THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker, or other licensed securities dealer, bank manager, solicitors, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Shen Nong China (Group) Limited (the "Company"), you should at once hand this circular and accompanying 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 the transferee.

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

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

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8175)

MAJOR TRANSACTION

ACQUISITION OF 12% SHAREHOLDING INTEREST IN A COPYRIGHT MANAGEMENT AND DIGITAL LICENSING BUSINESS

Financial adviser to the Company

INCU Corporate Finance Limited

A notice convening an extraordinary general meeting (the "EGM") of the Company to be held on Monday, 16 June 2008 at 11:00 a.m. at Unit 1601, Ruttonjee House, Ruttonjee Centre, 11 Duddell Street, Central, Hong Kong is set out on pages 103 to 104 of this circular. A form of proxy for the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are encouraged to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the branch share registrar of the Company in Hong Kong, Tricor Standard Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event no later than 48 hours before the time appointed for the holding of the EGM. Completion and return of the enclosed form of proxy will not preclude you from attending and voting in person at such meeting or any adjournment meeting should you so wish.

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

30 May 2008

CHARACTERISTICS OF GEM

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

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

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. GEM-listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

CONTENTS

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

"Acquisition"	the proposed acquisition of the Sale Shares pursuant to the terms contained in the Agreement
"Agreement"	the conditional agreement dated 5 May 2008 entered into among the Purchaser, the Vendor and the Guarantor in relation to the Acquisition
"Average Actual Profit"	the actual average of the audited consolidated net profits after tax and extraordinary or exceptional items of the Target Group for the financial years ending 31 December 2009 and 31 December 2010
"Average Guaranteed Profit"	the average of the audited consolidated net profits after tax and extraordinary or exceptional items of the Target Group for the financial years ending 31 December 2009 and 31 December 2010 will not be less than HK$15,000,000
"Board"	the board of Directors
"Bondholder(s)"	holders of the Convertible Bonds or the Extra Convertible Bond
"Business Day(s)"	a day (other than a Saturday, Sunday and public holiday) on which licensed banks are generally open for business in Hong Kong throughout their normal business hours
"Company"	Shen Nong China (Group) Limited, a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on GEM
"Completion"	completion of the Acquisition in accordance with the terms and conditions of the Agreement
"Consideration"	the consideration for the Acquisition of the Sale Shares, being a maximum of HK$45,000,000 (subject to adjustments)
"Convertible Bonds"	collectively, First Convertible Bond and Second Convertible Bond
"Conversion Price"	the initial conversion price of HK$0.18 per Conversion Share or as the case may be, per Extra Conversion Share, subject to adjustments, pursuant to the terms of the Convertible Bonds

"Conversion Shares"	Shares to be allotted and issued upon the exercise of the conversion rights in respect of the Convertible Bonds
"EGM"	the extraordinary general meeting of the Company to be convened to approve, among other things, the Agreement and the transactions contemplated thereunder
"Enlarged Group"	the Group as enlarged by the Acquisition
"Extra Convertible Bond"	the convertible bond to be issued by the Company to the Vendor within 14 days from the date of issue of the certificate to be given by the auditors for the time being of the Target Group certifying the amount of the Average Actual Profit is higher than the amount of Average Guaranteed Profit
"Extra Conversion Shares"	Shares to be allotted and issued upon the exercise of the conversion rights in respect of the Extra Convertible Bond
"Far Glory"	Far Glory Limited, a company incorporated in the British Virgin Islands
"First Convertible Bond	a convertible bond in a principal amount of HK$18,000,000, to be issued by the Company in favour of the Vendor pursuant to the Agreement
"GEM"	the Growth Enterprise Market of the Stock Exchange
"GEM Listing Rules"	the Rules Governing the Listing of Securities on GEM
"Group"	the Company and its subsidiaries
"Guarantor"	Mr. Hsu Tung Sheng
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Latest Practicable Date"	27 May 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 announcement, shall exclude Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan

"Purchaser"	Cheer Plan Limited, a wholly owned subsidiary of the Company
"Sale Shares"	1,308 ordinary shares of Far Glory, representing 12% of the total issued share capital of Far Glory
"Second Bond Certificate"	a bond certificate in a principal amount of HK$4,000,000 issued pursuant to the Second Convertible Bond
"Second Convertible Bond"	a convertible bond in a principal amount of HK$4,000,000 to be issued by the Company in favour of the Vendor pursuant to the Agreement
"SFO"	Securities and Futures Ordinance, (Cap. 571 of the Laws of Hong Kong)
"Shares"	ordinary shares of HK$0.05 each in the capital of the Company
"Shareholders"	holders of the Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscription"	the subscription of the 900 new ordinary shares of Far Glory by the Purchaser pursuant to the agreement dated 14 April 2008 and entered into between the Purchaser as subscriber and Far Glory, the details of which has been announced by the Company on 15 April 2008
"Target Group"	Far Glory and its subsidiaries
"Vendor"	Mr. Hsu Tung Chi
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"%"	per cent.

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 Directors:
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

30 May 2008

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION

ACQUISITION OF 12% SHAREHOLDING INTEREST IN A COPYRIGHT MANAGEMENT AND DIGITAL LICENSING BUSINESS

INTRODUCTION

Reference is made to the announcement of the Company dated 6 May 2008, in which the Board announced that on 5 May 2008 (after trading hours), the Purchaser, a wholly owned subsidiary of the Company, entered into the Agreement with the Vendor and the Guarantor.

The Acquisition, with the aggregation of the Subscription, constitutes a major transaction on the part of the Company under the GEM Listing Rules and is subject to the approval of the Shareholders at the EGM. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, no Shareholder has material interests in the Acquisition and no Shareholder will abstain from voting at the EGM on the resolution approving the Acquisition.

The purpose of this circular is to provide you with, among other matters, further details regarding the Agreement and the transaction contemplated thereunder together with the notice convening the EGM.

THE AGREEMENT

Date: 5 May 2008 (after trading hour)

Parties:

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

Vendor: Mr. Hsu Tung Chi

Guarantor: Mr. Hsu Tung Sheng

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Vendor and the Guarantor are third parties independent of the Company and its connected persons (as defined in the GEM Listing Rules). The Vendor is a merchant and a private investor who has extensive experience in the management, operation and strategic planning in various corporations engaging in the telecommunication, information technology and patent and digital licensing management businesses in the PRC.

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

The Guarantor is the elder brother of the Vendor.

Assets to be acquired

The Sale Shares, representing 12% of the total issued share capital of Far Glory.

Consideration

The maximum total consideration for the Sale Shares is HK$45,000,000, of which HK$27,000,000 (the "**Basic Consideration**") will be settled by the Group in the following manner: (i) HK$5,000,000 was paid by the Purchaser, through internal resources of the Group to the Vendor; and (ii) HK$22,000,000 shall be payable by the Purchaser procuring the Company to issue the Convertible Bonds, of which First Convertible Bond in the principal sum of HK$18,000,000 will be delivered to the Vendor upon Completion whereas Second Convertible Bond in the principal sum of HK$4,000,000 will be delivered to the Purchaser upon Completion on escrow until the fulfillment of the Average Guaranteed Profit.

The remaining balance of the total consideration for the Sale Shares (excluding the Basic Consideration), being a maximum of HK$18,000,000 (the "**Balance Consideration**") shall be payable by the Purchaser to the Vendor in the following manner:

(a) HK$5,400,000 by the Purchaser procuring the Company to issue the Extra Convertible Bond provided that the Average Actual Profit is equal to or greater than HK$18,000,000 but less than HK$25,000,000. For the avoidance of doubt, if the Target Group fails to achieve the Average Actual Profit of HK$18,000,000, the Purchaser has no obligation to pay to the Vendor such amount of the Consideration as referred to in this (a); or

(b) HK$18,000,000 by the Purchaser procuring the Company to issue the Extra Convertible Bond provided that the Average Actual Profit is not less than HK$25,000,000. For the avoidance of doubt, if the Target Group fails to achieve the Average Actual Profit of HK$25,000,000, the Purchaser has no obligation to pay to the Vendor such amount of the Consideration as referred to in this (b).

Conditions precedent

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

(a) all necessary consents and approvals required to be obtained on the part of the Vendor in respect of the Acquisition having been obtained;

(b) all necessary consents and approvals required to be obtained on the part of the Purchaser in respect of the Acquisition having been obtained;

(c) the warranties provided by the Vendor under the Agreement remaining true and accurate in all respects;

(d) the GEM Listing Committee of the Stock Exchange granting listing of and permission to deal in the Conversion Shares and the Extra Conversion Shares; and

(e) the passing by the Shareholders at the EGM to be convened and held of an ordinary resolution to approve the Agreement and the transaction contemplated thereunder, including but not limited to the allotment and issue of the Conversion Shares and the Extra Conversion Shares to the Vendor.

Conditions (a) and (c) above are waivable by the Purchaser under the Agreement. The Purchaser has no current intention to waive such condition as at the Latest Practicable Date. Save for condition (a) and (c), the other conditions are incapable of being waived.

Completion

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

As at the Latest Practicable Date, the Purchaser beneficially owns approximately 8.26% of the total issued share capital of Far Glory and will own approximately 20.26% of the total issued share capital of Far Glory as enlarged by the Acquisition. The Purchaser has the right to nominate a representative on behalf of the Group to the board of directors of Far Glory.

Upon Completion, Far Glory will be accounted for as the associated company of the Group. As at the Latest Practicable Date, the Group had no present intention to pursue further acquisition of the shareholding interest of Far Glory. The Directors confirmed that the proposed Acquisition will not result in a change of control of the Company.

Long-stop date

If all of the conditions are not fulfilled (or as the case may be, waived by the Purchaser) within three months from the date of the Agreement (or such later date as the Purchaser and the Vendor may agree), the Agreement shall cease and terminate and neither party shall have any obligations towards each other.

Profit Guarantee

Under the Agreement, the Vendor irrevocably warrants and the Guarantor irrevocably guarantees to the Purchaser that the average of the audited consolidated net profits after tax and extraordinary or exceptional items of the Target Group for the financial years ending 31 December 2009 and 31 December 2010 will not be less than HK$15,000,000.

