u>6,611</u>
Total assets			<u>79,541</u>
Segment liabilities	4,744	3,712	8,456
Unallocated liabilities			<u>24,271</u>
Total liabilities			<u>32,727</u>
Other segment information			
Depreciation	59	5	64
Capital expenditure	<u>3</u>	<u>445</u>	<u>448</u>

Year ended 31 December 2007

	<u>Continuing operations</u>		Consolidated <i>HK\$'000</i> (audited)
	Server-based technology <i>HK\$'000</i> (audited)	Organic fertilizers <i>HK\$'000</i> (audited)	
Segment revenue			
Sale to external customers	<u>6,929</u>	<u>14,309</u>	<u>21,238</u>
Segment results	<u>(1,874)</u>	<u>9,916</u>	8,042
Unallocated revenue			377
Unallocated expenses			(4,043)
Unallocated finance costs			<u>(236)</u>
Profit before tax			4,140
Tax			<u>(3,434)</u>
Profit for the year			<u>706</u>
At 30 December 2007			
Assets and liabilities			
Segment assets	2,037	95,132	97,169
Unallocated assets			<u>38,607</u>
Total assets			<u>135,776</u>
Segment liabilities	5,583	7,151	12,734
Unallocated liabilities			<u>5,367</u>
Total liabilities			<u>18,101</u>
Other segment information			
Depreciation	104	108	212
Capital expenditure	<u>42</u>	<u>8,850</u>	<u>8,892</u>

(b) Geographical segments

The following tables present revenue and certain asset and expenditure information for the Group's geographical segments for the six months ended 30 June 2008, the six months ended 30 June 2007 and the year ended 31 December 2007.

Six months ended 30 June 2008

	Mainland China <i>HK\$'000</i> (audited)	Hong Kong <i>HK\$'000</i> (audited)	Consolidated <i>HK\$'000</i> (audited)
Segment revenue			
Sale to external customers	<u>992</u>	<u>4,523</u>	<u>5,515</u>
Other segment information			
Segment assets	<u>50,005</u>	<u>92,073</u>	<u>142,078</u>
Capital expenditure	<u>1,440</u>	<u>4</u>	<u>1,444</u>

Six months ended 30 June 2007

	Mainland China <i>HK\$'000</i> (unaudited)	Hong Kong <i>HK\$'000</i> (unaudited)	Consolidated <i>HK\$'000</i> (unaudited)
Segment revenue			
Sale to external customers	<u>39</u>	<u>3,738</u>	<u>3,777</u>
Other segment information			
Segment assets	<u>71,305</u>	<u>8,236</u>	<u>79,541</u>
Capital expenditure	<u>445</u>	<u>3</u>	<u>448</u>

Year ended 31 December 2007

	Mainland China <i>HK\$'000</i> (audited)	Hong Kong <i>HK\$'000</i> (audited)	Consolidated <i>HK\$'000</i> (audited)
Segment revenue			
Sale to external customers	<u>14,460</u>	<u>6,778</u>	<u>21,238</u>
Other segment information			
Segment assets	<u>95,183</u>	<u>40,593</u>	<u>135,776</u>
Capital expenditure	<u>8,850</u>	<u>42</u>	<u>8,892</u>

7. TURNOVER, OTHER REVENUES AND GAINS

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts and the value of services rendered for the Relevant Periods.

An analysis of the Group's turnover, other revenues and gains for the Relevant Periods is as follows:

	Year ended 31 December			Six months ended	
				30 June	
	2005	2006	2007	2007	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(audited)	(audited)	(audited)	(unaudited)	(audited)
TURNOVER					
Sale of organic fertilizers	–	–	14,309	–	632
Sale of licensed software	2,624	4,979	4,111	2,604	2,853
Software maintenance service	780	741	803	367	641
Software rental and subscription income	294	306	328	160	240
Website development	384	308	1,001	329	358
E-learning business	–	–	–	–	13
Putonghua learning platform	390	288	686	317	449
Provision of water supply services	–	–	–	–	329
	<u>4,472</u>	<u>6,622</u>	<u>21,238</u>	<u>3,777</u>	<u>5,515</u>
OTHER REVENUES AND GAINS					
Interest income	27	585	400	338	646
Commission income	177	41	–	–	–
Exchange gain, net	–	30	–	–	24
Release of deferred government grants	–	–	–	–	274
Income from transfer of technologies	–	–	2,364	–	–
Sundry income	–	–	59	–	31
	<u>204</u>	<u>656</u>	<u>2,823</u>	<u>338</u>	<u>975</u>

8. OTHER EXPENSES

	Year ended 31 December			Six months ended	
				30 June	
	2005	2006	2007	2007	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(audited)	(audited)	(audited)	(unaudited)	(audited)
Impairment of goodwill	–	–	–	–	36,000
Impairment of intangible assets	–	–	–	–	1,432
Property, plant and equipment written off	–	–	–	–	394
Inventories written off	–	–	–	–	1,216
Impairment allowance on other receivables	–	–	–	–	1,528
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>40,570</u>

9. FINANCE COSTS

	Year ended 31 December			Six months ended 30 June	
	2005	2006	2007	2007	2008
	HK\$'000 (audited)	HK\$'000 (audited)	HK\$'000 (audited)	HK\$'000 (unaudited)	HK\$'000 (audited)
Interest on promissory notes	-	-	236	-	186
Interest on convertible bonds	-	-	-	-	6
Interest on bank borrowings wholly repayable within five years	-	-	-	-	1
	<u>-</u>	<u>-</u>	<u>236</u>	<u>-</u>	<u>193</u>

10. PROFIT/(LOSS) BEFORE TAX

The Group's profit/(loss) before tax is arrived at after charging:

	Year ended 31 December			Six months ended 30 June	
	2005	2006	2007	2007	2008
	HK\$'000 (audited)	HK\$'000 (audited)	HK\$'000 (audited)	HK\$'000 (unaudited)	HK\$'000 (audited)
Employee benefits expenses (excluding directors' remuneration)					
Salaries and allowances	3,194	3,402	5,493	1,661	2,296
Pension scheme contributions	140	152	373	70	117
Employee share-based payment	353	1,264	-	-	467
	<u>3,687</u>	<u>4,818</u>	<u>5,866</u>	<u>1,731</u>	<u>2,880</u>
Auditors' remuneration					
- underprovided in prior year	-	20	-	-	-
- current year	220	260	301	-	-
Exchange loss, net	-	-	53	-	56
Minimum lease payments under operating leases on land and buildings	595	395	1,198	315	812
Impairment allowance on trade receivables	-	-	-	-	2,491
Cost of services rendered	464	413	408	585	884
Cost of inventories sold	1,424	3,076	6,360	1,256	1,957
Amortisation of intangible assets	-	-	1	-	6
Amortisation of prepaid land lease payments	-	-	-	-	9
Depreciation	<u>206</u>	<u>173</u>	<u>212</u>	<u>64</u>	<u>2,316</u>

11. DIRECTORS' REMUNERATION AND SENIOR EXECUTIVES

- (a) Details of directors' remuneration disclosed pursuant to the Rules Governing the Listing Rules of Securities on GEM and Section 161 of the Hong Kong Companies Ordinance, are as follows:

	Year ended 31 December			Six months ended	
	2005	2006	2007	30 June	
	HK\$'000 (audited)	HK\$'000 (audited)	HK\$'000 (audited)	2007 HK\$'000 (unaudited)	2008 HK\$'000 (audited)
Independent non-executive directors:					
Fees	166	180	180	90	90
Executive directors:					
Fees	151	240	249	120	213
Salaries, allowances and benefits in kind	1,300	1,200	1,601	600	768
Employee share-based compensation	16	1,050	570	-	158
Pension scheme contributions	214	18	24	9	12
	1,681	2,508	2,444	729	1,151
Non-executive directors:					
Fees	17	-	120	-	52
Salaries, allowances and benefits in kind	-	-	-	-	-
Employee share-based compensation	-	-	47	-	-
Pension scheme contributions	-	-	6	-	3
	17	-	173	-	55
	1,864	2,688	2,797	819	1,296

There were no other emoluments payable to the independent non-executive directors for the six months ended 30 June 2008 (for the six months ended 30 June 2007, year ended 31 December 2007, 31 December 2006 and 31 December 2005: Nil).

There was no arrangement under which a director waived or agreed to waive any remuneration for the six months ended 30 June 2008 (for the six months ended 30 June 2007, year ended 31 December 2007, 31 December 2006 and 31 December 2005: Nil). In addition, no emoluments were paid by the Group to any of the directors as an inducement to join, or upon joining the Group or as a compensation for loss of office for the six months ended 30 June 2008 (for the six months ended 30 June 2007, year ended 31 December 2007, 31 December 2006 and 31 December 2005: Nil).

(b) The emolument of each director of the Company for the Relevant Periods is set out below:

Six months ended 30 June 2008

	Directors' fees <i>HK\$'000</i> (audited)	Salaries, allowances and benefits in kind <i>HK\$'000</i> (audited)	Employee share- based compensation <i>HK\$'000</i> (audited)	Pension scheme contributions <i>HK\$'000</i> (audited)	Total <i>HK\$'000</i> (audited)
Independent Non-executive Directors					
Hsu William Shiu Foo	30	–	–	–	30
Lee Kun Hung	30	–	–	–	30
Kwok Chi Sun, Vincent	30	–	–	–	30
	<u>90</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>90</u>
Executive Directors					
Mo Wai Ming, Lawrence	60	340	–	6	406
Pang Hong Tao	60	100	81	–	241
Au Shui Ming, Anna	63	328	77	6	474
Yang Pei Gen (resigned on 3 April 2008)	30	–	–	–	30
	<u>213</u>	<u>768</u>	<u>158</u>	<u>12</u>	<u>1,151</u>
Non-executive Director					
Ma She Shing, Albert	52	–	–	3	55
	<u>52</u>	<u>–</u>	<u>–</u>	<u>3</u>	<u>55</u>
Total	<u>355</u>	<u>768</u>	<u>158</u>	<u>15</u>	<u>1,296</u>

Six months ended 30 June 2007

	Directors' fees <i>HK\$'000</i> (unaudited)	Salaries, allowances and benefits in kind <i>HK\$'000</i> (unaudited)	Employee share- based compensation <i>HK\$'000</i> (unaudited)	Pension scheme contributions <i>HK\$'000</i> (unaudited)	Total <i>HK\$'000</i> (unaudited)
Independent Non-executive Directors					
Hsu William Shiu Foo	30	–	–	–	30
Lee Kun Hung	30	–	–	–	30
Kwok Chi Sun, Vincent	30	–	–	–	30
	<u>90</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>90</u>
Executive Directors					
Mo Wai Ming, Lawrence	60	600	–	6	666
Ma She Shing, Albert	60	–	–	3	63
	<u>120</u>	<u>600</u>	<u>–</u>	<u>9</u>	<u>729</u>
Total	<u><u>210</u></u>	<u><u>600</u></u>	<u><u>–</u></u>	<u><u>9</u></u>	<u><u>819</u></u>

Year ended 31 December 2007

	Directors' fees	Salaries, allowances and benefits in kind	Employee share-based compensation	Pension scheme contributions	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(audited)	(audited)	(audited)	(audited)	(audited)
Independent Non-executive Directors					
Hsu William Shiu Foo	60	–	–	–	60
Lee Kun Hung	60	–	–	–	60
Kwok Chi Sun, Vincent	60	–	–	–	60
	<u>180</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>180</u>
Executive Directors					
Mo Wai Ming, Lawrence	120	920	47	12	1,099
Pang Hong Tao	57	–	169	–	226
Au Shui Ming, Anna	57	395	185	12	649
Yang Pei Gen (resigned on 3 April 2008)	15	286	169	–	470
	<u>249</u>	<u>1,601</u>	<u>570</u>	<u>24</u>	<u>2,444</u>
Non-executive Director					
Ma She Shing, Albert	120	–	47	6	173
	<u>120</u>	<u>–</u>	<u>47</u>	<u>6</u>	<u>173</u>
Total	<u>549</u>	<u>1,601</u>	<u>617</u>	<u>30</u>	<u>2,797</u>