If the Average Actual Profit is equal to or more than HK$18,000,000 but less than HK$25,000,000, the Purchaser shall procure the Company to issue the Extra Convertible Bond of HK$5,400,000, which is calculated on the same basis of the Consideration (details of which as stated in the paragraph "Basis of the Consideration" below) as follows:

$$B = (18{,}000{,}000 - \text{Average Guaranteed Profit}) \times 12\% \times 15$$

If the Average Actual Profit is equal to or more than HK$25,000,000, the Purchaser shall procure the Company to issue the Extra Convertible Bond of HK$18,000,000, which is calculated on the same basis of the Consideration (details of which as stated in the paragraph "Basis of the Consideration" below) as follows:

$$C = (25{,}000{,}000 - \text{Average Guaranteed Profit}) \times 12\% \times 15$$

If the Average Actual Profit is less than HK$15,000,000, then the Vendor shall set off against the payment obligations of the Company under the Second Convertible Bond on a dollar to dollar basis in an amount calculated as follows:

$$A = (\text{Average Guaranteed Profit} - \text{Average Actual Profit}) \times 12\%$$

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

(a) if A is less than the outstanding principal amount of the Second Convertible Bond, the Purchaser shall cancel the Second Bond Certificate and issue to the Vendor a new Second Bond Certificate with a principal amount equivalent to the difference between the outstanding principal amount of the Second Convertible Bond and A;

(b) if A is equal to the outstanding principal amount of the Second Convertible Bond, the Purchaser shall cancel the Second Convertible Bond and accordingly, the Second Bond Certificate; and

(c) if A is more than the outstanding principal amount of the Second Convertible Bond, the Purchaser shall cancel the Second Bond Certificate and any shortfall remaining after such set off and cancellation shall be paid by the Vendor to the Purchaser in cash.

Should the Target Group record a loss for the average of the audited consolidated net profits after tax and extraordinary or exceptional items of the Target Group for the financial years ending 31 December 2009 and 31 December 2010, the actual amount of loss will be taken as Average Actual Profit in the formula.

The Company will publish an announcement when the Average Actual Profit, the amount of the Balance Consideration, if any, and the amount and arrangement of the shortfall compensation are ascertained.

TERMS OF CONVERTIBLE BONDS

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

Issuer

The Company

Principal amount

First Convertible Bond – HK$18,000,000

Second Convertible Bond – HK$4,000,000

Interest

Each of the Convertible Bonds will carry interest at a rate of 1% per annum, payable quarterly.

Maturity

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

Conversion

Pursuant to the Agreement, the First Convertible Bond will be delivered to the Vendor in a principal sum of HK$18,000,000 upon Completion whereas the Second Convertible Bond in a principal sum of HK$4,000,000 will be delivered to the Purchaser upon Completion as escrow until the fulfillment of the Average Guaranteed Profit.

The Bondholder may convert the whole or part (in multiples of HK$1,000,000) of the First Convertible Bond of HK$18,000,000, which will be delivered to the Vendor upon Completion, into the Conversion Shares at the Conversion Price from the date of issue of the First Convertible Bond up to the maturity date of the First Convertible Bond.

The Bondholder may convert the whole or part (in multiples of HK$1,000,000) of the Second Convertible Bond of HK$4,000,000, which will be delivered to the Purchaser upon Completion as escrow until the fulfillment of the Average Guaranteed Profit, into the Conversion Shares at the Conversion Price for the period commencing from (1) the date when the Average Guaranteed Profit has been fulfilled or (2) if there is any shortfall between Average Actual Profit and the Average Guaranteed Profit, the date when the Purchaser is fully compensated by the Vendor for any shortfall pursuant to the Agreement up to the maturity date of the Second Convertible Bond.

Conversion Price

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

The adjustments for Conversion Price include the following:

(i) an alteration of the nominal amount of each Share by reason of any consolidation or subdivision;

(ii) an issue (other than in lieu of a cash dividend) by the Company of Shares credited as fully paid by way of capitalization of profits or reserves (including any share premium account or capital redemption reserve fund);

(iii) a capital distribution being made by the Company, whether on a reduction of capital or otherwise, to Shareholders (in their capacity as such) or a grant by the Company to Shareholders (in their capacity as such) of rights to acquire for cash assets of the Company or any of its subsidiaries;

(iv) an offer of new Shares for subscription by way of rights, or a grant of options or warrants to subscribe new Shares being made by the Company to Shareholders (in their capacity as such);

(v) an issue wholly for cash being made by the Company of securities convertible into or exchangeable for or carrying rights of subscription for new Shares and the total effective consideration per Share receivable for such securities is less than 70% of the market price on the date of announcement of the terms of the issue of such securities; and

(vi) an issue of Shares wholly for cash at a price per Share which is less than 70% of the market price on the date of announcement of the terms of such issue.

The Company will issue an announcement when there is any adjustment to the Conversion Price and the adjustment will be certified by the Company's auditor or by merchant bank.

The Conversion Price represents (i) a premium of approximately 38.46% over the closing price of HK$0.13 per Share as quoted on the Stock Exchange on 5 May 2008, being the last trading day of the Shares on the Stock Exchange prior to the suspension of the trading in the Shares; (ii) a premium of approximately 38.04% over the average of the closing prices of approximately HK$0.1304 per Share for the last five trading days up to and including 5 May 2008; (iii) a premium of approximately 38.46% over the closing price of HK$0.13 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and (iv) a premium of approximately 140% over the net asset value per Share of approximately HK$0.075 based on the audited consolidated financial statements of the Group as at 31 December 2007.

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

Conversion Shares

Assuming there is an immediate exercise in full of the conversion rights attaching to the Convertible Bonds in the aggregate principal amount of HK$22,000,000 at the Conversion Price by the Bondholder, the Company will issue an aggregate of 122,222,222 Conversion Shares, representing approximately (i) 9.19% of the existing issued share capital of the Company; and (ii) approximately 8.41% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares. For further details, please refer to the paragraph "Changes in the shareholding structure" below.

The Conversion Shares will be issued pursuant to the specific mandate to be sought at the EGM.

Early redemption

The Company may, at its discretion, redeem the First Convertible Bond of HK$18,000,000, which will be delivered to the Vendor upon Completion, in whole or in part in multiples of HK$1,000,000 at any time prior to the maturity date of the First Convertible Bond.

The Company may, at its discretion, redeem the Second Convertible Bond of HK$4,000,000, which will be delivered to the Purchaser upon Completion as escrow until the fulfillment of the Average Guaranteed Profit, in whole or in part in multiples of HK$1,000,000 at any time commencing from (1) the date when the Average Guaranteed Profit has been fulfilled or (2) if there is any shortfall between Average Actual Profit and the Average Guaranteed Profit, the date when the Purchaser is fully compensated by the Vendor for any shortfall(s) pursuant to the Agreement to the maturity date of the Second Convertible Bond.

Ranking

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

Transferability

The Convertible Bonds may be transferred or assigned by the Bondholder to any party other than a connected person of the Company. The transferability of the First Convertible Bond will be effective upon delivery of the same to the Vendor on Completion whereas the transferability of the Second Convertible Bond will be effective upon delivery of the same to the Vendor on (1) the date when the Guaranteed Profit has been fulfilled or (2) if there is any shortfall between Average Actual Profit and the Average Guaranteed Profit, the date when the Purchaser is fully compensated by the Vendor for any shortfall pursuant to the Agreement up to the maturity date of the Second Convertible Bond.

Voting rights

The Convertible Bonds do not confer any voting rights at any meetings of the Company.

Application for listing

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

TERM OF EXTRA CONVERTIBLE BOND

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

Issuer

The Company

Principal amount

Up to HK$18,000,000

Interest

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

Maturity

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

Conversion

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

Conversion Price

The Conversion Price is HK$0.18 per Extra Conversion Share. The Company will issue an announcement when there is any adjustment to the Conversion Price and the adjustment will be certified by the Company's auditor or by the merchant bank.

The Conversion Price represents (i) a premium of approximately 38.46% over the closing price of HK$0.13 per Share as quoted on the Stock Exchange on 5 May 2008, being the last trading day of the Shares on the Stock Exchange prior to the suspension of the trading in the Shares; (ii) a premium of approximately 38.04% over the average of the closing prices of approximately HK$0.1304 per Share for the last five trading days up to and including 5 May 2008; (iii) a premium of approximately 38.46% over the closing price of HK$0.13 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and (iv) a premium of approximately 140% over the net asset value per Share of approximately HK$0.075 based on the audited consolidated financial statements of the Group as at 31 December 2007.

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

Extra Conversion Shares

Assuming there is an immediate exercise in full of the conversion rights attaching to the Extra Convertible Bond in the aggregate principal amount of up to HK$18,000,000 at the Conversion Price by the Bondholder, the Company will issue an aggregate of up to 100,000,000 Extra Conversion Shares, representing approximately (i) 7.52% of the existing issued share capital of the Company; and (ii) approximately 6.44% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares and the Extra Conversion Shares. For further details, please refer to the paragraph "Changes in the shareholding structure" below. The Extra Conversion Shares will be issued pursuant to the specific mandate to be sought at the EGM.

Early redemption

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

Ranking

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

Transferability

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

Voting rights

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

Application for listing

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

The Conversion Shares and the Extra Conversion Shares will not be subject to any sale restriction or lock up.

CHANGES IN SHAREHOLDING STRUCTURE

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

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the following table sets out the shareholding structure of the Company (i) as at the Latest Practicable Date and before Completion; (ii) immediately after full conversion of the Convertible Bonds into Conversion Shares; (iii) immediately after full conversion of the Convertible Bonds and the Extra Convertible Bond into Conversion Shares and Extra Conversion Shares; and (iv) immediately after exercise of 12,300,000 options and full conversion of the Convertible Bonds and the Extra Convertible Bond into the Conversion Shares and the Extra Conversion Shares respectively:

Shareholders	As at the Latest Practicable Date and before Completion		Immediately after full conversion of the Convertible Bonds into the Conversion Shares		Immediately after full conversion of the Convertible Bonds and the Extra Convertible Bond into the Conversion Shares and the Extra Conversion Shares		Immediately after exercise of 12,300,000 options and full conversion of the Convertible Bonds and the Extra Convertible Bond into the Conversion Shares and the Extra Conversion Shares respectively	
	Number of Shares	*Approximate %*	*Number of Shares*	*Approximate %*	*Number of Shares*	*Approximate %*	*Number of Shares*	*Approximate %*
Manciple Enterprises Limited *(Note 1)*	299,478,238	22.51	299,478,238	20.62	299,478,238	19.29	299,478,238	19.14
The Vendor	–	–	122,222,222	8.41	222,222,222	14.31	222,222,222	14.20
Directors *(Note 2)*								
Pang Hong Tao	10,500,000	0.79	10,500,000	0.72	10,500,000	0.68	16,800,000	1.07
Mo Wai Ming, Lawrence	21,385,920	1.61	21,385,920	1.47	21,385,920	1.38	21,385,920	1.37
Au Shui Ming, Anna	22,500,000	1.69	22,500,000	1.55	22,500,000	1.45	28,500,000	1.82
Ma She Shing, Albert	870,000	0.07	870,000	0.06	870,000	0.06	870,000	0.06
sub-total	55,255,920	4.16	55,255,920	3.80	55,255,920	3.57	67,555,920	4.32
Public	975,640,922	73.33	975,640,922	67.17	975,640,922	62.83	975,640,922	62.34
Total	1,330,375,080	100	1,452,597,302	100	1,552,597,302	100	1,564,897,302	100

Note:

1. Manciple Enterprises Limited, a company incorporated in the British Virgin Islands which is wholly and beneficially owned by Mr. Lau Kim Hung, Jack ("Mr. Lau"). Accordingly, Mr. Lau is deemed to be interested in 299,478,238 Shares.

2. Mr. Pang Hong Tao, Mr. Mo Wai Ming, Lawrence and Ms. Au Shui Ming, Anna are executive Directors. Mr. Ma She Shing, Albert is non-executive Director.

INFORMATION ON THE TARGET GROUP

According to the unaudited management accounts of the Target Group for the period commencing from 8 June 2007, the date of incorporation to 31 December 2007, there was no turnover, and the net loss before and after taxation and extraordinary items was approximately HK$508,000.

As at 31 December 2007, the principal asset of the Target Group was cash and bank balances of approximately HK$5,127,000 and the net assets of the Target Group will be approximately HK$5,722,000 after capitalisation of shareholders' loan of approximately HK$6,179,000.

The Target Group 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. The Target Group will conduct its business through two wholly foreign owned enterprises, namely Beijing LianYiHuiZhong Technology Company Limited (北京聯易匯眾科技有限公司) ("BLTC") and Beijing YiLaiShen Technology Company Limited (北京易來申科技有限公司) ("Beijing e-License"). BLTC is 100% owned by the Target Group and will be principally engaged in the distribution of copyright protected items (such as on-line entertainment and media related items) and other entertainment related business in the PRC. Beijing e-License is 50% beneficially owned by the Target Group and the rest of the shareholding interest is indirectly owned by e-License Inc. (Japan). Beijing e-License 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) owned or licensed by e-License Inc. (Japan) in the PRC. e-License Inc. (Japan) is a pioneer in the development of copyright management and digital licensing technologies in Japan and is one of the leading Japan based copyright management companies specialized in the digital media industry to provide international copyright management solution and consultancy services. e-License Inc. (Japan) owns or is licensed with a large amount of copyright protected items (such as on-line entertainment and media related items) which may serve as value-added services or merchandises of mobile devices, internet, fixed line communication devices and global positioning devices. The shareholders of e-License Inc. (Japan) are large and reputable international corporations such as Toyota Tsusho Corporation (豐田通商). e-License Inc. (Japan) intends to develop its business in the PRC by applying its business model currently operating in Japan to the PRC through Beijing e-License, its sole business vehicle in the PRC.

In compliment with the aforesaid business goal of e-License Inc. (Japan) in the PRC, the copyright management and digital licensing technologies developed by and the copyright protected items owned or licensed by e-License Inc. (Japan) will be provided in and distributed into the PRC through the Target Group. The Target Group will provide copyright management solution, digital content licensing solution and distribute copyright protected items (such as on-line entertainment and media related items), which may serve as value-added services or merchandises of mobile devices, internet, fixed line communication devices and global positioning devices, to the telecommunication industry, music and entertainment industry as well as media industry in the PRC.

The Target Group is already in close negotiations with a telecommunication service provider, online or mobile entertainment providers in the PRC for the provision of copyright management solution, digital content licensing solution and copyright protected items.

As at the Latest Practicable date, the Target Group had not yet commenced operation and it is expected that operation will commence in second half of 2008.

BASIS OF THE CONSIDERATION

The Basic Consideration is calculated based on the Average Guarantee Profit times 15 price earnings multiples and equity interests to be acquired in the Target Group, i.e. HK$15,000,000 x 15 x 12% = HK$27,000,000 while the Balance Consideration is calculated based on the excess of HK$25,000,000 over the Average Profit Guarantee of HK$15,000,000 times 15 price earnings multiples and equity interests to be acquired in the Target Group, i.e. HK$10,000,000 x 15 x 12% = HK$18,000,000.

The Consideration was a commercial decision made by the Board with the Vendor and was agreed after arm's length negotiations after considering: (i) the support including, among others, provision of technologies and expertise being given by e-License Inc. (Japan) to the Target Group on the development of the copyright management and digital content licensing businesses in the PRC. The solutions of copyright management and digital licensing are developed by e-License Japan and such solutions were successfully launched in Japan. Leveraging on such solutions, Beijing e-License will be the pioneer in the PRC to provide copyright management and digital content licensing solutions to the telecommunication industry, music and entertainment industry as well as media industry in the PRC; (ii) the imminent commencement of operation of the Target Group in the second half of 2008; (iii) the potential contracts to be entered into between the Target Group and the telecommunication service provider, online or mobile entertainment providers in the PRC for the provision of copyright management solution, digital content licensing solution and copyright protected items; (iv) the significant growth potential of the copyright management and the digital content licensing market in the PRC as stated in the paragraph "REASONS FOR THE ACQUISITION" below; (v) the leading status of e-License Inc. (Japan) in the copyright management and digital media industries in Japan; (vi) the profit guarantee given by the Vendor as described in the paragraph "Profit Guarantee" above; (vii) the current price earning ratios of companies listed on the Stock Exchange engaging in business similar to Far Glory ranging from about 2.88 to 21.75 times; and (viii) the Directors' belief that the Acquisition, in compliment with the Subscription, will provide an additional and stable income source to the Group in the medium term by sharing of profit of the Target Group. Hence, the Directors consider that the Consideration is fair and reasonable and the terms and conditions of the Acquisition are fair and reasonable and are in the interest of the Company and the Shareholders as a whole.

REASONS FOR THE ACQUISITION

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

The Group recorded net profit of approximately HK$0.7 million for the year ended 31 December 2007 and a cash position of about HK$48 million as at 31 December 2007.

As stated in the annual report of the Group for the year ended 31 December 2007, the Directors believe that with the continuing growth of economy, in particular, the information technology industry and the telecommunication industry, and the living standard of people in the PRC, the information technology business, such as digital content, remains a promising business to be developed in the Greater China Region. Hence, the Directors have always been active in seeking investment opportunities in the information technology business in the PRC in order to increase the value of the Company.

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 Acquisition and, in compliment with 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.

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

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

MANAGEMENT DISCUSSION AND ANALYSIS OF THE RESULTS OF THE TARGET GROUP

Set out is a summary of the key financial data of the Target Group, of which 20.26% of the shareholding interest will be held by the Purchaser upon Completion and are extracted from the accountant's report of the Target Group as contained in Appendix I to this circular prepared based on the generally accepted accounting principles in Hong Kong.

	Period from 8 June 2007 (date of incorporation) to 29 February 2008 (audited) *HK$*
Result	
Turnover	–
Loss before Tax	759,472
Loss after Tax	759,472

	As at 29 February 2008 (audited)
Assets and liabilities	
Total assets	5,524,944
Net liability value	(662,914)

(i) Financial and business performance

Far Glory was incorporated on 8 June 2007. There was no turnover for the period ended 29 February 2008 as the operation was not commenced. Its is expected that the operation of the Target Group will commence in the second half of 2008.

(ii) Capital structure

Far Glory Group's capital structure as at 29 February 2008 consisted of approximately HK$780 as registered capital and negative reserve of approximately HK$663,694.

(iii) Liquidity and financial resources

As at 29 February 2008, there was cash and bank balance of approximately HK$2,039,599 and shareholders' loan of HK$6,179,220 and such loan was capitalised on 10 April 2008 subsequently.

(iv) Significant investments

The Target Group did not have any significant investments as at 29 February 2008.

(v) Material acquisition or disposal of subsidiaries and affiliated companies

There were no material acquisitions or disposal of subsidiaries and affiliated company as at 29 February 2008.

(vi) Business of the Target Group

The Target Group 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.

(vii) Segment information

The Target Group has not commenced operation for the period ended 29 February 2008, accordingly, no analysis by either business or geographical segment was noted.

(viii) Number of employees and remuneration policies

As at 29 February 2008, the Target Group had about 3 employees. Total salary and allowances amounted to about HK$34,737 for the period from 8 June 2007 (date of incorporation) to 29 February 2008. The Target Group's remuneration policy includes a pension scheme.

(ix) Charges on the Target Group's assets

There was no charge on the Target Group's assets as at 29 February 2008.

(x) Future plans for material investments

As at the Latest Practicable Date, no proposed material investments by the Target Group.

(xi) Exposure to exchange rates

Most of the transactions of the Target Group will denominate in Renminbi and most of the bank deposits are being kept in the local currency of the Target Group to minimize exposure to foreign exchange risk. Hence, no hedging or other arrangements to reduce the currency risk were implemented.

(xii) Contingent liabilities

There was no contingent liabilities of the Target Group as at 29 February 2008.

(xiii) Gearing

There was no bank borrowing as at 29 February 2008.

FINANCIAL EFFECT OF THE PROPOSED ACQUISITION

(1) Assets

After the Completion, the unaudited pro forma net assets value of the Enlarged Group is about HK$119,627,000. As stated in the paragraph "Consideration" above, (i) a Convertible Bond in the principal amount of HK$22,000,000 will be issued upon Completion, which entitling the Bondholders the conversion right of 122,222,222 Convertible Shares at the Conversion Price; and (ii) an Extra Convertible Bond in the principal amount of up to HK$18,000,000 will be issued provided that the Average Actual Profit of the Target Group is not less than HK$25,000,000, which entitling the Bondholders the conversion right of 100,000,000 Extra Convertible Shares at the Conversion Price. As a result of the conversion of the Convertible Bond and the Extra Convertible Bond, the issued share capital will be enlarged and net asset value of the Company will be increased.