Year ended 31 December 2006

	Directors' fees <i>HK\$'000</i> (audited)	Salaries, allowances and benefits in kind <i>HK\$'000</i> (audited)	Employee share- based compensation <i>HK\$'000</i> (audited)	Pension scheme contributions <i>HK\$'000</i> (audited)	Total <i>HK\$'000</i> (audited)
Independent Non-executive Directors					
Hsu William Shiu Foo	60	-	-	-	60
Lee Kun Hung	60	-	-	-	60
Kwok Chi Sun, Vincent	60	-	-	-	60
	<u>180</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>180</u>
Executive Directors					
Mo Wai Ming, Lawrence	120	1,200	525	12	1,857
Ma She Shing, Albert	120	-	525	6	651
	<u>240</u>	<u>1,200</u>	<u>1,050</u>	<u>18</u>	<u>2,508</u>
Total	<u><u>420</u></u>	<u><u>1,200</u></u>	<u><u>1,050</u></u>	<u><u>18</u></u>	<u><u>2,688</u></u>

Year ended 31 December 2005

	Directors' fees	Salaries, allowances and benefits in kind	Employee share-based compensation	Pension scheme contributions	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(audited)	(audited)	(audited)	(audited)	(audited)
Independent Non-executive Directors					
Hsu William Shiu Foo (appointed on 10 June 2005)	34	–	–	–	34
Lee Kun Hung (appointed on 1 June 2005)	34	–	–	–	34
Kwok Chi Sun, Vincent	55	–	–	–	55
Li Mo Ching, Joyce (resigned on 10 June 2005)	22	–	–	–	22
Tam Cheuk Ling, Jacqueline (resigned on 1 June 2005)	21	–	–	–	21
	<u>166</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>166</u>
Executive Directors					
Mo Wai Ming, Lawrence	60	1,300	107	12	1,479
Ma She Shing, Albert (appointed on 1 June 2005)	70	–	107	4	181
Wai Ling Yung (resigned on 1 June 2005)	21	–	–	–	21
Lee Ching Ming (resigned on 1 January 2005)	–	–	–	–	–
	<u>151</u>	<u>1,300</u>	<u>214</u>	<u>16</u>	<u>1,681</u>
Non-executive Director					
Yuen Ka Lok, Ernest (resigned on 1 May 2005)	17	–	–	–	17
Total	<u><u>334</u></u>	<u><u>1,300</u></u>	<u><u>214</u></u>	<u><u>16</u></u>	<u><u>1,864</u></u>

- (c) The five highest paid employees for the six months ended 30 June 2008 included three (for the six months ended 30 June 2007: one, for the year ended 31 December 2007: three, for the year ended 31 December 2006 and 31 December 2005: one) directors, details of whose remuneration are set out above. Details of the remuneration of the remaining two (for the six months ended 30 June 2007: four, for the year ended 31 December 2007: two, for the year ended 31 December 2006 and 31 December 2005: four), non-director, highest paid employee for the Relevant Periods are as follows:

	Year ended 31 December			Six months ended 30 June	
	2005	2006	2007	2007	2008
	HK\$'000 (audited)	HK\$'000 (audited)	HK\$'000 (audited)	HK\$'000 (unaudited)	HK\$'000 (audited)
Salaries, allowances and benefits in kind	1,320	1,268	526	592	251
Pension scheme contributions	41	47	21	22	19
	<u>1,361</u>	<u>1,315</u>	<u>547</u>	<u>614</u>	<u>270</u>

The number of non-director, highest paid employees whose remuneration fell within the following band is as follows:

	Number of employees				
	Year ended 31 December			Six months ended 30 June	
	2005	2006	2007	2007	2008
	(audited)	(audited)	(audited)	(unaudited)	(audited)
Emolument band					
Nil to HK\$1,000,000	<u>4</u>	<u>4</u>	<u>2</u>	<u>4</u>	<u>2</u>

For the six months ended 30 June 2008, no remuneration were paid by the Group to any of the five highest paid employees as an inducement to join or upon joining the Group, or as compensation for loss of office (for the six months ended 30 June 2007, year ended 31 December 2007, 31 December 2006 and 31 December 2005: Nil).

There was no arrangement under which any of the five highest paid employees waived or agreed to waive any remuneration for the six months ended 30 June 2008 (for the six months ended 30 June 2007, year ended 31 December 2007, 31 December 2006 and 31 December 2005: Nil).

12. TAX

Except for the six months ended 30 June 2008, no provision for Hong Kong profits tax has been made in the financial statements as the Group did not have any assessable profits arising in Hong Kong during the Relevant Periods. No provision for Hong Kong profits tax has been made on the assessable profits for the six months ended 30 June 2008 arising in Hong Kong as the assessable profits is wholly absorbed by tax losses brought forward. 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.

	Year ended 31 December			Six months ended	
	2005	2006	2007	2007	2008
	HK\$'000 (audited)	HK\$'000 (audited)	HK\$'000 (audited)	HK\$'000 (unaudited)	HK\$'000 (audited)
Current year provision					
Hong Kong profits tax	-	-	-	-	-
PRC enterprise income tax	-	-	3,434	-	-
Overprovision in prior year	-	-	-	-	(3,654)
Tax charge/(credit) for the year/period	<u>-</u>	<u>-</u>	<u>3,434</u>	<u>-</u>	<u>(3,654)</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 in the PRC. Shiji Jiangshan is not subject to PRC enterprise income tax for the year ended 31 December 2007 and 31 December 2008.

There are no material unprovided deferred tax assets and liabilities at the respective balance sheet dates.

A reconciliation of the tax charge/(credit) applicable to profit/(loss) before tax using the statutory rate to the tax expense at the effective tax rate is as follows:

	Year ended 31 December			Six months ended	
	2005	2006	2007	2007	2008
	HK\$'000 (audited)	HK\$'000 (audited)	HK\$'000 (audited)	HK\$'000 (unaudited)	HK\$'000 (audited)
Profit/(loss) before tax	<u>(4,913)</u>	<u>(6,273)</u>	<u>4,140</u>	<u>(2,108)</u>	<u>(48,702)</u>
Tax at the statutory rate of 17.5%	(860)	(1,098)	724	(369)	(8,523)
Effect of different tax rates in other jurisdictions	-	-	645	-	-
Expenses not deductible for tax	362	705	2,127	254	9,865
Income not subject to tax	(32)	(23)	(415)	(12)	(1,263)
Deductible temporary differences not recognised	-	21	8	-	2
Tax losses not recognised	530	395	345	127	-
Overprovision in prior year	-	-	-	-	(3,434)
Utilisation of tax losses previously not recognised	-	-	-	-	(81)
Exchange realignment	-	-	-	-	(220)
Tax charge at effective rate	<u>-</u>	<u>-</u>	<u>3,434</u>	<u>-</u>	<u>(3,654)</u>

13. NET LOSS ATTRIBUTABLE TO SHAREHOLDERS

Net loss attributable to shareholders for the six months ended 30 June 2008 dealt with in the Financial Information of the Company was HK\$6,256,000 (for the six months ended 30 June 2007: HK\$995,000; year ended 31 December 2007: HK\$4,454,000; year ended 31 December 2006: HK\$5,156,000; year ended 31 December 2005: HK\$9,063,000).

14. DISCONTINUED OPERATION

On 21 April 2008, the Group decided to cease its water supply business. On 23 May 2008, Rise Assets Limited ("Rise Assets"), a wholly-owned subsidiary of the Company, disposed Proud Dragon Limited ("Proud Dragon"), which indirectly held 70% interests of Dang Tu Xian Zhong Tian Water Supply Limited ("Zhong Tian"). Zhong Tian was engaged in management of water plant and provision of water supply services and was a separate business segment operated in the People's Republic of China.

The operating result associated with the water supply business for the year/period and gain on disposal of subsidiaries related to the discontinued operation are presented below:

	Year ended 31 December			Six months ended	
	2005	2006	2007	2007	2008
	HK\$'000 (audited)	HK\$'000 (audited)	HK\$'000 (audited)	HK\$'000 (unaudited)	HK\$'000 (audited)
Turnover	-	-	-	-	329
Cost of sales	-	-	-	-	(534)
Other revenue and gains	-	-	-	-	298
Administrative expenses	-	-	-	-	(3,173)
Gain on disposal of subsidiaries	-	-	-	-	4,556
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Profit before tax	-	-	-	-	1,476
Tax	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Profit for the year/period	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,476</u>

The net cash flows incurred by the disposed group are as follows:

	Year ended 31 December			Six months ended 30 June	
	2005	2006	2007	2007	2008
	HK\$'000 (audited)	HK\$'000 (audited)	HK\$'000 (audited)	HK\$'000 (unaudited)	HK\$'000 (audited)
Operating activities	-	-	-	-	(1,657)
Investing activities	-	-	-	-	1,702
Financing activities	-	-	-	-	15,830
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,830</u>
Net cash inflow	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,875</u>

15. DIVIDENDS

No dividends have been paid or declared by the Company for the six months ended 30 June 2008 (for the six months ended 30 June 2007, year ended 31 December 2007, 31 December 2006 and 31 December 2005: Nil).

16. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss attributable to shareholders for the six months ended 30 June 2008 of HK\$41,871,000 (for the six months ended 30 June 2007: HK\$1,993,000; year ended 31 December 2007: HK\$2,470,000; year ended 31 December 2006: HK\$6,273,000; year ended 31 December 2005: HK\$4,913,000) and on the weighted average number of 1,330,375,080 (for the six months ended 30 June 2007: 627,056,499; year ended 31 December 2007: 907,881,918; year ended 31 December 2006: 713,894,013; year ended 31 December 2005: 432,915,369) ordinary shares of the Company in issue for the six months ended 30 June 2008.

Diluted loss per share has not been presented for the six months ended 30 June 2008 and 30 June 2007, and the year ended 31 December 2007, 31 December 2006 and 31 December 2005 as the share options had anti-dilutive effects on the basic loss per share.

17. PROPERTY, PLANT AND EQUIPMENT

Group (audited)

	Buildings	Leasehold improvements	Plant and machinery	Water pipelines	Furniture, fixtures and office equipment	Motor vehicles	Computer equipment	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost									
At 1 January 2005	-	157	-	-	339	-	796	-	1,292
Additions	-	8	-	-	15	-	50	-	73
At 31 December 2005 and at 1 January 2006	-	165	-	-	354	-	846	-	1,365
Additions	-	11	-	-	13	-	25	-	49
Disposals	-	-	-	-	(53)	-	-	-	(53)
Exchange realignment	-	-	-	-	1	-	-	-	1
At 31 December 2006 and at 1 January 2007	-	176	-	-	315	-	871	-	1,362
Arising on acquisition of subsidiaries	-	-	-	-	-	-	-	221	221
Additions	-	236	8,323	-	295	-	38	-	8,892
Transfers	-	-	209	-	-	-	-	(209)	-
Exchange realignment	-	-	-	-	1	-	-	10	11
At 31 December 2007 and at 1 January 2008	-	412	8,532	-	611	-	909	22	10,486
Arising on acquisition of subsidiaries	10,336	-	19,520	29,252	259	693	351	-	60,411
Additions	549	-	560	239	58	34	-	4	1,444
Disposal of subsidiaries	(10,885)	-	(20,070)	(29,491)	(299)	(693)	-	-	(61,438)
Assets written off	-	-	(367)	-	(52)	-	-	-	(419)
Transfers	-	-	24	-	-	-	-	(24)	-
Exchange realignment	-	9	313	-	11	-	-	1	334
At 30 June 2008	-	421	8,512	-	588	34	1,260	3	10,818

Group (audited)

	Buildings	Leasehold improvements	Plant and machinery	Water pipelines	Furniture, fixtures and office equipment	Motor vehicles	Computer equipment	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Accumulated depreciation									
At 1 January 2005	-	13	-	-	201	-	611	-	825
Charge for the year	-	54	-	-	40	-	112	-	206
At 31 December 2005 and at 1 January 2006	-	67	-	-	241	-	723	-	1,031
Charge for the year	-	57	-	-	23	-	93	-	173
At 31 December 2006 and at 1 January 2007	-	124	-	-	264	-	816	-	1,204
Charge for the year	-	52	70	-	53	-	37	-	212
At 31 December 2007 and at 1 January 2008	-	176	70	-	317	-	853	-	1,416
Arising on acquisition of subsidiaries	57	-	534	1,317	18	3	74	-	2,003
Charge for the period	122	15	1,092	977	53	40	17	-	2,316
Disposal of subsidiaries	(179)	-	(1,208)	(2,294)	(35)	(41)	-	-	(3,757)
Assets written off	-	-	(17)	-	(8)	-	-	-	(25)
Exchange realignment	-	-	3	-	1	-	-	-	4
At 30 June 2008	-	191	474	-	346	2	944	-	1,957
Net book value									
At 30 June 2008	-	230	8,038	-	242	32	316	3	8,861
At 31 December 2007	-	236	8,462	-	294	-	56	22	9,070
At 31 December 2006	-	52	-	-	51	-	55	-	158
At 31 December 2005	-	98	-	-	113	-	123	-	334

18. PREPAID LAND LEASE PAYMENTS

Group

HK\$'000
(audited)

Carrying amount at 1 January 2005, 31 December 2005, 31 December 2006, 31 December 2007 and 1 January 2008	–
Acquisition of subsidiaries	744
Recognised during the period	(9)
Disposal of a subsidiary	(735)
	<u> </u>
Carrying amount at 30 June 2008	<u> </u> <u> </u>

19. INTERESTS IN SUBSIDIARIES

	As at 31 December			As at
	2005	2006	2007	30 June
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(audited)	(audited)	(audited)	(audited)
Unlisted shares, at cost	3,162	3,162	3,162	3,162
Impairment in value	(3,162)	(3,162)	(3,162)	(3,162)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	–	–	–	–
Due from subsidiaries	22,236	22,012	90,575	154,366
Impairment in value	(20,195)	(21,880)	(22,604)	(22,903)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	2,041	132	67,971	131,463
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the directors, the amounts are not expected to be realised in the next twelve months from 30 June 2008. The carrying amounts of the amounts due from subsidiaries approximate to their fair values.