(2) Earnings

The Acquisition is expected to provide an additional and stable income source to the Group in the medium term by way of dividend and sharing of profit or loss of the Target Group as an associate and the Enlarged Group looks forward to the business opportunities to be arisen from the copyright management solution and digital licensing business in the PRC.

(3) Liabilities

The liabilities of the Enlarged Group upon Completion will be increased by approximately HK$53,298,000, which represents the Convertible Bonds and the Extra Convertible Bond due to the Vendor and the remaining balance of the consideration for the cash subscription of HK$15,250,000 payable to Far Glory.

FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED 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 agriculture-related businesses in the PRC.

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, the Purchaser, a wholly owned subsidiary of the Company, as subscriber, entered into a subscription agreement with Far Glory Limited, pursuant to the subscription agreement, Cheer Plan shall subscribe and Far Glory Limited shall allot and issue, the 900 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 Purchaser has paid HK$5,000,000 to Far Glory Limited as part of the consideration, and the remaining consideration of HK$15,250,000 shall be settled at the request of Far Glory Limited. The subscription was completed on 21 April 2008.

On 5 May 2008, the Purchaser entered into the Agreement with the Vendor and the Guarantor, pursuant to the Agreement, the Purchaser shall purchase and the Vendor shall sell, the Sale Sales (representing approximately 12% of the entire issued share capital of Far Glory Limited) at a maximum total consideration of HK$45,000,000, the Purchaser has paid HK$5,000,000 to the Vendor as part of the consideration, and the remaining consideration of HK$40,000,000 shall be settled by: (i) issuing the First Convertible Bond of HK$18,000,000, which will be issued and delivered to the Vendor upon Completion; (ii) issuing the Second Convertible Bond of HK$4,000,000, which will be issued and delivered to the Purchaser as escrow upon Completion and released to the Vendor provided that the Average Actual Profit of the Target Group is not less than HK$15,000,000; and (iii) issuing the Extra Convertible Bond of up to HK$18,000,000 to the Vendor provided that the Average Actual Profit of the Target Group is not less than HK$25,000,000.

The Target Group 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.

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.

Disposal of water supply business

As a result of the severe snow storm during the period from mid-January to late February 2008, the Board anticipates that such severe snow storm will significantly delay the construction of the establishments of the water plant in Anhui Province (安徽省) and is expected that the water plants of Proud Dragon Limited and its subsidiaries ("Proud Dragon Group") will not be in full operation as initially scheduled in the first half of 2008. Accordingly, the realization of the profitability potential of the Proud Dragon Group will be significantly reduced in short and medium terms. The Board also anticipates that extra financial resources might be required for the restoration of water plants to its normal operation and the delay in the construction of the establishments of the water plants due to the severe snow storm.

On 21 April 2008, Rise Assets Limited, a wholly owned subsidiary of the Company, entered into the disposal agreement with Mr. Lao Kuai Hong for the entire share capital of Proud Dragon Limited (the "Disposal"). The Board considers that the Disposal provides a good opportunity for the Company to realize its investment in Proud Dragon as a financial gain of approximately HK$2.9 million will be generated from the Disposal and financial resources of the Group will be enhanced and better allocated to investment opportunities which will be of higher profitability to the Group and Shareholders as a whole. Please refer to the announcement and circular of the Company dated 22 April 2008 and 5 May 2008 respectively for the details of the Disposal. The Disposal was completed on 23 May 2008.

Organic fertilizer

The Directors consider that the entering into the organic fertilizer business represents a good opportunity for the Group to enter into the agricultural industry in the PRC.

GEM LISTING RULES IMPLICATIONS

The Acquisition, with the aggregation of the Subscription, constitutes a major transaction on the part of the Company under the GEM Listing Rules and is subject to the approval of the Shareholders at the EGM. A circular containing, among other matters, further details of the Acquisition will be despatched to the Shareholders in compliance with the GEM Listing Rules.

EGM

A notice convening the EGM to be held at Unit 1601, Ruttonjee House, Ruttonjee Centre, 11 Duddell Street, Central, Hong Kong on Monday, 16 June 2008 at 11:00 a.m. is set out on pages 103 and 104 of this circular. Ordinary resolution will be proposed at the EGM to approve the proposed Acquisition and the transactions contemplated thereunder. As a the Latest Practicable Date, no Shareholder is required to abstain from voting 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 office of the branch share registrar of the Company in Hong Kong, Tricor Standard Limited, at 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 of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof.

PROCEDURE FOR DEMANDING A POLL AT GENERAL MEETING

In accordance with the Articles of Association of the Company, 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

(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.

RECOMMENDATION

The Board considers that the terms of the Acquisition 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.

ADDITIONAL INFORMATION

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

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

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

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

30 May 2008

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

Dear sirs,

We set out below our report on the financial information (the "Financial Information") regarding Far Glory Limited ("Far Glory") and its subsidiaries (hereinafter collectively referred to as the "Far Glory Group") for the period from 8 June 2007 (date of incorporation of Far Glory) to 29 February 2008 (the "Period") for inclusion in the circular of Shen Nong China (Group) Limited (the "Company") dated 30 May 2008 (the "Circular") in connection with the proposed acquisition of 12% of issued share capital of Far Glory by Cheer Plan Limited ("Cheer Plan"), a wholly-owned subsidiary of the Company (the "Acquisition").

Far Glory was incorporated in the British Virgin Islands on 8 June 2007 with limited liability under the BVI Business Companies Act, 2004 of the British Virgin Islands and acts as an investment holding company. The registered office of Far Glory is located at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands.

As at the date of this report, Far Glory has interests in the following subsidiaries:

Name of subsidiary	Place and date of incorporation/ registration	Nominal value of issued/ registered capital	Attributable equity interest held by Far Glory Directly	Indirectly	Principal activities
Great Wave Limited	British Virgin Islands 11 June 2007	US$1	100%	–	Investment holding
Sky Asia Investments Limited	Hong Kong 4 July 2007	HK$1	–	100%	Investment holding
北京聯易匯眾科技有限公司 Beijing LianYiHuiZhong Technology Company Limited *	The People's Republic of China 31 October 2007	HK$2,000,000	–	100%	Distribution of copyright protected items and other entertainment related business

All companies of the Far Glory Group have adopted 31 March as their financial year end date, except for Beijing LianYiHuiZhong Technology Company Limited which has its statutory financial year end on 31 December.

* *English translation of company name is for identification purpose only*

Up to the date of this report, no audited financial statements have been prepared for the companies comprising the Far Glory Group as they were either incorporated/established shortly before 29 February 2008 or are not subject to statutory audit requirements under the relevant rules and regulations in their jurisdictions of incorporation.

For the purpose of this report, the directors of Far Glory have prepared the consolidated financial statements of the Far Glory Group for the Period (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 D below has been prepared by the directors of Far Glory 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 Far Glory. 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 Far Glory and the Far Glory Group as at 29 February 2008 and of the consolidated results and cash flows of Far Glory Group for the Period.

A. FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENT

Period from 8 June 2007 (date of incorporation of Far Glory) to 29 February 2008

	Notes	*HK$*
TURNOVER	*5*	–
Cost of sales		–
Gross profit		–
Other revenue	*5*	1,292
Administrative expenses		(760,696)
Finance costs	*7*	(60)
Share of loss of an associate		(8)
LOSS BEFORE TAX	*8*	(759,472)
Tax	*10*	–
LOSS FOR THE PERIOD		(759,472)

CONSOLIDATED BALANCE SHEET
29 February 2008

	Notes	*HK$*
NON-CURRENT ASSETS		
Interests in an associate	*12*	–
CURRENT ASSETS		
Prepayments and other receivables	*13*	3,080,353
Due from an associate	*15*	404,992
Cash and bank balances	*16*	2,039,599
Total current assets		5,524,944
CURRENT LIABILITIES		
Accrued liabilities		8,638
Shareholders' loan	*18*	6,179,220
Total current liabilities		6,187,858
NET CURRENT LIABILITIES		(662,914)
Net liabilities		(662,914)
EQUITY		
Issued capital	*19*	780
Reserves		(663,694)
		(662,914)

BALANCE SHEET
29 February 2008

	Notes	*HK$*
NON-CURRENT ASSETS		
Investment in a subsidiary	*11*	8
Investment in an associate	*12*	–
Total non-current assets		8
CURRENT ASSETS		
Prepayments and other receivables	*13*	3,080,000
Due from a subsidiary	*14*	2,049,992
Due from an associate	*15*	404,992
Total current assets		5,534,984
CURRENT LIABILITIES		
Due to a subsidiary	*17*	8,150
Shareholders' loan	*18*	6,179,220
Total current liabilities		6,187,370
NET CURRENT LIABILITIES		(652,386)
Net liabilities		(652,378)
EQUITY		
Issued capital	*19*	780
Reserves	*20*	(653,158)
		(652,378)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Period from 8 June 2007 (date of incorporation of Far Glory) to 29 February 2008

	Issued capital *HK$*	Exchange reserve *HK$*	Accumulated losses *HK$*	Total *HK$*
Issue of shares upon incorporation	780	–	–	780
Exchange realignment	–	95,778	–	95,778
Loss for the period	–	–	(759,472)	(759,472)
At 29 February 2008	780	95,778	(759,472)	(662,914)

CONSOLIDATED CASH FLOW STATEMENT

Period from 8 June 2007 (date of incorporation of Far Glory) to 29 February 2008

	HK$
OPERATING ACTIVITIES	
Loss before tax	(759,472)
Adjustments for:	
Finance costs	60
Impairment of amount due from an associate	645,000
Interest income	(1,292)
Share of loss of an associate	8
Operating cash flows before movements in working capital	(115,696)
Increase in prepayments and other receivables	(3,080,353)
Increase in accrued liabilities	8,638
NET CASH USED IN OPERATIONS	(3,187,411)
INVESTING ACTIVITIES	
Interest received	1,292
Investment in an associate	(8)
Increase in amount due from an associate	(1,049,992)
NET CASH USED IN INVESTING ACTIVITIES	(1,048,708)
FINANCING ACTIVITIES	
Proceeds from issue of shares	780
Shareholders' loan raised	6,179,220
Finance costs	(60)
NET CASH FROM FINANCING ACTIVITIES	6,179,940
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,943,821
Cash and cash equivalents at beginning of period	–
Effect of foreign exchange rate changes, net	95,778
CASH AND CASH EQUIVALENTS AT END OF PERIOD	2,039,599
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS	
Cash and bank balances	2,039,599

B. NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION

Far Glory is a limited liability company incorporated in the British Virgin Islands. The registered office of Far Glory is located at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands.

Far Glory acts as an investment holding company during the Period. Details of the principal activities of its subsidiaries and associates are set out in notes 11 and 12, respectively, to the Financial Information.

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

The Far Glory Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective. The directors of Far Glory anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Far Glory Group.

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKFRS 8	Operating Segments[1]
HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions[2]
HK(IFRIC) – Int 12	Service Concession Arrangements[3]
HK(IFRIC) – Int 13	Customer Loyalty Programmes[4]
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[3]

Notes:

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 March 2007
3 Effective for annual periods beginning on or after 1 January 2008
4 Effective for annual periods beginning on or after 1 July 2008

3. PRINCIPAL ACCOUNTING POLICIES

(a) Basis of preparation

The Financial Information have been prepared in accordance with accounting principles generally accepted in Hong Kong including all applicable HKFRSs and HKASs issued by the HKICPA. They have been prepared on the historical cost convention. The measurement bases are fully described in the accounting policies below.

The Financial Information have been prepared on a going concern basis notwithstanding that Far Glory and the Far Glory Group have net liabilities as at 29 February 2008 as the shareholders have undertaken to provide continuous financial support to Far Glory, and to maintain it as a going concern.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of Far Glory and its subsidiaries for the Period. The results of the subsidiaries are consolidated from the date of acquisition, being the date on which the Far Glory Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Far Glory Group are eliminated on consolidation.

The acquisition of subsidiaries during the Period has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable 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.

(c) Subsidiaries

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

The result of subsidiary is included in Far Glory's income statement to the extent of dividends received and receivable. Far Glory's investment in a subsidiary is stated at cost less any impairment losses.

(d) Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which Far Glory 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.

Far Glory Group investment in an associate is stated in the consolidated balance sheet at the Far Glory Group's share of net assets under the equity method of accounting, less any impairment losses. The Far Glory 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 Far Glory's income statement to the extent of dividends received and receivable. Far Glory's investment in an associate is treated as non-current assets and is stated at cost less any impairment losses.

(e) Impairment of assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required, 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.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the 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 that asset, however but 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 such impairment loss is credited to the income statement in the period in which it arises.

(f) Related parties

A party is considered to be related to the Far Glory 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 Far Glory Group; (ii) has an interest in the Far Glory Group that gives it significant influence over the Far Glory Group; or (iii) has joint control over the Far Glory 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 Far Glory Group or its parent;

(v) the party is a close member of the family of any individual referred to in (i) or (iv); or

(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 the employees of the Far Glory Group, or of any entity that is a related party of the Far Glory Group.

(g) Operating leases

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

(h) 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 that are readily convertible into known amounts of cash, 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 Far Glory Group's cash management.

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

(i) 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, carryforward 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 carryforward 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 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 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.

(j) Revenue recognition

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

- 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.

(k) Borrowing costs

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

(l) Foreign currencies

These financial statements are presented in Hong Kong dollars, which is Far Glory's functional and presentation currency. Each entity in the Far Glory Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional 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 the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates 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 the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of Far Glory 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 fluctuation 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 period.

(m) Segment Reporting

A segment is a distinguishable component of the Far Glory Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different form those of other segments.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS

In the process of applying the Far Glory 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 management 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 assets 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.

5. TURNOVER AND OTHER REVENUE

The Far Glory Group did not generate any turnover during the Period. An analysis of the Far Glory Group's other revenue is as below:

	HK$
OTHER REVENUE	
Interest income	1,292

6. SEGMENTAL INFORMATION

No business or geograghical segment analysis is presented as all operations, assets and liabilities of the Far Glory Group are related to the provision of copyright management solution and distribution of copyright protected items and over 90% of the assets and potential customers are located in the People's Republic of China.

7. FINANCE COSTS

	HK$
Interest on bank overdrafts	60

8. LOSS BEFORE TAX

Loss before tax is arrived after charging:

	HK$
Minimum lease payments under operating leases on land and buildings	14,444
Exchange losses, net	6,556
Impairment of amount due from an associate	645,000
Employee benefits expense (excluding directors' remuneration – *note 9*)	
Salaries and allowances	34,737

9. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

During the Period, no remuneration was paid or payable to the directors of Far Glory.

During the Period, only three individuals were employed by the Far Glory Group. The details of the remuneration of these individuals for the Period are as follows:

	HK$
Salaries	34,737

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

	Number of individuals
HK$Nil to HK$1,000,000	3

During the Period, no remuneration was paid by the Far Glory Group to the directors or three highest paid individuals as a inducement to join or upon joining the Far Glory Group or as compensation for loss of office.

10. TAX

No provision for Hong Kong and overseas profits tax has been made as the Far Glory Group did not generate any assessable profits arising from its operations during the Period.

There are no material unprovided deferred tax assets and liabilities at 29 February 2008.

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

	HK$
Loss before tax	(759,472)
Tax at the statutory tax rate of 17.5%	(132,908)
Income not subject to tax	(226)
Expenses not deductible for tax	133,134
Tax charge at effective rate	–

11. INVESTMENT IN A SUBSIDIARY

	Far Glory *HK$*
Unlisted shares, at cost	8

Particulars of the subsidiaries are as follows:

Name of subsidiary	**Place and date of incorporation/ registration**	**Nominal value of issued/ registered capital**	**Attributable equity interest held by Far Glory**	**Principal activities**
Great Wave Limited	British Virgin Islands 11 June 2007	US$1	100% (directly)	Investment holding
Sky Asia Investments Limited	Hong Kong 4 July 2007	HK$1	100% (indirectly)	Investment holding
Beijing LianYiHuiZhong Technology Company Limited	The People's Republic of China 31 October 2007	HK$2,000,000	100% (indirectly)	Distribution of copyright protected items and other entertainment related business

12. INVESTMENT/INTERESTS IN AN ASSOCIATE

	Far Glory Group *HK$*	Far Glory *HK$*
Unlisted shares, at cost	8	8
Share of post-acquisition loss	(8)	–
Impairment	–	(8)
	–	–

Particulars of the associates are as follows:

Name of associate	Place and date of incorporation/ registration	Nominal value of issued/ registered capital	Attributable equity interest held by Far Glory	Principal activities
Shinning Day Limited	British Virgin Islands 7 June 2007	US$2	50% (directly)	Investment holding
Golden Sino Limited	Hong Kong 12 June 2007	HK$1,000	50% (indirectly)	Investment holding
Beijing YiLaiShen Technology Company Limited	The People's Republic of China 31 October 2007	HK$2,000,000	50% (indirectly)	Provision of copyright management solution and distribution of copyright protected items

The financial statements of the above associates are coterminous with those of Far Glory, except for Beijing YiLaiShen Technology Company Limited which has its statutory financial year end on 31 December.

All the above associates have been accounted for using the equity method in the Financial Information. The following table illutstrates the summarised financial information of Far Glory's associates extracted from their management financial statements:

	HK$
Assets	1,801,387
Liabilities	3,092,343
Revenues	1,451
Loss	1,392,972

13. PREPAYMENTS AND OTHER RECEIVABLES

	Far Glory Group	Far Glory
	HK$	*HK$*
Prepayments	353	–
Other receivables	3,080,000	3,080,000
	3,080,353	3,080,000

14. DUE FROM A SUBSIDIARY

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

15. DUE FROM AN ASSOCIATE

	Far Glory Group	Far Glory
	HK$	*HK$*
Amount due from an associate	1,049,992	1,049,992
Impairment	(645,000)	(645,000)
	404,992	404,992

The amount due from an associate is unsecured, interest-free and has no fixed terms of repayment.

16. CASH AND CASH EQUIVALENTS

	Far Glory Group	Far Glory
	HK$	*HK$*
Cash and bank balances	2,039,599	–

Cash at bank earns interest at floating rates based on daily bank deposit rates. The carrying amounts of the cash and cash equivalents approximate to their fair values.

The cash and bank balances of the Far Glory Group amounting to HK$2,019,367 as at 29 February 2008 is denominated in Renminbi ("RMB"). RMB is not freely convertible into other currencies. Under the PRC Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Far Glory Group is permitted to exchange RMB for other currencies through authorized banks to conduct foreign exchange business.

17. DUE TO A SUBSIDIARY

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

18. SHAREHOLDERS' LOAN

The shareholders' loan is unsecured, interest-free and has no fixed terms of repayment.

19. SHARE CAPITAL

	HK$
Authorised:	
50,000 shares of US$1 each	390,000
Issued and fully paid:	
100 shares of US$1 each	780

Upon incorporation, the authorised share capital of Far Glory was US$50,000 divided into 50,000 shares of US$1 each. Upon incorporation, 100 shares were issued for cash at par for the initial capital of Far Glory.

20. RESERVES

	Far Glory *HK$*
Loss for the period and at 29 February 2008	(653,158)

21. RELATED PARTY TRANSACTIONS

Other than the transactions and balances detailed elsewhere in the Financial Information, Far Glory and the Far Glory Group had no significant transactions with related parties during the Period.

22. OPERATING LEASE COMMITMENTS

The Far Glory Group leases an office premises under operating lease arrangements. The lease for the office premises is negotiated for a term of one year.

At 29 February 2008, the Far Glory Group had total future minimum lease payments under non-cancellable operating lease falling due as follows:

	HK$
Within one year	22,222

23. CONTINGENT LIABILITIES

At 29 February 2008, Far Glory and the Far Glory Group have no significant contingent liabilities.

24. FINANCIAL RISK AND MANAGEMENT OBJECTIVES AND POLICIES

The Far Glory Group's overall risk management programme seeks to minimise potential adverse effects on the financial performance of the Far Glory Group.

(i) Interest rate risk

Far Glory Group is exposed to fair value interest rate risk in relation to cash flow interest rate due to the fluctuation of the prevailing market interest rate on bank balances. However, the directors consider Far Glory Group's exposure to such interest rate risks is not significant as bank balances are all short-term in nature.

(ii) Foreign currency risk

The Far Glory Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to Renminbi ("RMB"). Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. In addition, the conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

During the Period, if HK$ had strengthened/weakened by 5% against the RMB, with all other variable held constant, the effects on loss for the Period and on equity are immaterial.