Particulars of the Company's principal subsidiaries are as follows:

Name of subsidiary	Place of incorporation/ registration	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Company		Principal activities	Place of operations
			Direct (%)	Indirect (%)		
KanHan Technologies Inc.	British Virgin Islands	US\$116,225	100	–	Investment holding	Hong Kong
KanHan Technologies Limited	Hong Kong	HK\$200,000	–	100	Provision of communication software platforms	Hong Kong
China Rise Investments Limited	Hong Kong	HK\$1	–	100	Investment holding	Hong Kong
KanHan Technologies (China) Limited	The People's Republic of China	HK\$1,000,000	–	100	Provision of communication software platforms	The People's Republic of China
Rise Assets Limited	British Virgin Islands	US\$1	100	–	Investment holding	Hong Kong
Silky Sky Investments Limited *	British Virgin Islands	US\$1	–	100	Investment holding	Hong Kong
Sky Rich Limited *	Hong Kong	HK\$1	–	100	Investment holding	Hong Kong
Jinan Shiji Jiangshan Resource Recycling Technology Limited *	The People's Republic of China	RMB30,000,000	–	51	Production and distribution of organic fertilizer	The People's Republic of China
Pharmanet Asia Limited	Hong Kong	HK\$1	–	100	Dormant	Hong Kong
Proud Dragon Limited **	British Virgin Islands	US\$1	–	100	Investment holding	Hong Kong
Jetrise Development Limited **	Hong Kong	HK\$1	–	100	Investment holding	Hong Kong
Dang Tu Xian Zhong Tian Water Supply Limited **	The People's Republic of China	RMB21,430,000	–	70	Management of water plants and provision of water supply services	The People's Republic of China

Name of subsidiary	Place of incorporation/ registration	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Company		Principal activities	Place of operations
			Direct (%)	Indirect (%)		
Cheer Plan Limited	British Virgin Islands	US\$1	–	100	Investment holding	Hong Kong
Wonder Link Limited	British Virgin Islands	US\$1	–	100	Investment holding	Hong Kong
Start Bright Limited ***	British Virgin Islands	US\$200	–	51	Investment holding	Hong Kong
Palm Learning Limited ***	Hong Kong	HK\$1	–	51	Investment holding	Hong Kong
Huge Step Management Limited ***	British Virgin Islands	US\$100	–	51	Investment holding	Hong Kong
Smart Education Company Limited ***	Hong Kong	HK\$100	–	51	Development and provision of e-learning business	Hong Kong

* These companies were acquired during the year ended 31 December 2007.

** These companies were acquired and disposed during the six months ended 30 June 2008.

*** These companies were acquired during the six months ended 30 June 2008.

The financial statements of the above companies for the year ended 31 December 2006 and 31 December 2005 have been audited by other auditors.

20. INTERESTS IN ASSOCIATES

Group

	As at 31 December			As at
	2005	2006	2007	30 June
	HK\$'000	HK\$'000	HK\$'000	2008
	(audited)	(audited)	(audited)	(audited)
Unlisted shares, at cost	–	–	–	65,250
Due to associates	–	–	–	(15,250)
	<u>–</u>	<u>–</u>	<u>–</u>	<u>50,000</u>

Amount due to associates is unsecured, interest-free and has no fixed terms of repayment.

Particulars of the associates are as follows:

Name of associate	Place of incorporation/ registration	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Company		Principal activities	Place of operations
			Direct (%)	Indirect (%)		
Far Glory Limited	British Virgin Islands	US\$10,900	–	20.26	Investment holding	Hong Kong
Great Wave Limited	British Virgin Islands	US\$1	–	20.26	Investment holding	Hong Kong
Sky Asia Investments Limited	Hong Kong	HK\$1	–	20.26	Investment holding	Hong Kong
Beijing LianYiHuiZhong Technology Company Limited	The People's Republic of China	HK\$2,000,000	–	20.26	Distribution of copyright protection items and other entertainment related business	The People's Republic of China

The financial statements of the above associates are coterminous with those of the Group.

On 14 April 2008, Cheer Plan Limited (“Cheer Plan”), a wholly-owned subsidiary of the Company, entered into an agreement with Far Glory Limited (“Far Glory”) pursuant to allotment of 900 new shares (the “Subscription Shares”) of Far Glory to Cheer Plan at a consideration of HK\$20,250,000. The Subscription Shares represent approximately 8.26% of the entire issued share capital of Far Glory as enlarged by the allotment and issue of the Subscription Shares. The completion took place on 21 April 2008 and the consideration for the Subscription Shares was settled by cash.

On 5 May 2008, Cheer Plan entered into another agreement with Mr. Hsu Tung Chi as vendor and Mr. Hsu Tung Sheng as guarantor, both are shareholders of Far Glory, to acquire 12% of the issued share capital of Far Glory at a maximum total consideration of HK\$45,000,000, of which HK\$5,000,000 to be settled by cash and HK\$40,000,000 by issue of convertible bonds.

The following table illustrates the summarised financial information of the Group's associates extracted from their financial statements:

	As at 30 June 2008 HK\$'000 (audited)
Assets	25,305
Liabilities	(18)
Revenues	4
Profit/(loss)	<u>(1)</u>

21. GOODWILL

The amounts of the goodwill capitalised by the Group as an asset and recognised in the consolidated balance sheet, arising from the acquisition of subsidiaries, are as follows:

Group

	<i>HK\$'000</i> (audited)
At 31 December 2005, 31 December 2006 and 1 January 2007	–
Arising from acquisition of subsidiaries (<i>note 37</i>)	<u>51,207</u>
At 31 December 2007 and 1 January 2008	51,207
Arising from acquisition of subsidiaries (<i>note 37</i>)	55,371
Impairment during the period	(36,000)
Written back on the disposal of subsidiaries (<i>note 38</i>)	<u>(35,545)</u>
At 30 June 2008	<u><u>35,033</u></u>
At 30 June 2008:	
Cost	71,033
Accumulated impairment	<u>(36,000)</u>
Net carrying amount	<u><u>35,033</u></u>

Goodwill is allocated to the Group's cash generating units ("CGU") identified according to the country of operation and business segment as follows:

	As at 31 December			As at
	2005	2006	2007	30 June
	<i>HK\$'000</i> (audited)	<i>HK\$'000</i> (audited)	<i>HK\$'000</i> (audited)	<i>HK\$'000</i> (audited)
Production and distribution of organic fertilizers, Mainland China	–	–	51,207	15,207
E-learning business, Hong Kong	–	–	–	<u>19,826</u>
	<u>–</u>	<u>–</u>	<u>51,207</u>	<u><u>35,033</u></u>

During the six months ended 30 June 2008, the Group assessed the recoverable amount of goodwill associated with the Group's organic fertilizers operation and determined that the goodwill was impaired by HK\$36,000,000. The recoverable amount of goodwill associated with the organic fertilizer operation was assessed by reference to expected recoverable amount from sale proceeds.

The recoverable amounts of the CGUs are determined based on value-in-use calculations using cash flow projections based on the financial budgets covering a five-year period for CGU as approved by the directors. Cash flow beyond the five-year period are extrapolated using the estimated rates stated below. The growth rates do not exceed the respective long-term average growth rates for the business in which the CGUs operate.

Key assumptions used for value-in-use calculations:

Production and distribution of organic fertilizers

	As at 31 December			As at
	2005	2006	2007	30 June
	%	%	%	2008
				%
Gross profit margin	–	–	25	N/A
Growth rate per month	–	–	3	N/A
Discount rate per annum	–	–	5.25	N/A

On-line education programs

	As at 31 December			As at
	2005	2006	2007	30 June
	%	%	%	2008
				%
Gross profit margin	–	–	–	70
Growth rate per month	–	–	–	4
Discount rate per annum	–	–	–	5

Management determined the budgeted gross profit margin based on past performance and its expectation of market development. The discounted rates used are pre-tax and reflect specific risks relating to the relevant CGUs.

22. OTHER INTANGIBLE ASSETS

Group

**Production
technology**
HK\$'000
(audited)

30 June 2008

Cost at 1 January 2008, net of accumulated amortisation	1,387
Exchange realignment	51
Amortisation provided during the period	(6)
Impairment during the period	(1,432)

At 30 June 2008	-
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At 30 June 2008:

Cost	1,432
Accumulated amortisation and impairment	(1,432)

Net carrying amount	-
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31 December 2007

Cost at 1 January 2007, net of accumulated amortisation	-
Additions	1,388
Amortisation provided during the year	(1)

At 31 December 2007	1,387
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At 31 December 2007:

Cost	1,388
Accumulated amortisation and impairment	(1)

Net carrying amount	1,387
---------------------	-------

23. INVENTORIES

Group

	As at 31 December			As at
	2005	2006	2007	30 June
	HK\$'000 (audited)	HK\$'000 (audited)	HK\$'000 (audited)	2008 HK\$'000 (audited)
Consumables	-	-	-	135
Raw materials	-	-	671	780
Work in progress	-	-	65	199
Finished goods	-	62	317	776
	<u>-</u>	<u>62</u>	<u>1,053</u>	<u>1,890</u>

No inventories were carried at net realisable value as at 30 June 2008 (31 December 2007, 31 December 2006 and 31 December 2005: Nil).

24. TRADE AND OTHER RECEIVABLES

Group

	As at 31 December			As at
	2005	2006	2007	30 June
	HK\$'000 (audited)	HK\$'000 (audited)	HK\$'000 (audited)	2008 HK\$'000 (audited)
Trade receivables	1,019	775	5,167	2,129
Deposits, prepayments and other receivables	788	1,363	13,405	24,610
Deposits paid under a non-legally binding memorandum of understanding	-	2,500	-	-
Deposit paid for acquisition of subsidiaries	-	-	6,200	-
	<u>1,807</u>	<u>4,638</u>	<u>24,772</u>	<u>26,739</u>

Company

	As at 31 December			As at
	2005	2006	2007	30 June
	HK\$'000 (audited)	HK\$'000 (audited)	HK\$'000 (audited)	2008 HK\$'000 (audited)
Deposits, prepayments and other receivables	181	304	550	105
Deposits paid under a non-legally binding memorandum of understanding	-	2,500	-	-
	<u>181</u>	<u>2,804</u>	<u>550</u>	<u>105</u>

On 15 May 2006, the Company entered into a non-legally binding memorandum of understanding (“MOU”) with Excel State Group Limited (“Excel State”) and Mr. Yang Shuxin in relation to the proposed acquisition of the whole or part of equity interests held by Mr. Yang Shuxin in Excel State, which holds 51% indirect interests in Shantou Jinshui Technology Limited (“Jinshui”).

During the year ended 31 December 2006, a refundable amount of HK\$2,500,000 was paid by the Company to Mr. Yang Shuxin as earnest money. No legally-binding formal agreement had been entered into on or before 31 March 2007 and the sum was refunded to the Company in full during the year ended 31 December 2007.