The above sensitivity analysis has been determined assuming that a change in foreign exchange rates had occurred at the balance sheet date and had been applied to the exposure to foreign exchange risk for financial instruments in existence at that date. The 5 percentage point increase or decrease represents management's assessment of a reasonably possible change in exchange rates over the period until the next annual balance sheet date.

(iii) Credit risk

Far Glory Group's maximum credit exposure of financial assets as at 29 February 2008 equals to their carrying amounts. Far Glory Group's credit risk is primarily attributable to its prepayments and other receivables. Far Glory Group manages its credit risk by closely monitoring the granting of credit. Far Glory Group also reviews the recoverable amount of each individual account receivable at each balance sheet date to ensure that adequate allowances are made for irrecoverable amounts. In this regard, the directors of Far Glory consider that Far Glory Group's credit risk is significantly reduced.

Cash at bank is normally placed with licensed banks that have credit ratings equal to or better than the Far Glory Group. Given their high credit ratings, management does not expect any licensed bank to fail to meet its obligations.

(iv) Liquidity risk

Individual operating entities within the Far Glory Group are responsible for their own cash management, including the raising of loans to cover expected cash demands, subject to approval by Far Glory's board when the borrowings exceed certain predetermined levels of authority. The Far Glory Group's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

Far Glory also monitors closely the cash flows of its subsidiaries. Generally, the Far Glory's subsidiaries are required to obtain Far Glory's approval for activities such as investment of surplus cash, raising of loans and settlement of suppliers' invoices beyond certain limits.

The Far Glory Group actively manages its operating cash flows and the availability of funding so as to ensure that all repayment and funding needs are met. As part of its overall liquidity management, the Far Glory Group maintains sufficient level of cash to meet its working capital requirements.

(v) Fair value

The carrying amounts of the financial assets and liabilities in the Financial Information approximate their fair values.

25. CAPITAL MANAGEMENT

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

Far Glory manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, Far Glory may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

Far Glory monitors capital using a gearing ratio, which is net debt divided by the capital plus net debt. Far Glory's gearing ratio as at 29 February 2008 was 100%.

C. SUBSEQUENT EVENTS

(i) Capitalisation of loan agreement dated 10 April 2008 was entered into between Far Glory and its shareholders, pursuant to which the shareholders agreed to subscribe shares of US$1 each in the capital of Far Glory in cash at a subscription price of approximately HK$624.16 per share. It is intended by the parties hereto that the subscription price for the shares shall be satisfied by capitalising the shareholders' loan and that Far Glory be released from its obligations and liabilities in respect of the shareholders' loan subject to and upon the terms and conditions of the agreement.

(ii) On 14 April 2008, Far Glory entered into a subscription agreement with Cheer Plan whereby Cheer Plan agreed to subscribe 900 shares of US$1 each in the share capital of Far Glory in the consideration of HK$20,250,000.

D. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for the Far Glory Group in respect of any period subsequent to 29 February 2008.

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

Cheung Man Yau, Timothy
Practising Certificate No. : P01417

1. SUMMARY OF FINANCIAL INFORMATION

The following table summaries the results, assets and liabilities of the Group for the last three financial years ended 31 December 2007 as extracted from the relevant published financial statements of the Group.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December

	2005	2006	2007
	HK$'000	*HK$'000*	*HK$'000*
Turnover	4,472	6,622	21,238
Cost of sales	(1,888)	(3,489)	(6,768)
Gross Profit	2,584	3,133	14,470
Other income	204	656	2,823
Research and development expenses	(1,250)	(1,166)	(1,101)
Selling and distribution expenses	(1,062)	(1,189)	(1,171)
Administrative expenses	(5,389)	(7,707)	(10,645)
Finance cost	–	–	(236)
Loss before taxation	(4,913)	(6,273)	4,140
Taxation	–	–	(3,434)
Profit / (loss) for the year	(4,913)	(6,273)	(706)
Attributable to:			
Equity holders of the Company	(4,913)	(6,273)	(2,470)
	(Restated)	(Restated)	
Loss per share - Basic	(1.13 cents)	(0.88 cents)	(0.27 cents)

CONSOLIDATED BALANCE SHEET
As at 31 December

	2005	2006	2007
	HK$'000	*HK$'000*	*HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment	334	158	9,070
Goodwill	–	–	51,207
Other intangible assets	–	–	1,387
Total non- current assets	334	158	61,664
CURRENT ASSETS			
Inventories	–	62	1,053
Trade and other receivables	1,807	4,638	24,772
Cash and bank balances	2,253	22,707	48,287
Total current assets	4,060	27,407	74,112
CURRENT LIABILITIES			
Trade and other payables	2,305	3,989	8,813
Financial assistance from government	166	236	268
Tax payable	–	–	3,526
Total current liabilities	2,471	4,225	12,607
NET CURRENT ASSETS	1,589	23,182	61,505
TOTAL ASSETS LESS CURRENT LIABILITIES	1,923	23,340	123,169
NON-CURRENT LIABILITIES			
Financial assistance from government	1,172	1,059	1,027
Promissory note	–	–	4,467
Total non-current liabilities	1,172	1,059	5,494
NET ASSETS	751	22,281	117,675
CAPITAL AND RESERVES			
Share Capital	7,004	29,498	66,519
Reserves	(6,253)	(7,217)	33,137
	751	22,281	99,656
Minority interest	–	–	18,019
	751	22,281	117,675

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS

The following are the audited financial statements of the Group for the three years ended 31 December 2007 together with accompanying notes as extracted from the 2007 Annual Report of the Company.

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
TURNOVER	7	21,238	6,622
Cost of sales		(6,768)	(3,489)
Gross profit		14,470	3,133
Other revenue and gains	7	2,823	656
Research and development expenses		(1,101)	(1,166)
Selling and distribution costs		(1,171)	(1,189)
Administrative expenses		(10,645)	(7,707)
Finance costs	8	(236)	–
PROFIT/(LOSS) BEFORE TAX	9	4,140	(6,273)
Tax	12	(3,434)	–
PROFIT/(LOSS) FOR THE YEAR		706	(6,273)
Attributable to:			
Equity holders of the Company	13	(2,470)	(6,273)
Minority interests		3,176	–
		706	(6,273)
			(Restated)
LOSS PER SHARE Basic	15	(0.27 cents)	(0.88 cents)

CONSOLIDATED BALANCE SHEET

31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	9,070	158
Goodwill	17	51,207	–
Other intangible assets	18	1,387	–
Total non-current assets		61,664	158
CURRENT ASSETS			
Inventories	20	1,053	62
Trade and other receivables	21	24,772	4,638
Cash and bank balances		48,287	22,707
Total current assets		74,112	27,407
CURRENT LIABILITIES			
Trade and other payables	22	8,813	3,989
Financial assistance from government	23	268	236
Tax payable		3,526	–
Total current liabilities		12,607	4,225
Net current assets		61,505	23,182
Total assets less current liabilities		123,169	23,340
NON-CURRENT LIABILITIES			
Financial assistance from government	23	1,027	1,059
Promissory note	24	4,467	–
Total non-current liabilities		5,494	1,059
		117,675	22,281
EQUITY			
Issued capital	25	66,519	29,498
Reserves		33,137	(7,217)
		99,656	22,281
Minority interests		18,019	–
		117,675	22,281

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2007

	Share capital	Share premium	Special reserve*	Warrant subscription reserve	Exchange reserve	Employee share-based compensation reserve	Accumulated losses	Subtotal	Minority interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 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 and 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 – *note 25*	22,173	13,304	–	–	–	–	–	35,477	–	35,477
Issue of consideration shares – *note 25*	6,788	10,181	–	–	–	–	–	16,969	–	16,969
Share/warrant issue expenses	–	(978)	–	–	–	–	–	(978)	–	(978)
Shares issued upon exercise of share options – *note 25*	2,170	9,695	–	–	–	(2,931)	–	8,934	–	8,934
Shares issued upon exercise of warrants – *note 25*	5,890	13,838	–	(1,469)	–	–	–	18,259	–	18,259
Employee share-based compensation – *note 27*	–	–	–	–	–	617	–	617	–	617
Acquisition of subsidiaries – *note 29*	–	–	–	–	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	66,519	68,861	10,084	–	543	–	(46,351)	99,656	18,019	117,675

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

CONSOLIDATED CASH FLOW STATEMENT
Year ended 31 December 2007

	2007	2006
	HK$'000	*HK$'000*
OPERATING ACTIVITIES		
Profit/(loss) before tax	4,140	(6,273)
Adjustments for:		
Depreciation of property, plant and equipment	212	173
Loss on disposal of property, plant and equipment	–	53
Employee share-based compensation	617	2,314
Finance costs	236	–
Interest income	(400)	(585)
Operating cash flows before movements in working capital	4,805	(4,318)
Increase in inventories	(926)	(62)
Increase in trade and other receivables	(12,938)	(2,829)
Increase in trade and other payables	4,674	1,681
NET CASH USED IN OPERATING ACTIVITIES	(4,385)	(5,528)
INVESTING ACTIVITIES		
Purchases of items of property, plant and equipment	(8,892)	(49)
Purchases of intangible assets	(1,387)	–
Interest received	400	585
Acquisition of subsidiaries	(19,444)	–
NET CASH FROM/(USED IN) INVESTING ACTIVITIES	(29,323)	536
FINANCING ACTIVITIES		
Interest paid	(181)	–
Net proceeds from issue of shares	62,670	26,294
Proceeds from issue of warrants	–	1,767
Share/warrant issue expenses	(978)	(2,548)
Repayment of promissory note	(17,000)	–
Repayment of financial assistance from government	–	(43)
Capital injection from minority shareholders	13,419	–
NET CASH FROM FINANCING ACTIVITIES	57,930	25,470
NET INCREASE IN CASH AND CASH EQUIVALENTS	24,222	20,478
Cash and cash equivalents at beginning of year	22,707	2,253
Effect of foreign exchange rate changes, net	1,358	(24)
CASH AND CASH EQUIVALENTS AT END OF YEAR	48,287	22,707
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	48,287	22,707

BALANCE SHEET
31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	19	67,971	132
Total non-current assets		67,971	132
CURRENT ASSETS			
Trade and other receivables	21	550	2,804
Cash and bank balances		31,675	22,150
Total current assets		32,225	24,954
CURRENT LIABILITIES			
Trade and other payables	22	818	532
Total current liabilities		818	532
Net current assets		31,407	24,422
Net assets		99,378	24,554
EQUITY			
Issued capital	25	66,519	29,498
Reserves	26	32,859	(4,944)
Total equity		99,378	24,554

NOTES TO THE FINANCIAL STATEMENTS

31 December 2007

1. GENERAL INFORMATION

KanHan Technologies Group Limited (the "Company") is a limited liability company incorporated in the Cayman Islands. The Company's shares have been listed on the Growth Enterprise Market (the "GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The registered office and principal place of business of the Company are located at Caledonian House, P.O. Box 1043, George Town, Grand Cayman, Cayman Islands and the 15th Floor, Sun House, 181 Des Voeux Road Central, Hong Kong, respectively.

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

2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the financial statements comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange. They have been prepared under the historical cost convention. These financial statements are 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

In the current year, the Group has applied, for the first time, the following new standards, amendment and interpretations ("new HKFRSs") issued by the HKICPA, which are effective for the Group's financial statements beginning on or after 1 January 2007.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments : Disclosures
HK(IFRIC) – Int 8	Scope of HKFRS 2
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustments have been required.

HKAS 1 (Amendment) – Capital Disclosures

In accordance with the HKAS 1 (Amendment) – Capital Disclosures, the Group now reports on its capital management objectives, policies and procedures in each annual financial report. The new disclosures that become necessary due to this change are detailed in note 35.

HKFRS 7 – Financial Instruments : Disclosures

HKFRS 7 – Financial Instruments : Disclosures is mandatory for reporting periods beginning on 1 January 2007 or later. The new standard replaces and amends the disclosure requirements previously set out in HKAS 32 Financial Instruments: Presentation and Disclosures and has been adopted by the Group in its consolidated financial statements for the year ended 31 December 2007. All disclosures relating to financial instruments including in the comparative information have been updated to reflect the new requirements. In particular, the Group's consolidated financial statements now feature:

– a sensitive analysis explained the Group's market risk exposure in regard to its financial instruments, and

– a maturity analysis that shows the remaining contractual maturities of financial liabilities,

each as at the balance sheet date. The first-time application of HKFRS 7, however, has not resulted in any prior-period adjustments on cash flows, net income or balance sheet items.

HK(IFRIC)-Int 8 – Scope of HKFRS 2

This interpretation requires HKFRS 2 to be applied to any arrangement in which the Group cannot identify specifically some or all of the goods or services received, for which equity instruments are granted or liabilities (based on a value of the Group's equity instruments) are incurred by the Group for a consideration, and which appears to be less than the fair value of the equity instruments granted or liabilities incurred. As the Company has only issued equity instruments to its employees in accordance with the Group's share option scheme, the interpretation has had no effect on these financial statements.

HK(IFRIC) – Int 9 – Reassessment of Embedded Derivatives

This interpretation requires that the date to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative is the date that the Group first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no embedded derivative requiring separation from the host contract, the interpretation has had no effect on these financial statements.

HK(IFRIC) – Int 10 – Interim Financial Reporting and Impairment

The Group has adopted this interpretation as of 1 January 2007, which requires that an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument classified as available-for-sale or a financial asset carried at cost is not subsequently reversed. As the Group had no impairment losses previously reversed in respect of such assets, the interpretation has had no impact on the financial position or results of operations of the Group.

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

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKFRS 8	Operating Segments[1]
HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions[2]
HK(IFRIC) – Int 12	Service Concession Arrangements[3]
HK(IFRIC) – Int 13	Customer Loyalty Programmes[4]
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[3]

Notes:

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 March 2007
3 Effective for annual periods beginning on or after 1 January 2008
4 Effective for annual periods beginning on or after 1 July 2008

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2007. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continues 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 year 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 identifiable 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.

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, 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 interests in subsidiaries are stated at cost less any impairment losses.

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 recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently 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 is, 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.

Impairment of assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets, goodwill and non-current 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 group 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.

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 that 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.

Related parties

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

(a) 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;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) 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 (d) or (e); or

(g) 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.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, 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:

Leasehold improvements	10% to 33⅓%
Plant and machinery	9½%
Furniture, fixtures and office equipment	18% to 20%
Computer equipment	33⅓%

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 building 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.

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 Company 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 recourses 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.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Company, 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.

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.

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.

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.

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.

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 labour 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.

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.

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.

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, carryforward 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 carryforward 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.

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.

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:

(a) 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;

(b) 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;

(c) 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;

(d) 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; and

(e) 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.

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 27. 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.

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.

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

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.

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 31 December 2007 was HK$51,207,000 (2006: Nil). More details are given in note 17.

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. SEGMENT INFORMATION

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

The Group's operating business are structured and managed separately according to the nature of their operations and the products and services they provided. 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 the other business segments. Summary details of the business segments are as follows:

(a) the server-based technology and related products segment provides language communication software and platforms;

(b) the organic fertilizers segment produces and distributes organic fertilizers.

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 year ended 31 December 2006, more than 90% of the Group's turnover and operating assets were attributable to the development of server-based language technologies in the Special Administrative Region of Hong Kong. Accordingly, no analysis by either business or geographical segment for the year ended 31 December 2006 is included in these financial statements.

(a) Business segments

The following table presents revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments for the year ended 31 December 2007.

	Server-based technology and related products *HK$'000*	Production and distribution of organic fertilizer *HK$'000*	Consolidated *HK$'000*
Segment revenue:			
Sales to external customers	6,929	14,309	21,238
Segment results	(1,874)	9,916	8,042
Unallocated revenue			377
Unallocated expenses			(4,043)
Finance costs			(236)
Profit before tax			4,140
Tax			(3,434)
Profit for the year			706
Assets and liabilities			
Segment assets	2,037	95,132	97,169
Unallocated assets			38,607
Total assets			135,776
Segment liabilities	5,583	7,151	12,734
Unallocated liabilities			5,367
Total liabilities			18,101
Other segment information:			
Depreciation	104	108	212
Capital expenditure	42	10,237	10,279

(b) Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments for the year ended 31 December 2007.

	Mainland China *HK$'000*	Hong Kong *HK$'000*	Consolidated *HK$'000*
Segment revenue:			
Sales to external customers	14,460	6,778	21,238
Other segment information:			
Segment assets	95,183	40,593	135,776
Capital expenditure	10,237	42	10,279

7. TURNOVER, OTHER REVENUE AND GAINS

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

An analysis of the Group's turnover, other revenue and gains is as follows:

	Group	
	2007 *HK$'000*	**2006** *HK$'000*
TURNOVER		
Sales of organic fertilizers	14,309	–
Sales of licensed software	4,111	4,979
Software maintenance service	803	741
Software rental and subscription income	328	306
Website development	1,001	308
Putonghua learning platform	686	288
	21,238	6,622
OTHER REVENUE AND GAINS		
Bank interest income	400	585
Commission income	–	41
Exchange gain, net	–	30
Income from transfer of technologies	2,364	–
Sundry income	59	–
	2,823	656

8. FINANCE COSTS

	Group	
	2007	**2006**
	HK$'000	*HK$'000*
Interest on promissory note	236	–

9. PROFIT/(LOSS) BEFORE TAX

Profit/(loss) before tax is arrived at after charging:

	Group	
	2007	**2006**
	HK$'000	*HK$'000*
Employee benefits expenses		
(excluding directors' remuneration – *note 10*)		
Salaries and allowances	5,493	3,402
Pension scheme contributions	373	152
Employee share-based payment	–	1,264
	5,866	4,818
Auditor's remuneration		
– underprovided in prior year	–	20
– current year	301	260
Exchange loss, net	53	–
Minimum lease payments under operating leases on land and buildings	1,198	395
Cost of services rendered	408	413
Cost of inventories sold	6,360	3,076
Depreciation of property, plant and equipment	212	173

10. DIRECTORS' REMUNERATION

	Group	
	2007	**2006**
	HK$'000	*HK$'000*
Fees	549	420
Other emoluments:		
Salaries, allowances and benefits in kind	1,601	1,200
Employee share-based compensation	617	1,050
Pension scheme contributions	30	18
	2,797	2,688

(a) Independent non-executive directors

The directors' fees paid to independent non-executive directors during the year were as follows:

	Group	
	2007	**2006**
	HK$'000	*HK$'000*
Hsu Shiu Foo, William	60	60
Lee Kun Hung	60	60
Kwok Chi Sun, Vincent	60	60
	180	180

There were no other emoluments payable to the independent non-executive directors during the year (2006: Nil).

(b) Executive directors and non-executive director

Group

	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*
2007					
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	15	286	169	–	470
	249	1,601	570	24	2,444
Non-executive director:					
Ma She Shing, Albert	120	–	47	6	173
	369	1,601	617	30	2,617
2006					
Executive directors:					
Mo Wai Ming, Lawrence	120	1,200	525	12	1,857
Ma She Shing, Albert	120	–	525	6	651
	240	1,200	1,050	18	2,508

During the year, no emoluments were paid by the Group to any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, none of the directors has waived any emoluments during each of the years ended 31 December 2007 and 2006.

11. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2006: one) directors, details of whose remuneration are set out in note 10 above. Details of the remuneration of the remaining two (2006: four) non-directors, highest paid employees for the year are as follows:

	Group	
	2007	**2006**
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	526	1,268
Pension Scheme contributions	21	47
	547	1,315

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

	Number of employees	
	2007	**2006**
Nil to HK$1,000,000	2	4

12. TAX

No provision for Hong Kong profits tax has been made in the financial statements as the Group did not have any assessable income arising in Hong Kong during the year. 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.

	Group	
	2007	**2006**
	HK$'000	*HK$'000*
Current year provision		
Hong Kong	–	–
PRC	3,434	–
Tax charge for the year	3,434	–

A reconciliation of the tax expense applicable to profit/(loss) before tax using the statutory rates for the jurisdictions in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

	Group	
	2007	**2006**
	HK$'000	*HK$'000*
Profit/(loss) before taxation	4,140	(6,273)
Income tax at applicable tax rate of 17.5% (2006: 17.5%)	724	(1,098)
Effect of different tax rates in other jurisdictions	645	–
Expenses not deductible for tax	2,127	705
Income not subject to tax	(415)	(23)
Deductible temporary differences not recognised	8	21
Tax losses not recognised	345	395
Tax charge at effective rate	3,434	–

13. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The loss attributable to equity holders of the Company for the year ended 31 December 2007 includes a loss of HK$4,454,000 (2006: loss HK$5,156,000) which has been dealt with in the financial statements of the Company.