The aged analysis of the Group’s trade receivables (net of impairment allowances on trade receivables) at the balance sheet dates is as follows:

	As at 31 December			As at
	2005	2006	2007	30 June
	HK\$'000	HK\$'000	HK\$'000	2008
	(audited)	(audited)	(audited)	(audited)
Within 30 days	177	175	4,688	286
31 – 60 days	494	559	312	439
61 – 90 days	–	10	167	150
Over 90 days	348	31	–	1,254
	<u>1,019</u>	<u>775</u>	<u>5,167</u>	<u>2,129</u>

Included in the Group’s trade and other receivables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	As at 31 December			As at
	2005	2006	2007	30 June
	HK\$'000	HK\$'000	HK\$'000	2008
	(audited)	(audited)	(audited)	(audited)
United States Dollars	–	–	–	–
Renminbi	–	–	16,337	18,875
	<u>–</u>	<u>–</u>	<u>16,337</u>	<u>18,875</u>

Movement in the impairment allowance on trade receivables:

	As at 31 December			As at
	2005	2006	2007	30 June
	HK\$'000	HK\$'000	HK\$'000	2008
	(audited)	(audited)	(audited)	(audited)
Balance at beginning of the year/period	–	–	–	–
Allowance made during the year/period	–	–	–	2,491
	<u>–</u>	<u>–</u>	<u>–</u>	<u>2,491</u>

25. TRADE AND OTHER PAYABLES

Group

	As at 31 December			As at
	2005	2006	2007	30 June
	HK\$'000	HK\$'000	HK\$'000	2008
	(audited)	(audited)	(audited)	(audited)
Trade payables	499	269	2,090	286
Deferred income	–	636	1,727	1,597
Accrued liabilities and other payables	1,806	3,084	4,996	5,293
	<u>2,305</u>	<u>3,989</u>	<u>8,813</u>	<u>7,176</u>

The aging analysis of the Group's trade payables at the balance sheet dates is as follows:

	As at 31 December			As at
	2005	2006	2007	30 June
	HK\$'000	HK\$'000	HK\$'000	2008
	(audited)	(audited)	(audited)	(audited)
Within 30 days	499	126	1,667	116
31 – 60 days	–	31	46	28
61 – 90 days	–	112	316	14
Over 90 days	–	–	61	128
	<u>499</u>	<u>269</u>	<u>2,090</u>	<u>286</u>

Included in the Group's trade and other payables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	As at 31 December			As at
	2005	2006	2007	30 June
	HK\$'000	HK\$'000	HK\$'000	2008
	(audited)	(audited)	(audited)	(audited)
United States Dollars	–	–	–	–
Renminbi	–	–	3,682	1,171
	<u>–</u>	<u>–</u>	<u>3,682</u>	<u>1,171</u>

26. DUE TO A DIRECTOR

The amount due to a director is unsecured, interest-free and has no fixed terms of repayment.

27. FINANCIAL ASSISTANCE FROM GOVERNMENT

The Innovation and Technology Fund ("ITF") of the Hong Kong Special Administrative Region government has provided financial assistance to the Group to assist in a specific product development. The funding is unsecured, non-interest bearing and repayable to ITF when revenue is generated from the specific product. The amount repaid, if any, will be in stages and calculated with reference to the revenue generated and received.

In the opinion of the directors, HK\$268,000 (31 December 2007: HK\$268,000; 31 December 2006: HK\$236,000; 31 December 2005: HK\$166,000) will be repayable to the ITF within the next twelve months from 31 December 2007 by reference to the forecast revenue generated to be from the specific product. Accordingly, HK\$268,000 (31 December 2007: HK\$268,000; 31 December 2006: HK\$236,000; 31 December 2005: HK\$166,000) has been classified as current liabilities and the remaining balance of HK\$1,027,000 (31 December 2007: HK\$1,027,000; 31 December 2006: HK\$1,059,000; 31 December 2005: HK\$1,172,000) is classified as non-current liabilities.

28. PROMISSORY NOTES

Group

	<i>Notes</i>	<i>HK\$'000</i> (audited)
At 1 January 2005, 31 December 2005, 31 December 2006 and 1 January 2007		–
Issued during the year	<i>(a)</i>	21,467
Repaid during the year		<u>(17,000)</u>
At 31 December 2007 and 1 January 2008		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>

Company

	<i>Notes</i>	<i>HK\$'000</i> (audited)
At 1 January 2005, 31 December 2005, 31 December 2006, 31 December 2007 and 1 January 2008		–
Issued during the period	<i>(b)</i>	22,840
Repaid during the period		<u>(15,600)</u>
At 30 June 2008		<u><u>7,240</u></u>

Notes:

- (a) A promissory note was issued by Rise Assets Limited, a wholly owned subsidiary of the Company, 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 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. The promissory note was fully repaid during the six months ended 30 June 2008.

- (b) On 6 February 2008, a promissory note with principal amount of HK\$15,600,000 was issued by the Company upon the completion of the acquisition of Proud Dragon as partial consideration. This promissory note is interest bearing at 1% per annum and has 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 with 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.

29. CONVERTIBLE BONDS

On 20 June 2008 and 24 June 2008, the Company issued 18,000,000 1% convertible bonds with a nominal value of HK\$18,000,000 and 3,000,000 1% convertible bonds with a nominal value of HK\$3,000,000, respectively, to two independent noteholders. The Company shall repay such principal outstanding under the convertible bonds to the noteholders up to and including the date falling on the third anniversary of the date of issue of the convertible bonds. The noteholders have the right to convert the whole or any part of the principal amount of the convertible bonds into shares at any time and from time to times after six months from the date of issue of the convertible bonds up to the date immediately prior to the maturity date.

The fair values of the liability component and the equity conversion component were determined at issuance of the convertible bonds. The fair value of the liability component was calculated using a market interest rate. The residual amount, representing the value of the equity conversion component, has been included in the convertible bonds reserve.

The convertible bonds recognised in the balance sheet date are calculated as follows:

Group and Company

	As at 31 December			As at
	2005	2006	2007	30 June
	HK\$'000	HK\$'000	HK\$'000	2008
	(audited)	(audited)	(audited)	(audited)
Liability component at 1 January	—	—	—	—
Face value of convertible bonds issued during the year/period	—	—	—	21,000
Equity component	—	—	—	(2,279)
Liability component at the issuance date	—	—	—	18,721
Interest expense	—	—	—	—
Liability component	—	—	—	18,721
Portion classified as non-current	—	—	—	(18,721)
Current portion	—	—	—	—

30. 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, interest-free and shall be payable by the Company after the year ended 31 December 2010.

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, interest-free and shall be payable by the Company after the year ended 31 August 2009.

For details of the acquisitions, please refer to note 37 to the Financial Information.

31. SHARE CAPITAL

	<i>Notes</i>	Number of shares	Amount HK\$'000
Authorised:			
At 1 January 2005 and 31 December 2005, at HK\$0.01 each		2,000,000,000	20,000
Share consolidation	<i>(a)</i>	(1,600,000,000)	–
Increase in authorised share capital,	<i>(a)</i>	<u>1,600,000,000</u>	<u>80,000</u>
At 31 December 2006, 31 December 2007 and 30 June 2008, at HK\$0.05 each		<u><u>2,000,000,000</u></u>	<u><u>100,000</u></u>
Issued and fully paid:			
At 1 January 2005, ordinary shares of HK\$0.01 each		583,718,400	5,837
Issue of shares under the placement		<u>116,740,000</u>	<u>1,167</u>
At 31 December 2005, ordinary shares of HK\$0.01 each		700,458,400	7,004
Shares issued upon exercise of share options	<i>(b)</i>	<u>37,000,000</u>	<u>370</u>
Share consolidation	<i>(a)</i>	<u>(589,966,720)</u>	<u>–</u>
At 28 February 2006, ordinary shares of HK\$0.05 each		147,491,680	7,374
Issue of shares under the rights issue	<i>(c)</i>	<u>442,475,040</u>	<u>22,124</u>
At 31 December 2006, ordinary shares of HK\$0.05 each		589,966,720	29,498
Issue of consideration shares	<i>(d)</i>	135,750,000	6,788
Shares issued upon exercise of share options	<i>(b)</i>	43,400,000	2,170
Shares issued upon exercise of warrants	<i>(e)</i>	117,800,000	5,890
Open offer	<i>(f)</i>	<u>443,458,360</u>	<u>22,173</u>
At 31 December 2007 and 30 June 2008, ordinary shares of HK\$0.05 each		<u><u>1,330,375,080</u></u>	<u><u>66,519</u></u>

Notes:

- (a) Pursuant to an ordinary resolution passed by the shareholders in the extraordinary general meeting ("EGM") held on 28 February 2006, every five shares of HK\$0.01 each in the issued and unissued ordinary share capital of the Company are consolidated into one consolidated share HK\$0.05 each (the "Share Consolidation"). Subsequently, the authorised share capital of the Company has been increased from HK\$20,000,000 divided into 400,000,000 shares of HK\$0.05 each to HK\$100,000,000 divided into 2,000,000,000 shares of HK\$0.05 each by the creation of additional 1,600,000,000 unissued shares of HK\$0.05 each.
- (b) Details of the Company's share option scheme and the movements of share options under the scheme are included in note 32 to the Financial Information.
- (c) Pursuant to an ordinary resolution passed by the shareholders in the EGM held on 28 February 2006, 442,475,040 ordinary shares are issued by way of rights issue on the basis of three rights shares for every one consolidated share of HK\$0.05 each at a subscription price of HK\$0.057 each. The shares were allotted by the Company on 30 March 2006.
- (d) On 15 May 2007, 135,750,000 ordinary shares of the Company were issued at an issue price of HK\$0.125 per share to Mr. Yang Pei Gen as part of the consideration of HK\$61 million for acquisition of 100% equity interest in Silky Sky Investments Limited.
- (e) During the year ended 31 December 2007, registered holders of 117,800,000 warrants exercise their rights to subscribe for 117,800,000 ordinary shares at a consideration of HK\$18.26 million of which HK\$5.89 million was credited to share capital and the balance of HK\$12.37 million was credited to the Company's share premium account.
- (f) On 14 December 2007, total number of 443,458,360 shares at HK\$0.08 per share were issued via open offer on the basis of one offer share for every two shares held by existing shareholders. The Company raised proceeds of approximately HK\$34.5 million, net of issuing expenses, to finance the acquisition of 100% equity interest in Proud Dragon Limited on 6 February 2008.

32. SHARE OPTION SCHEME

On 24 January 2003, a share option scheme was adopted by the Company pursuant to a written resolution of the Company (the "Scheme").

The purpose of the Scheme is to provide eligible employees with performance incentives for continuous and improved service with the Group and to enhance their contributions to increase profits by encouraging capital accumulation and share ownership. The Board may, at its discretion, invite any full-time employee of the Company, including any executive and non-executive directors of the Company, or any subsidiaries of the Company to take up options to subscribe for shares of the Company. The total number of shares in respect of which options may be granted under the Scheme shall not exceed 10% of the issued share capital of the Company from time to time. The total number of shares of the Company issued and to be issued upon exercise of the options granted to a participant under the Scheme and any other share option scheme adopted by the Company (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the shares of the Company in issue from time to time.

An option may be exercised at any time during a period to be determined and notified by the Board to each participant. Options might be granted at a consideration of HK\$1. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK\$5 million must be approved in advance by the Company's shareholders.

The subscription price for the shares of the Company will be a price determined by the Board and will be the highest of (i) the closing price of the shares on the GEM as stated in the Stock Exchange's daily quotation on the date of the offer grant; (ii) the average closing price of the shares on the GEM as stated in the Stock Exchange's daily quotations for the five trading days immediately preceding the date of the offer grant; and (iii) the nominal value of the shares.

Movements in the number of share options outstanding during the Relevant Periods are as follows:

	<i>Notes</i>	Number of options
At 1 January 2005		–
Granted during the year	<i>(a)</i>	<u>37,000,000</u>
At 31 December 2005 and 1 January 2006		37,000,000
Exercised during the year	<i>(b)</i>	(37,000,000)
Granted during the year	<i>(c)</i>	<u>19,400,000</u>
At 31 December 2006 and 1 January 2007		19,400,000
Granted during the year	<i>(d)</i>	24,000,000
Exercised during the year	<i>(e)</i>	<u>(43,400,000)</u>
At 31 December 2007 and 1 January 2008		–
Granted during the period	<i>(f)</i>	48,600,000
Lapsed during the period	<i>(f)</i>	<u>(30,000,000)</u>
At 30 June 2008		<u><u>18,600,000</u></u>

Notes:

- (a) On 8 July 2005, the Company granted share options to certain of its directors and employees to subscribe for an aggregate 37,000,000 shares at a nominal consideration of HK\$1 for each lot of share option under the Scheme at the exercise price of HK\$0.029 per share.
- (b) On 2 February 2006, all 37,000,000 share options granted on 8 July 2005 were exercised by the option holders at an exercise price of HK\$0.029 each.
- (c) On 5 June 2006, the Company granted share options to certain of its directors and employees at a nominal consideration of HK\$1 for each lot of share option to subscriber for an aggregate of 19,400,000 shares under the Scheme at an exercise price of HK\$0.21 per share.
- (d) On 13 February 2007, the Company granted share options to certain of its directors and employees at a nominal consideration of HK\$1 for each lot of share options to subscribe for an aggregate of 4,000,000 shares under the Scheme at an exercise price of HK\$0.19 per share.
- On 14 August 2007, the Company granted share options to certain of its directors and employees at a nominal consideration of HK\$1 for each lot of share options to subscribe for an aggregate of 20,000,000 shares under the Scheme at an exercise price of HK\$0.205 per share.

- (e) On 11 May 2007, 3,000,000 share options granted on 5 June 2006 were exercised by the option holders at an exercise price of HK\$0.21 each.

On 8 October 2007, 4,000,000 share options granted on 13 February 2007 were exercised by the option holders at an exercise price of HK\$0.19 each.

On 10 October 2007, 16,400,000 share options granted on 5 June 2006 and 20,000,000 share options granted on 14 August 2007 were exercised by the option holders at an exercise price of HK\$0.21 each and HK\$0.205 each, respectively.

- (f) On 21 December 2007, the Company granted share options to certain of its directors and employees at a nominal consideration of HK\$1 for each lot of share options to subscribe for an aggregate of 48,600,000 shares under the Scheme at an exercise price of HK\$0.151 per share. These options were accepted by the option holders in January 2008.

In June 2008, 30,000,000 share options were lapsed due to resignation of certain employees.

Details of share options granted during the Relevant Periods and balances as at each balance sheet dates:

Categories of grantees	Date of grant	Exercise period	Exercise price per share HK\$	Number of options			
				As at 31 December			As at 30 June
				2005	2006	2007	2008
Directors	8/7/2005	8/7/2005 – 7/7/2015	0.029	14,000,000	-	-	-
	5/6/2006	5/6/2006 – 4/6/2016	0.210	-	8,800,000	-	-
	13/2/2007	13/2/2007 – 12/2/2017	0.190	-	-	4,000,000	-
	14/8/2007	14/8/2007 – 13/8/2017	0.205	-	-	20,000,000	-
	21/12/2007	18/1/2008 – 20/12/2017	0.151	-	-	-	12,300,000
Employees	8/7/2005	8/7/2005 – 7/7/2015	0.029	23,000,000	-	-	-
	5/6/2006	5/6/2006 – 4/6/2016	0.210	-	10,600,000	-	-
	21/12/2007	18/1/2008 – 20/12/2017	0.151	-	-	-	36,300,000
				37,000,000	19,400,000	24,000,000	48,600,000
Options held by employees lapsed during the year/period				-	-	-	(30,000,000)
				<u>37,000,000</u>	<u>19,400,000</u>	<u>24,000,000</u>	<u>18,600,000</u>

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on the Black-Scholes option pricing model. The expected life of the option is used as an input into this model.

Fair value of share options and assumptions

	As at 31 December			As at
	2005	2006	2007	30 June
	HK\$	HK\$	HK\$	HK\$
Fair value at measurement date	<u>0.0153</u>	<u>0.1193</u>	<u>0.0257</u>	<u>0.0129</u>
Share price at grant date	0.0270	0.2100	0.2030	0.1510
Exercise price	0.0290	0.2100	0.2030	0.1510
Expected option life	5 years	3 years	1 year	1 year
Expected volatility	41.76%	84.66%	26.67%	16.00%
Expected dividends	–	–	–	–
Risk-free interest rate (based on Exchange Fund Notes)	3.78%	4.6%	4.6%	4.6%

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

33. RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund Scheme (“Scheme”) for all its qualifying employees. The assets of the Scheme are held separately from those of the Group in funds under the control of trustees. Both the Group and each eligible employee contribute the lower of 5% or HK\$1,000 of the relevant payroll costs to the Scheme.

34. RESERVES

Company

	Share premium	Contribution surplus	Warrant subscription reserve	Employee share-based compensation reserve	Convertible notes reserve	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(audited)	(audited)	(audited)	(audited)	(audited)	(audited)	(audited)
At 1 January 2005	19,323	3,047	-	-	-	(20,376)	1,994
Issue of shares under the placing	1,518	-	-	-	-	-	1,518
Share issue expenses	(137)	-	-	-	-	-	(137)
Employee share-based compensation	-	-	-	567	-	-	567
Loss for the year	-	-	-	-	-	(9,063)	(9,063)
At 31 December 2005 and 1 January 2006	20,704	3,047	-	567	-	(29,439)	(5,121)
Issue of right shares	3,097	-	-	-	-	-	3,097
Issue of warrant under the placing	-	-	1,767	-	-	-	1,767
Share/warrant issue expenses	(2,250)	-	(298)	-	-	-	(2,548)
Shares issued upon exercise of share options	1,270	-	-	(567)	-	-	703
Employee share-based compensation	-	-	-	2,314	-	-	2,314
Loss for the year	-	-	-	-	-	(5,156)	(5,156)
At 31 December 2006 and 1 January 2007	22,821	3,047	1,469	2,314	-	(34,595)	(4,944)
Issue of shares on open offer	13,304	-	-	-	-	-	13,304
Issue of consideration shares	10,181	-	-	-	-	-	10,181
Share/warrant issue expenses	(978)	-	-	-	-	-	(978)
Shares issued upon exercise of share options	9,695	-	-	(2,931)	-	-	6,764
Shares issued upon exercise of warrants	13,838	-	(1,469)	-	-	-	12,369
Employee share-based compensation	-	-	-	617	-	-	617
Loss for the year	-	-	-	-	-	(4,454)	(4,454)
At 31 December 2007 and 1 January 2008	68,861	3,047	-	-	-	(39,049)	32,859
Issue of convertible bonds	-	-	-	-	2,279	-	2,279
Share issue expenses	(253)	-	-	-	-	-	(253)
Open offer expenses	(505)	-	-	-	-	-	(505)
Employee share-based compensation	-	-	-	626	-	-	626
Loss for the period	-	-	-	-	-	(6,256)	(6,256)
At 30 June 2008	<u>68,103</u>	<u>3,047</u>	<u>-</u>	<u>626</u>	<u>2,279</u>	<u>(45,305)</u>	<u>28,750</u>

- (a) The contributed surplus of the Company arose from the Group Reorganisation took place on 15 January 2003. The balance represents the difference between the nominal amount of the Company's shares issued and the consolidated shareholders' fund of KanHan (BVI).
- (b) The Company did not have reserves available for distribution to shareholders as at 30 June 2008 (31 December 2007, 31 December 2006 and 31 December 2005: Nil).
- (c) Employee share-based compensation reserve represents the fair value of the actual or estimated number of unexercised share options granted to employees recognised in accordance with the accounting policy adopted for share-based compensation as described in note 4 to the Financial Information.

35. DEFERRED TAX

- (a) The movements in the Group's deferred tax liabilities/(assets) during the Relevant Periods are as follows:

	Depreciation allowance HK\$'000	Tax losses HK\$'000	Total HK\$'000
At 1 January 2005	33	(33)	–
Deferred tax charged/(credited) to income statement during the year	<u>(21)</u>	<u>21</u>	<u>–</u>
At 31 December 2005 and 1 January 2006	12	(12)	–
Deferred tax charged/(credited) to income statement during the year	<u>(12)</u>	<u>12</u>	<u>–</u>
At 31 December 2006 and 1 January 2007	–	–	–
Deferred tax charged/(credited) to income statement during the year	<u>–</u>	<u>–</u>	<u>–</u>
At 31 December 2007 and 1 January 2008	–	–	–
Deferred tax charged/(credited) to income statement during the period	<u>–</u>	<u>–</u>	<u>–</u>
At 30 June 2008	<u>–</u>	<u>–</u>	<u>–</u>

- (b) Unrecognised deferred tax assets arising from:

	As at 31 December			As at 30 June
	2005	2006	2007	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Deductible temporary differences	–	47	92	102
Tax losses	<u>29,887</u>	<u>32,267</u>	<u>33,326</u>	<u>32,934</u>
Total unrecognised deferred tax assets	<u>29,887</u>	<u>32,314</u>	<u>33,418</u>	<u>33,036</u>

Both the tax losses and the deductible temporary differences do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items due to the unpredictability of future profit streams.

36. OPERATING LEASE ARRANGEMENTS

The Group leases certain premises under operating lease arrangements. Leases for premises are negotiated for terms ranging from 1 to 10 years.

At the balance sheet dates, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 31 December			As at
	2005	2006	2007	30 June
	HK\$'000	HK\$'000	HK\$'000	2008
Within one year	281	543	1,364	785
In the second to fifth years, inclusive	–	430	1,808	813
After five years	–	–	1,915	1,264
	<u>281</u>	<u>973</u>	<u>5,087</u>	<u>2,862</u>

37. ACQUISITION OF SUBSIDIARIES

For the year ended 31 December 2007

On 21 March 2007, Rise Assets Limited (“Rise Assets”), a wholly-owned subsidiary of the Company, entered into a conditional sale and purchase agreement with Mr. Yang Pei Gen to acquire the entire issued capital of Silky Sky Investments Limited (“Silky Sky”) and all obligations, indebtedness and liabilities due by Silky Sky to Mr. Yang Pei Gen for a total consideration of HK\$61,000,000.

The consideration was settled by cash of HK\$20,000,000, issue of 135,750,000 ordinary shares of HK\$0.05 each of the Company, which were allotted, issued and credited as fully paid at the price of HK\$0.125 each and issue of approximately HK\$21,467,000 promissory note. The acquisition was completed on 21 May 2007. The aggregate amount of goodwill arising as a result of the acquisition is approximately HK\$51,207,000.

The net assets acquired, being the fair value, in the transaction, and goodwill on acquisition, are as follows:

	Fair value recognised on acquisition HK\$'000
Property, plant and equipment	221
Inventories	65
Prepayments, deposits and other receivables	7,196
Amount due from minority shareholder	13,419
Cash and bank balances	556
Accrued liabilities and other payables	(95)
Exchange reserve	(40)
Minority interests	<u>(14,093)</u>
Net assets acquired	7,229
Goodwill on acquisition	<u>51,207</u>
	<u>58,436</u>
Satisfied by:	
Cash consideration	20,000
Consideration shares	16,969
Promissory note	<u>21,467</u>
	<u>58,436</u>

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	<i>HK\$'000</i>
Cash consideration	20,000
Cash and bank balances acquired	<u>(556)</u>
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	<u><u>19,444</u></u>

For the six months ended 30 June 2008

- (a) On 29 October 2007, Rise Assets entered into an agreement with Proud Dragon Limited ("Proud Dragon") and Mr. Yip Yuk Tong in relation to the acquisition of the equity interest held by Mr. Yip Yuk Tong in Proud Dragon with a consideration of HK\$47,600,000.

The consideration was settled by cash of HK\$6,200,000, issue of HK\$10,000,000 convertible bonds and issue of HK\$15,600,000 promissory note. The acquisition was completed on 6 February 2008. The aggregate amount of goodwill arising as a result of the acquisition is approximately HK\$31,820,000.

The net assets acquired, being the fair value, in the transaction, and goodwill on acquisition, are as follows:

	Fair value recognised on acquisition <i>HK\$'000</i>
Property, plant and equipment	58,131
Prepaid land lease payments	744
Goodwill	3,725
Trade and other receivables	1,775
Cash and bank balances	18,887
Trade and other payables	(37,068)
Deferred government grants	(24,946)
Minority interests	<u>(5,468)</u>
Net assets acquired	15,780
Goodwill on acquisition	<u>31,820</u>
	<u><u>47,600</u></u>
Satisfied by:	
Cash consideration	22,000
Promissory note	15,600
Convertible bonds	<u>10,000</u>
	<u><u>47,600</u></u>

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	<i>HK\$'000</i>
Cash consideration	22,000
Cash and bank balances acquired	<u>(18,887)</u>
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	<u><u>3,113</u></u>

- (b) On 2 June 2008, Wonder Link Limited ("Wonder Link"), a wholly-owned subsidiary of the Company, entered into an agreement with Mr. Liu Zong Hong to acquire the 51% equity interest of Start Bright Limited ("Start Bright") with a consideration of HK\$20,400,000.

The consideration was settled by cash of HK\$2,000,000, issue of HK\$11,160,000 convertible bonds and issue of HK\$7,240,000 promissory note. Completion of the acquisition took place on 24 June 2008. The aggregate amount of goodwill arising as a result of the acquisition is approximately HK\$19,826,000.

The net assets acquired, being the fair value, in the transaction, and goodwill on acquisition, are as follows:

	Fair value recognised on acquisition <i>HK\$'000</i>
Property, plant and equipment	277
Trade and other receivables	125
Cash and bank balances	966
Accrued liabilities and other payables	(243)
Minority interests	<u>(551)</u>
Net assets acquired	574
Goodwill on acquisition	<u>19,826</u>
	<u><u>20,400</u></u>
Satisfied by:	
Cash consideration	2,000
Promissory note	7,240
Convertible bonds	<u>11,160</u>
	<u><u>20,400</u></u>

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	<i>HK\$'000</i>
Cash consideration	2,000
Cash and bank balances acquired	<u>(966)</u>
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	<u><u>1,034</u></u>

38. DISPOSAL OF SUBSIDIARIES

For the six months ended 30 June 2008

On 21 April 2008, Rise Assets disposed of its entire interest in Proud Dragon to an independent third party at a consideration of HK\$50,000,000. The disposal of proud Dragon and its subsidiaries was completed on 23 May 2008.

	<i>HK\$'000</i>
Net assets disposed of:	
Property, plant and equipment	57,681
Prepaid land lease payments	735
Goodwill	3,725
Inventories	17
Trade and other receivables	2,290
Cash and cash equivalents	15,875
Trade and other payables	(37,483)
Deferred government grants	(24,672)
Minority interests	<u>(4,544)</u>
Net assets value	13,624
Attributable goodwill	<u>31,820</u>
Gain on disposal	45,444
	<u>4,556</u>
Consideration	<u><u>50,000</u></u>
Satisfied by:	
Cash	19,500
Promissory note	<u>30,500</u>
	<u><u>50,000</u></u>

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of the subsidiaries is as follows:

	<i>HK\$'000</i>
Cash consideration	19,500
Cash consideration not yet received as at 30 June 2008	(5,200)
Cash and bank balances in subsidiaries disposed of	<u>(15,875)</u>
Net outflow of cash and cash equivalents	<u><u>(1,575)</u></u>

39. CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

As at 30 June 2008, the Company and the Group had no significant contingent liabilities or capital commitments.

40. FINANCIAL INSTRUMENTS

Categories of financial instruments

	As at 31 December			As at
	2005	2006	2007	30 June
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Financial assets				
Loans and receivables (including cash and cash equivalents)	<u>4,060</u>	<u>26,173</u>	<u>66,001</u>	<u>44,877</u>
Financial liabilities				
Amortised cost	<u>2,471</u>	<u>5,284</u>	<u>13,431</u>	<u>64,488</u>

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to credit risk, liquidity risk and market risk arising in the normal course of its business and financial instruments. The Group's risk management objectives, policies and processes mainly focus on minimizing the potential adverse effects of these risks on its financial performance and position by closely monitoring the individual exposure.

(a) Credit risk

The Group's maximum exposure credit risk is represented by the carrying amount of the respective recognised financial assets as stated in the balance sheet. The Group's credit risk is primarily attributable to trade and other receivables/bank balances. It sets credit limit on each individual customer and prior approval is required for any transaction exceeding that limit. The customer with sound payment history would accumulate a higher credit limit. The management of the Group reviews the recoverable amount of each individual trade receivable and other receivable regularly at each balance sheet date to ensure that adequate allowances are made for irrecoverable amounts. In this regards, the management considers that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Credit risk is concentrated to a small number of debtors principally located in the PRC. The management has considered the good creditability of the debtors and is of the view that, there is no significant credit risk on these receivables.

(b) Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, finance leases and other interest-bearing loans.

The maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contracted undiscounted payments, was as follows:

	On demand <i>HK\$'000</i>	Within 1 year <i>HK\$'000</i>	Over 1 year <i>HK\$'000</i>	Total <i>HK\$'000</i>
30 June 2008				
Promissory note	–	–	7,240	7,240
Trade payables	128	158	–	286
Deferred income	–	1,597	–	1,597
Accrued liabilities and other payables	5,292	–	–	5,292
	<u>5,420</u>	<u>1,755</u>	<u>7,240</u>	<u>14,415</u>
31 December 2007				
Promissory note	–	–	4,467	4,467
Trade payables	61	2,029	–	2,090
Deferred income	–	1,631	96	1,727
Accrued liabilities and other payables	4,941	–	55	4,996
	<u>5,002</u>	<u>3,660</u>	<u>4,618</u>	<u>13,280</u>
31 December 2006				
Trade payables	–	269	–	269
Deferred income	–	579	57	636
Accrued liabilities and other payables	3,084	–	–	3,084
	<u>3,084</u>	<u>848</u>	<u>57</u>	<u>3,989</u>
31 December 2005				
Trade payables	–	499	–	499
Accrued liabilities and other payables	1,806	–	–	1,806
	<u>1,806</u>	<u>499</u>	<u>–</u>	<u>2,305</u>

(c) Market risk*(i) Interest rate risk*

The Group's exposure to cash flow interest rate risk mainly arises from the fluctuation of the prevailing market interest rate on the bank balances. However, the management considers the Group's exposure to such interest rate risk is not significant as bank balances are all short-term in nature. No sensitivity analysis is prepared as the fluctuation and impact is considered immaterial.

(ii) Currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency. Approximately 58% (2006: Nil) of the Group's purchases are denominated in currencies other than the functional currency of the operating units, whilst approximately 32% (2006: 98%) of sales are denominated in the units' functional currency. The management monitors foreign exchange exposure closely and will consider hedging significant foreign currency exposure should the need arise.

The following table demonstrates the sensitivity to a reasonably possible change in Renminbi ("RMB") exchange rate, with all other variables held constant, of the Group's profit before tax and the Group's equity.

	Increase/ (decrease) in foreign exchange rate %	Increase/ (decrease) in profit before tax HK\$'000	Increase/ (decrease) in equity HK\$'000
30 June 2008			
RMB	10	259	1,594
RMB	(10)	(259)	(1,594)
31 December 2007			
RMB	10	970	1,776
RMB	(10)	(970)	(1,776)
31 December 2006			
RMB	10	31	72
RMB	(10)	(31)	(72)
31 December 2005			
RMB	10	26	39
RMB	(10)	(26)	(39)

(d) Fair value

The management considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate to their fair values.

42. CAPITAL MANAGEMENT

The primary objective of the Company's capital management is to safeguard the Company's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholder value.

The capital structure of the Company consists of debts, which include the financial assistance from government disclosed in note 27, promissory note payable disclosed in note 28, convertible bonds disclosed in note 29, cash and cash equivalents and equity attributable to the shareholders of the Company, comprising issued share capital as disclosed in the financial statements.

The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt. No change were made in the objectives, policies or processes during the Relevant Periods.

The Company monitors capital using a gearing ratio, which is the Company's total liabilities over its total assets. The Company's policy is to keep the gearing ratio at a reasonable level. The Company's gearing ratio as at 30 June 2008 was 0.34 (31 December 2007: 0.01, 31 December 2006: 0.02, 31 December 2005: 0.16).

C. SUBSEQUENT EVENTS

- (i) The Board proposes to change the name of the Company to China Digital Licensing (Group) Limited (the "Change of Company Name"). The proposed Change of Company Name will be subject to the passing of a special resolution by the shareholders at an EGM of the Company and the Registrar of Companies in the Cayman Islands approving the Change of Company Name.
- (ii) On 7 July 2008, Rise Assets entered into an agreement with an independent third party to sell 100% of the equity interest of Silky Sky.

The financial information of Silky Sky and its subsidiaries ("Silky Sky Group"), which constitutes a discontinuing operation as pursuant to Rule 7.06 of the GEM Listing Rules, are as follows:

Consolidated results

	Period from 18 August 2006 (date of incorporation) to 31 December 2006 HK\$'000 (audited)	Year ended 31 December 2007 HK\$'000 (audited)	Six months ended 30 June 2007 2008 HK\$'000 (unaudited) (audited)	
TURNOVER	–	14,308	524	632
COST OF SALES	–	(3,927)	(391)	(857)
Gross profit	–	10,381	133	(225)
Other revenue and gains	6	2,445	1	571
Administrative expenses	(23)	(4,595)	(1,782)	(4,044)
Other expenses	–	–	–	(4,570)
PROFIT/(LOSS) BEFORE TAX	(17)	8,231	(1,648)	(8,268)
Tax	–	(3,434)	–	3,654
PROFIT/(LOSS) FOR THE YEAR/PERIOD	<u>(17)</u>	<u>4,797</u>	<u>(1,648)</u>	<u>(4,614)</u>
Attributable to:				
Equity holders of Silky Sky	(17)	2,436	(850)	(2,362)
Minority interest	–	2,361	(798)	(2,252)
	<u>(17)</u>	<u>4,797</u>	<u>(1,648)</u>	<u>(4,614)</u>

Consolidated balance sheet

	As at 31 December		As at
	2006	2007	30 June
	HK\$'000	HK\$'000	HK\$'000
	(audited)	(audited)	(audited)
NON-CURRENT ASSETS			
Property, plant and equipment	–	8,974	8,512
Intangible assets	–	1,387	–
	<u>–</u>	<u>1,387</u>	<u>–</u>
Total non-current assets	<u>–</u>	<u>10,361</u>	<u>8,512</u>
CURRENT ASSETS			
Inventories	–	907	1,827
Trade and other receivables	–	16,324	18,858
Cash and cash equivalents	5	16,334	5,528
	<u>5</u>	<u>16,334</u>	<u>5,528</u>
Total current assets	<u>5</u>	<u>33,565</u>	<u>26,213</u>
CURRENT LIABILITIES			
Trade and other payables	22	3,640	1,118
Due to group companies	–	15,710	15,741
Due to a director	–	–	77
Tax payable	–	3,524	–
	<u>–</u>	<u>3,524</u>	<u>–</u>
Total current liabilities	<u>22</u>	<u>22,874</u>	<u>16,936</u>
NET CURRENT ASSETS/ (LIABILITIES)			
	<u>(17)</u>	<u>10,691</u>	<u>9,277</u>
Net assets/(liabilities)	<u>(17)</u>	<u>21,052</u>	<u>17,789</u>

Consolidated cash flow

	Period from 18 August 2006 (date of incorporation) to 31 December 2006 <i>HK\$'000</i> (audited)	Year ended 31 December 2007 <i>HK\$'000</i> (audited)	Six months ended 30 June 2007 <i>HK\$'000</i> (unaudited)	2008 <i>HK\$'000</i> (audited)
Operating cash flows	(23)	10,445	(35)	(12,386)
Investing cash flows	6	(10,378)	(665)	480
Financing cash flows	—	15,658	6,580	—
Total cash flows	<u>(17)</u>	<u>15,725</u>	<u>5,880</u>	<u>(11,906)</u>

D. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for the Group in respect of any period subsequent to 30 June 2008.

Yours faithfully,
Vision A. S. Limited
Certified Public Accountants
Hong Kong

Cheung Man Yau, Timothy
Practising Certificate No.: P01417

1. INDEBTEDNESS STATEMENT**Borrowings**

As at the close of business on 30 June 2008, being the latest practicable date for the purpose of this statement of indebtedness, the Group had outstanding borrowings of approximately HK\$59,695,000, details of which are set out below:

	<i>HK\$'000</i>
Financial assistance from government (unsecured)	1,295
Promissory notes (unsecured)	7,240
Convertible bonds (unsecured)	21,000
Other payables (unsecured)	<u>30,160</u>
	<u><u>59,695</u></u>

As at 30 June 2008, the Group had outstanding borrowings and debts of other loan of approximately HK\$1,295,000 due to HKSAR Government. The Innovation and Technology Fund (“ITF”) of the HKSAR Government has provided financial assistance to the Group to assist in a specific product development. The funding is unsecured, non-interest bearing and repayable to ITF when revenue is generated from the specific product.

The Group issued a promissory note with face amount HK\$7,240,000 which is interest bearing at 1% per annum and matures on 23 June 2011. As at 30 June 2008, the Group had outstanding promissory note of approximately HK\$7,240,000.

The Group issued convertible bonds with nominal value of HK\$18,000,000 and HK\$3,000,000 to two independent noteholders on 20 June 2008 and 24 June 2008, respectively. The convertible bonds carry coupon interest rate of 1% per annum and with maturity of 3 years. As at 30 June 2008, the Group had outstanding convertible bonds of approximately HK\$21,000,000.

For details of other payables, please refer to note 30 of the Accountants’ Report of the Group attached in Appendix I.

Contingent liabilities

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

Commitments

As at 30 June 2008, the Group had operating lease commitments of approximately HK\$2,862,000.

Disclaimer

Save as aforesaid and apart from intra-group liabilities, the Group did not have any outstanding mortgages, charges, debentures, loan capital and overdraft, debt securities or other similar indebtedness, finance leases or hire purchase commitment, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities as at the close of business on 30 June 2008.

The Directors are not aware of any material changes in the financial position of the Group since 31 March 2008, the date to which the indebtedness statement is made.

2. WORKING CAPITAL

After due and careful consideration, the Directors are of the opinion that, taking into consideration the financial resources available to the Group including the Group's internal financial resources and the net proceeds will be received by the Group as a result of the Disposal, in the absence of unforeseen circumstances, the Group has sufficient working capital for the Group's present requirements, that is for at least the next 12 months from the date of this circular.

3. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material change in the financial or trading position of the Group since 31 December 2007, being the date up to which the latest published audited financial statements of the Group were made up.

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants, Vision A. S. Limited.

Vision A. S. Limited Certified Public Accountants
泓信會計師行有限公司

29 August 2008

The Board of Directors
Shen Nong China (Group) Limited
Unit 1601, 16/F
Ruttonjee House
Ruttonjee Centre
11 Duddell Street
Central
Hong Kong

Dear Sirs,

We report on the unaudited pro forma financial information of Shen Nong China (Group) Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) set out on pages 95 to 100 under the heading of “Pro Forma Financial Information on the Remaining Group” (the “Unaudited Pro Forma Financial Information”) in Appendix III of the Company’s Circular dated 29 August 2008 (the “Circular”) in connection with the proposed disposal of the entire issued share capital of Silky Sky Investments Limited (the “Disposal”). The Unaudited Pro Forma Information has been prepared by the directors of the Company, solely for illustrative purposes only, to provide information about how the Disposal might have affected the financial information of the Group. The basis of preparation of the Unaudited Pro Forma Financial Information is set out on page 95 of the Circular.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS OF THE COMPANY AND REPORTING ACCOUNTANTS

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with rule 7.31 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by rule 7.31(7) of the GEM Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to whom those reports were addressed by us at the dates of their issue.

BASIS OF OPINION

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements (“HKSIR”) 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to rule 7.31(1) of the GEM Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purpose only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that event will take place in the future and may not be indicative of:

- the financial position of the Remaining Group as at 30 June 2008 or any future date; or
- the financial results and cash flows of the Remaining Group for the period ended 30 June 2008 or any future periods.

OPINION

In our opinion:

- the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- such basis is consistent with the accounting policies of the Group; and
- the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to rule 7.31(1) of the GEM Listing Rules.

Yours faithfully,
Vision A. S. Limited
Certified Public Accountants
Hong Kong

Cheung Man Yau, Timothy
Practising Certificate No.: P01417

**INTRODUCTION TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE
REMAINING GROUP**

The following are for illustrative purposes only, the unaudited pro forma consolidated balance sheet, unaudited pro forma consolidated income statement and unaudited pro forma cash flow statement of the Remaining Group (collectively referred to as the “Pro Forma Financial Information”) which have been prepared based on the audited consolidated balance sheet of the Group as at 30 June 2008, the audited consolidated income statement and cash flow statement of the Group for the period ended 30 June 2008 extracted from the Accountant’s Report of the Group as set out in Appendix I to this circular, after making pro forma adjustments as set out below.

The pro forma consolidated balance sheet of the Remaining Group has been prepared to illustrate the effects of the Disposal, as if the Disposal had taken place on 30 June 2008. The consolidated income statement and cash flow statement of the Remaining Group have been prepared to illustrate the effects of the Disposal, as if the Disposal had taken place on 1 January 2008. The Pro Forma Financial Information has been prepared in a manner consistent with the accounting policies adopted by the Group. The Pro Forma Financial Information has been prepared for illustrative purposes only and because of hypothetical nature, it may not give a true picture of the financial position and financial results of the Remaining Group had the Disposal been completed as at 30 June 2008 or 1 January 2008 respectively or at any future date.

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP

Unaudited pro forma consolidated balance sheet of the Remaining Group as at 30 June 2008

	The Group as at 30 June 2008 HK\$'000 (Note 1)	Pro forma adjustments for disposal				Remaining Group HK\$'000 (Note 8)
		HK\$'000	Notes	HK\$'000	Notes	
NON-CURRENT ASSETS						
Property, plant and equipment	8,861	(8,512)	(2)			349
Interests in associates	50,000					50,000
Goodwill	35,033			(15,207)	(3)	19,826
Total non-current assets	93,894					70,175
CURRENT ASSETS						
Inventories	1,890	(1,827)	(2)			63
Trade and other receivables	26,739	(18,858)	(2)	15,741	(4)	23,622
Promissory note receivable	–			7,000	(3)	7,000
Cash and bank balances	19,555	(5,528)	(2)	8,000	(3)	22,027
Total current assets	48,184					52,712
CURRENT LIABILITIES						
Trade and other payables	7,176	(1,118)	(2)			6,058
Due to a director	77	(77)	(2)			–
Due to group companies	–	(15,741)	(2)	15,741	(4)	–
Financial assistance from government	268					268
Total current liabilities	7,521					6,326
NET CURRENT ASSETS	40,663					46,386
TOTAL ASSETS LESS CURRENT LIABILITIES	134,557					116,561
NON-CURRENT LIABILITIES						
Financial assistance from government	1,027					1,027
Convertible bonds	18,721					18,721
Promissory notes	7,240					7,240
Other payables	30,160					30,160
Total non-current liabilities	57,148					57,148
Net assets	77,409					59,413
EQUITY						
Issued capital	66,519					66,519
Reserves	(6,088)	(1,305)	(2)	(262)	(3)	(7,655)
Minority interests	60,431					58,864
	16,978	(16,429)	(2)			549
Total equity	77,409					59,413

APPENDIX III
**PRO FORMA FINANCIAL INFORMATION OF
THE REMAINING GROUP**
Unaudited pro forma consolidated income statement of the Remaining Group for the six months ended 30 June 2008

	The Group for the six months ended 30 June 2008 HK\$'000 (Note 1)	Pro forma adjustments for disposal				Remaining Group HK\$'000 (Note 7)
		HK\$'000	Notes	HK\$'000	Notes	
TURNOVER						
Continuing operations	5,186	(632)	(5)			4,554
Discontinued operation	329					329
	<u>5,515</u>					<u>4,883</u>
COST OF SALES	<u>(2,841)</u>	857	(5)			<u>(1,984)</u>
Gross profit	2,674					2,899
Other revenues and gains	975	(571)	(5)			404
Research and development expenses	(474)					(474)
Selling and distribution costs	(633)					(633)
Administrative expenses	(15,037)	4,044	(5)			(10,993)
Other expenses	(40,570)	4,570	(5)	36,000	(6)	-
Finance costs	(193)					(193)
	<u>(53,258)</u>					<u>(8,990)</u>
LOSS FROM OPERATING ACTIVITIES	<u>(53,258)</u>					<u>(8,990)</u>
Gain/(loss) on disposal of subsidiaries	4,556			(38,624)	(6)	(34,068)
Share of losses from associates	-					-
	<u>(48,702)</u>					<u>(43,058)</u>
LOSS BEFORE TAX						
Continuing operations	(50,178)					(39,978)
Discontinued operation	1,476					(3,080)
	<u>(48,702)</u>					<u>(43,058)</u>
Tax						
Continuing operations	3,654	(3,654)	(5)			-
Discontinued operation	-					-
	<u>3,654</u>					<u>-</u>
LOSS FOR THE PERIOD						
Continuing operations	(46,524)					(39,978)
Discontinued operation	1,476					(3,080)
	<u>(45,048)</u>					<u>(43,058)</u>
Attributable to:						
Equity holders of the Company	(41,871)	2,362	(5)	(38,624)	(6)	(42,133)
Minority interest	(3,177)	2,252	(5)			(925)
	<u>(45,048)</u>					<u>(43,058)</u>

APPENDIX III
**PRO FORMA FINANCIAL INFORMATION OF
THE REMAINING GROUP**
Unaudited pro forma consolidated cash flow statement of the Remaining Group for the six months ended 30 June 2008

	The Group for the six months ended 30 June 2008 HK\$'000 (Note 1)	Pro forma adjustments for disposal				Remaining Group HK\$'000 (Note 7)
		HK\$'000	Notes	HK\$'000	Notes	
OPERATING ACTIVITIES						
Loss before tax						
Continuing operations	(50,178)	8,268	(7)			(41,910)
Discontinued operation	1,476			(2,624)	(6)	(1,148)
Adjustments for:						
Depreciation of property, plant and equipment	2,316	(459)	(7)			1,857
Property, plant and equipment written off	394	(394)	(7)			-
Inventories written off	1,216	(1,216)	(7)			-
Impairment of goodwill	36,000			(36,000)	(6)	-
Impairment of intangible assets	1,432	(1,432)	(7)			-
Impairment allowance on trade receivables	2,491	(2,491)	(7)			-
Impairment allowance on other receivables	1,528	(1,528)	(7)			-
Amortisation of prepaid land lease payments	9					9
Amortisation of intangible assets	6	(6)	(7)			-
Recognition of government grants	(274)					(274)
Employee share-based compensation	626					626
Finance costs	193					193
Interest income	(646)	541	(7)			(105)
Loss/(gain) on disposal of subsidiaries	(4,556)			38,624	(6)	34,068
Operating cash flows before movements in working capital	(7,967)					(6,684)
Decrease/(increase) in inventories	(2,070)	2,136	(7)			66
Increase in trade and other receivables	(1,176)	6,553	(7)	(31)	(4)	5,346
Increase/(decrease) in trade and other payables	(1,527)	2,522	(7)			995
Increase in due to a director	77	(77)	(7)			-
Increase in due to group companies	-	(31)	(7)	31	(4)	-
Increase in due to an associate	15,250					15,250
Cash generated from operations	2,587					14,973
PRC taxes paid	(2)					(2)
NET CASH FROM OPERATING ACTIVITIES	2,585	12,386		-		14,971
INVESTING ACTIVITIES						
Purchases of items of property, plant and equipment	(1,444)	61	(7)			(1,383)
Interests received	646	(541)	(7)			105
Investment in an associate	(25,250)					(25,250)
Acquisition of subsidiaries	(4,147)					(4,147)
Proceeds from disposal of subsidiaries	(1,575)			(8,334)	(8)	(9,909)
NET CASH USED IN INVESTING ACTIVITIES	(31,770)	(480)		(8,334)		(40,584)

Unaudited pro forma consolidated cash flow statement of the Remaining Group for the six months ended 30 June 2008

	The Group for the six months ended 30 June 2008 <i>HK\$'000</i> <i>(Note 1)</i>	Pro forma adjustments for disposal				Remaining Group <i>HK\$'000</i> <i>(Note 7)</i>
		<i>HK\$'000</i>	<i>Notes</i>	<i>HK\$'000</i>	<i>Notes</i>	
FINANCING ACTIVITIES						
Interest on promissory note paid	(130)					(130)
Other interests paid	(1)					(1)
Share/warrant issue expenses	(253)					(253)
Open offer expenses	(505)					(505)
Redemption of convertible bonds	(10,000)					(10,000)
Repayment of promissory note	(20,067)					(20,067)
Receipts from promissory notes received	30,500					30,500
NET CASH USED IN FINANCING ACTIVITIES	(456)	-		-		(456)
NET DECREASE IN CASH AND CASH EQUIVALENTS						
Cash and cash equivalents at beginning of period	48,287	11,906		(8,334)		48,287
Effect of foreign exchange rate changes, net	909	(1,100)	(7)			(191)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	19,555					22,027

Notes:

- (1) The unadjusted consolidated balance sheet of the Group as at 30 June 2008, and the unadjusted consolidated income statement and cash flow statement of the Group for the six months ended 30 June 2008 are extracted from the accountant's report set out in Appendix I of this Circular.
- (2) The adjustment reflects the de-consolidation of the assets and liabilities of the Silky Sky Group as at 30 June 2008, assuming the Disposal had taken place on 30 June 2008.
- (3) The adjustment reflects (i) the estimated consideration amounting to HK\$15,000,000 (the "Consideration"), being cash proceeds of HK\$8,000,000 and the remaining HK\$7,000,000 to be satisfied by promissory note; and (ii) the estimated loss of approximately HK\$262,000 resulting from the Disposal, assuming that the Disposal had taken place on 30 June 2008. The estimated loss is based on the difference between (i) the Consideration and (ii) the aggregate of (a) HK\$55,000 (being the net assets of Silky Sky Group attributable to the Company as at 30 June 2008 of approximately HK\$1,360,000 less the exchange reserves of approximately HK\$1,305,000); and (b) goodwill which arose from the acquisition of Silky Sky Group of approximately HK\$15,207,000 after impairment of HK\$36,000,000.
- (4) The adjustment reflects the reclassification of intra-group current account balances.
- (5) The adjustment reflects the de-consolidation of the results of the Silky Sky Group for the six months ended 30 June 2008, assuming the Disposal had taken place on 1 January 2008.
- (6) The adjustment reflects the reversal of impairment of goodwill of HK\$36,000,000 and estimated loss of approximately HK\$38,624,000 resulting from the Disposal, assuming that the Disposal had taken place on 1 January 2008. The estimated loss is based on the difference between (i) the Consideration and (ii) the aggregate of (a) HK\$2,417,000 (being the net assets of Silky Sky Group attributable to the Company as at 30 June 2008 of approximately HK\$3,033,000 less the exchange reserves of approximately HK\$616,000); and (b) goodwill which arose from the acquisition of Silky Sky Group of approximately HK\$51,207,000.
- (7) The adjustment reflects the exclusion of the cash flows of the Silky Sky Group for the six months ended 30 June 2008, assuming that the Disposal had taken place on 1 January 2008.
- (8) The adjustment reflects the net cash outflow amounting to approximately HK\$8,334,000 arising from the Disposal, being the cash consideration of HK\$8,000,000 deducting the cash and bank balances of approximately HK\$16,334,000 included in the Silky Sky Group.
- (9) Saved for the Disposal, no adjustment has been made to reflect any trading result or other transactions of the Group or the Silky Sky Group entered into subsequent to 30 June 2008.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particular given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:

- (a) the information contained in this circular is accurate and complete in all material respects and is not misleading;
- (b) there are no other matters the omission of which would make any statement in this circular misleading; and
- (c) 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) Interests of Directors

As at the Latest Practicable Date, 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.

(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) Long position

(ii) Interest in share options:

Name of Director	Number of share options outstanding	Approximate percentage of issued share capital of the Company
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 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.

(b) Interests of substantial Shareholders

So far as is known to the Directors, as at the Latest Practicable Date, 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 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)	9.56%
	Interest of controlled corporation	114,470,000(L)	
	Deemed	1,210,000(L)	
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:

- 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.
- 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.

- 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 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.

3. 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).

4. COMPETING INTERESTS

As at the Latest Practicable Date, so far as the Directors are aware of, none of the Directors, management shareholders or substantial shareholders or any of their respective associates had any interests in a business which competes or may compete, either directly or indirectly, with the business of the Group or has, any other conflict of interest which any such person has or may have within the Group.

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. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2007, being the date to which the latest audited financial statements of the Company were made up.

7. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business of the Group) have been entered into by any member of the Group within two years immediately preceding the Latest Practicable Date which are or may be material:

- (a) the warrant placing agreement dated 28 August 2006 and entered into among the Company as the issuer, Glory Force Limited as the subscriber and Mr. Yip Yung Kan as the guarantor in relation to the subscription of 117,800,000 unlisted warrants of the Company by Glory Force Limited at an issue price of HK\$0.015 per warrant and subscription price of HK\$0.155 per Share;

- (b) the conditional legally binding memorandum of understanding dated 2 February 2007 and the formal sale and purchase agreement dated 21 March 2007 and entered into between Mr. Yang Pei Gen and Rise Assets Limited (“Rise Assets”), a wholly owned subsidiary of the Company, in respect of the acquisition of Silky Sky Investments Limited for a total consideration of HK\$61 million;
- (c) the memorandum of understanding dated 4 October 2007 and entered into among the Company, Mr. Yip Yuk Tong and Proud Dragon Limited (“Proud Dragon”) in respect of the proposed acquisition of the whole or part of equity interest held by Rise Assets in Proud Dragon;
- (d) the underwriting agreement dated 29 October 2007 entered into between the Company, Quam Securities Company Limited and Partners Capital International Limited in relation to the open offer announced by the Company on 2 November 2007 and 17 December 2007 respectively;
- (e) the conditional agreement dated 29 October 2007 and entered into among Mr. Yip Yuk Tong as a vendor, Rise Assets as a purchaser and Proud Dragon in respect of the acquisition of the 318 shares of Proud Dragon and the subscription of 158 shares of Proud Dragon by the Vendor at a total consideration of HK\$47,600,000;
- (f) the conditional agreement dated 14 April 2008 entered into between the Cheer Plan Limited, a wholly owned subsidiary of the Company, as a subscriber and Far Glory Limited in relation to the subscription of 900 new shares of Far Glory Limited at a total consideration of HK\$20,250,000;
- (g) the conditional agreement dated 21 April 2008 entered into between Rise Assets and Mr. Lao Kuai Hong in relation to the disposal of 476 ordinary shares of Proud Dragon, representing 100% of the equity interest in Proud Dragon;
- (h) the conditional agreement dated 5 May 2008 entered into among Cheer Plan Limited, a wholly owned subsidiary of the Company, as purchaser, Mr. Hsu Tung Chi as vendor, and Mr. Hsu Tung Sheng as guarantor in relation to the acquisition of 1,308 ordinary shares of Far Glory Limited, representing 12% of the total issued share capital of Far Glory Limited;
- (i) the conditional agreement dated 2 June 2008 entered into among Wonder Link Limited, a wholly owned subsidiary of the Company, as purchaser, Smart Great International Limited as vendor and Mr. Liu Zong Hong as guarantor in relation to the acquisition of 102 ordinary shares of Start Bright Limited; and
- (j) the Agreement.

Save for the aforementioned, no contract, not being contracts in the ordinary course of business carried on by the Company or any of its subsidiaries, has been entered into by members of the Group within the two years immediately preceding the Latest Practicable Date.

8. EXPERT'S QUALIFICATION AND CONSENT

1. The following is the qualification of the expert who has been named in this circular or has given its opinions, letters or advice which are contained in this circular:

Name	Qualification
Vision A.S. Limited	Certified Public Accountants

2. Vision A.S. Limited has no shareholding, directly or indirectly, in any member of the Group or any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.
3. Vision A.S. Limited has given and has not withdrawn its written consent to the issue of the circular, with the inclusion of the reference to its name and/or its opinion in the form and context in which they are included.
4. Vision A.S. Limited has no direct or indirect interest in any assets which had been acquired, or disposed of by, or leased to any member of the Remaining Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Remaining Group since 31 December 2007, the date to which the latest published audited financial statements of the Group were made up.

9. INTEREST IN CONTRACTS AND ASSETS

No contract or arrangement of significance in relation to the Group's business to which the Company or any of its subsidiaries is a party and in which any Director has a material interest, whether directly or indirectly, subsist at the date of this circular.

None of the Directors and experts referred in the paragraph headed "Qualification and consent of experts" in this appendix has any direct or indirect interest in any asset which has been acquired or disposed of by or leased to, or which are proposed to be acquired or disposed of by or leased to, the Company or any of its subsidiaries during the period since 31 December 2007, the date to which the latest published audited consolidated financial statements of the Group were compiled, up to and including the Latest Practicable Date.

10. MISCELLANEOUS

1. 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.
2. The head office and the principal place of business of the Company in Hong Kong is located at Unit 1601, 16/F, Ruttonjee House, Ruttonjee Centre, 11 Duddell Street, Central, Hong Kong.
3. The principal share registrar and transfer office of the Company is Butterfield Fund Services (Cayman) Limited, Butterfield House, 68 Fort Street, P.O. Box 705, George Town, Grand Cayman, Cayman Islands.
4. The Hong Kong branch share registrar and transfer office of the Company is Tricor Standard Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
5. 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.
6. The compliance officer of the Company is Mr. Mo Wai Ming, Lawrence who is also an executive Director.
7. 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. Set out below are their background and directorships (present and past) of other companies listed on GEM, the main board of the Stock Exchange or other stock exchanges.

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.

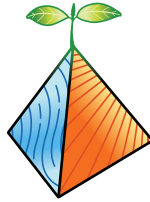
8. The English texts of this circular and the accompanying form of proxy shall prevail over their respective Chinese texts in case of inconsistency.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours (except Saturdays and public holidays) at the head office and principal place of business of the Company at Unit 1601, 16/F, Ruttonjee House, Ruttonjee Centre, 11 Duddell Street, Central, Hong Kong as at the date of this circular up to and including 22 September 2008:

- (i) the memorandum and articles of association of the Company;
- (ii) the annual reports of the Company for the three years ended 31 December 2007;
- (iii) the interim report of the Company for the six months ended 30 June 2008;
- (iv) the unaudited first quarterly report 2008 of the Company for the three month ended 31 March 2008;
- (v) the material contracts referred to in the section headed "Material contracts" in this appendix;
- (vi) the written consent referred to in the section headed "Expert's qualification and consent" in this appendix;
- (vii) the letter from Vision A.S. Limited in respect of the unaudited pro forma financial information of the Remaining Group as set out in Appendix III in this circular; and
- (viii) this circular.

NOTICE OF EGM



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)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “**Meeting**”) of Shen Nong China (Group) Limited (the “**Company**”) to be held at Unit 1601, Ruttonjee House, Ruttonjee Centre, 11 Duddell Street, Central, Hong Kong on Monday, 22 September 2008 at 11:00 a.m. for the purpose of considering and, if thought fit, passing the following resolutions with or without amendments as special resolution and ordinary resolution respectively:

SPECIAL RESOLUTION

1. “**THAT** subject to and conditional upon the approval of the Registrar of Companies in the Cayman Islands being obtained, the name of the Company be and is hereby changed from “Shen Nong China (Group) Limited 神農中國(集團)有限公司” to “China Digital Licensing (Group) Limited 中國數碼版權(集團)有限公司” with effect upon the date of the passing of this special resolution, and **THAT** the directors of the Company (the “**Directors**”) be and are hereby authorised to do all such acts and things and execute all such documents as they consider necessary or expedient to give effect to the aforesaid change of name of the Company.”

ORDINARY RESOLUTION

2. “**THAT**
 - (a) the conditional sale and purchase agreement dated 7 July 2008 (the “**Agreement**”) entered into between Rise Assets Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly owned subsidiary of the Company, as vendor and Mr. Zeng Xiang Yang, as purchaser, in relation to the disposal of one ordinary share of US\$1.00 in the share capital of Silky Sky Investments Limited (“**Silky Sky**”), an indirect wholly owned subsidiary of the Company, representing the entire issued share capital of Silky Sky, for a total consideration of HK\$15,000,000 (a copy of Agreement will be produced to the Meeting marked “A” for the purpose of identification) and the transactions contemplated thereunder be and are thereby approved, confirmed and ratified;

NOTICE OF EGM

- (b) any Director be and is thereby authorised to do all such acts and things and execute all documents which he/she consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation and completion of the Agreement and the matters contemplated thereunder”.

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

Hong Kong, 29 August 2008

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

Notes:

1. A member of the Company entitled to attend and vote at the Meeting convened by the above notice is entitled to appoint one or more than one proxy to attend and, subject to the provisions of the articles of association of the Company, to vote on his behalf. A proxy need not be a member of the Company but must be present in person at the Meeting to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.
2. A form of proxy for use at the Meeting is enclosed. In order to be valid, the form of proxy must be duly completed and signed in accordance with the instructions printed thereon and deposited together with a power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority, at the offices of the Company's branch share registrar in Hong Kong, Tricor Standard Limited of 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong less than 48 hours before the time appointed for holding the Meeting or any adjournment thereof. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the above Meeting or any adjournment thereof, should he so wish
3. In the case of joint holders of shares, any one of such holders may vote at the Meeting, either personally or by proxy, in respect of such shares as if he was solely entitled thereto, but if more than one of such joint holders are present at the meeting personally or by proxy, that one of the said persons so present whose name stands first in the register of members of the Company in respect of such shares shall alone be entitled to vote in respect thereof.