14. DIVIDEND

The directors of the Company do not recommend the payment of a dividend for the year (2006: nil).

15. LOSS PER SHARE

The calculation of basic loss per share amounts is based on the loss for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares in issuing during the year, as adjusted to reflect the shares issued under the open offer during the year.

The calculation of basic loss per share is based on:

	2007	**2006**
	HK$'000	*HK$'000*
Loss		
Loss attributable to ordinary equity holders of the Company	(2,470)	(6,273)

	Number of shares	
	2007	**2006**
		(Restated)
Shares		
Weighted average number of ordinary shares in issuing during the year	907,881,918	713,894,013

The weighted average number of ordinary shares for the purpose of calculating basic loss per share for the year ended 31 December 2006 has been retrospectively adjusted for the effect of the open offer completed during the current year.

Diluted loss per share is not presented as the share options had anti-dilutive effects on the basic loss per share.

16. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold improvements	**Plant and machinery**	**Furniture, fixtures and office equipment**	**Computer equipment**	**Construction in progress**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost:						
At 1 January 2006	165	–	354	846	–	1,365
Additions	11	–	13	25	–	49
Disposals	–	–	(53)	–	–	(53)
Exchange difference	–	–	1	–	–	1
At 31 December 2006 and 1 January 2007	176	–	315	871	–	1,362
Acquisition of subsidiaries	–	–	–	–	221	221
Additions	236	8,323	295	38	–	8,892
Transfers	–	209	–	–	(209)	–
Exchange difference	–	–	1	–	10	11
At 31 December 2007	412	8,532	611	909	22	10,486
Accumulated depreciation:						
At 1 January 2006	67	–	241	723	–	1,031
Depreciation provided during the year	57	–	23	93	–	173
At 31 December 2006 and 1 January 2007	124	–	264	816	–	1,204
Depreciation provided during the year	52	70	53	37	–	212
At 31 December 2007	176	70	317	853	–	1,416
Net book value:						
At 31 December 2007	236	8,462	294	56	22	9,070
At 31 December 2006	52	–	51	55	–	158

17. 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 a subsidiary, are as follows:

	Company
	HK$'000
At 1 January 2006, 31 December 2006 and 1 January 2007	–
Arising from acquisition of subsidiaries *(note 29)*	51,207
At 31 December 2007	51,207

Impairment test on goodwill

Goodwill acquired has been allocated to the cash generating unit ("CGU") of the organic fertilizers segment.

The recoverable amounts of the CGUs are determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a period of five years. Cash flows 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:

	2007
Gross profit margin	25%
Growth rate per month	3%
Discount rate per annum	5.25%

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

The recoverable amounts of the CGU exceed their carrying amounts based on value-in-use calculations. Accordingly, the goodwill was not impaired during the year.

18. OTHER INTANGIBLE ASSETS

Group

	Production technology
	HK$'000
Cost at 1 January 2006, 31 December 2006 and 1 January 2007	–
Additions	1,387
At 31 December 2007	1,387
At 31 December 2007:	
Cost	1,387
Accumulated amortisation	–
Net carrying amount	1,387

19. INTERESTS IN SUBSIDIARIES

	Company	
	2007	**2006**
	HK$'000	*HK$'000*
Unlisted shares, at cost	3,162	3,162
Impairment in value	(3,162)	(3,162)
	–	–
Due from subsidiaries	90,575	22,012
Impairment in value	(22,604)	(21,880)
	67,971	132

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 the balance sheet date. None of the subsidiaries had any debt capital outstanding at the end of the year or any time during the year. The carrying amounts of the amounts due from subsidiaries approximate to their fair values.

Particulars of the subsidiaries of the Company as at 31 December 2007 are as follows:

Name of subsidiary	Place of incorporation/ registration	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct %	Indirect %	Principal activities	Place of operation
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	The People's Republic of China platforms
Rise Assets Limited	British Virgin Islands	US$1	100	–	Investment	Hong Kong holding
Silky Sky Investments Limited	British Virgin Islands	US$1	–	100	Investment holding	Hong Kong
Sky Rich Limited	Hong Kong	HK$1	–	100	Investment	Hong Kong holding
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

* Jinan Shiji Jiangshan Resource Recycling Technology Limited was formerly known as Beijing Shiji Jiangshan Resource Recycling Technology Limited.

During the year, the Group acquired Jinan Shiji Jiangshan Resource Recycling Technology Limited. Further details of this acquisition are included in note 29 to the financial statements.

20. INVENTORIES

	Group	
	2007	**2006**
	HK$'000	*HK$'000*
Raw materials	671	–
Work in progress	65	–
Finished goods	317	62
	1,053	62

21. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2007	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade receivables	5,167	775	–	–
Deposits, prepayment and other receivables	13,405	1,363	550	304
Deposits paid under a non-legally binding memorandum of understanding	–	2,500	–	2,500
Deposit paid for acquisition of subsidiaries	6,200	–	–	–
	24,772	4,638	550	2,804

An ageing analysis of the trade receivables at the balance sheet date is as follows:

	Group	
	2007	**2006**
	HK$'000	*HK$'000*
0 – 30 days	4,688	175
31 – 60 days	312	559
61 – 90 days	167	10
Over 90 days	–	31
	5,167	775

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.

22. TRADE AND OTHER PAYABLES

	Group		Company	
	2007	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables	2,090	269	–	–
Deferred income	1,727	636	–	–
Accrued liabilities and other payables	4,996	3,084	818	532
	8,813	3,989	818	532

An ageing analysis of the trade payables as at the balance sheet date is as follows:

	Group	
	2007	**2006**
	HK$'000	*HK$'000*
0 – 30 days	1,667	126
31 – 60 days	46	31
61 – 90 days	316	112
Over 90 days	61	–
	2,090	269

23. 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 (2006: HK$236,000) 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 (2006: HK$236,000) has been classified as current liabilities and the remaining balance of HK$1,027,000 (2006: HK$1,059,000) is classified as non-current liabilities.

24. PROMISSORY NOTE

The promissory note was issued during the year to a director, Mr. Yang Pei Gen, as partial consideration for the acquisition of the entire issued share capital of Silky Sky Investments Limited, which holds indirectly a 51% interest in Jinan Shiji Jiangshan Resource Recycling Technology Limited. The promissory note was interest bearing at 2% per annum and was repayable in two years from the date of issue.

The Group did not record a premium for the imputed interest on the note as the directors consider the impact on the result of the Group should be insignificant.

25. SHARE CAPITAL

	Notes	**Number of shares**	*HK$'000*
Authorised:			
At 1 January 2007 and 31 December 2007, ordinary shares of HK$0.05 each		2,000,000,000	100,000
Issued and fully paid:			
At 1 January 2007, ordinary shares of HK$0.05 each		589,966,720	29,498
Issue of consideration shares	*(a)*	135,750,000	6,788
Shares issued upon exercise of share options	*(b)*	43,400,000	2,170
Shares issued upon exercise of warrants	*(c)*	117,800,000	5,890
Open offer	*(d)*	443,458,360	22,173
At 31 December 2007, ordinary shares of HK$0.05 each		1,330,375,080	66,519

(a) 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.

(b) Details of the Company's share option scheme and the movements of share options under the scheme are included in note 27 to the financial statements.

(c) During the year, 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.

(d) 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.

All shares issued during the year rank pari passu with the existing shares in all respects.

26. RESERVES

Company

	Share premium HK$'000	Contribution surplus HK$'000	Warrant subscription reserve HK$'000	Employee share-based compensation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 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
Shares/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	68,861	3,047	–	–	(39,049)	32,859

(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 31 December 2007 (2006: 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 statements.

(d) On 28 August 2006, the Company entered into a conditional placing agreement in relation to a private placing of 117,800,000 warrants granted to a subscriber at an issued price of HK$0.015 per warrant. The warrants entitle the subscriber to subscribe for new 117,800,000 ordinary shares of par value HK$0.05 at an initial price of HK$0.155 per new share for a period of 18 months commencing from the issue date of the warrants. Each warrant carries the right to subscribe for one new share.

During the year, all warrants were exercised for 117,800,000 new shares at a price of HK$0.155 per share, resulted in a credit of HK$5.89 million to share capital and HK$12.37 million was credited to the Company's share premium account.

27. 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 year are as follows:

		Number of options	
	Notes	**2007**	**2006**
At 1 January		19,400,000	37,000,000
Granted during the year	*(a)*	24,000,000	19,400,000
Exercised during the year	*(b)*	(43,400,000)	(37,000,000)
At 31 December		–	19,400,000

Notes:

(a) 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.

(b) 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.

Details of share options granted:

Categories of grantees	Date of grant	Exercise period	Exercise price per share *HK$*	Number of options 2007	2006
Directors	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	–
Employees	5/6/2006	5/6/2006-4/6/2016	0.210	–	10,600,000
				24,000,000	19,400,000

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	**2007**	**2006**
Fair value at measurement date	HK$0.0257	HK$0.1193
Share price at grant date	HK$0.203	HK$0.210
Exercise price	HK$0.203	HK$0.210
Expected option life	1 year	3 years
Expected volatility	26.67%	84.66%
Expected dividends	–	–
Risk-free interest rate (based on Exchange Fund Notes)	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.

28. 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.

29. ACQUISITION OF SUBSIDIARIES

On 21 May 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 (the "Vendor") to acquire the entire issued capital of Silky Sky Investments Limited ("Silky Sky") and all obligations, indebtedness and liabilities due by Silky Sky to the Vendor for a total consideration of HK$61,000,000.

Sky Rich Limited, a wholly-owned subsidiary of Silky Sky, owned 51% equity interest in Jinan Shiji Jiangshan Resource Recycling Technology Limited ("Shiji Jiangshan") (formerly known as "Beijing Shiji Jiangshan Resource Recycling Technology Limited"). Shiji Jiangshan, a limited liability company incorporated in the PRC, is principally engaged in the production and distribution of organic fertilizer through a technology which converts organic waste into organic fertilizer.

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 shareholders	13,419
Cash and bank balances	556
Accrued liabilities and other payables	(95)
Exchange reserve	(40)
Minority interests	(14,093)
Net assets acquired	7,229
Goodwill on acquisition	51,207
	58,436
Satisfied by:	
Cash consideration	20,000
Consideration shares	16,969
Promissory note	21,467
	58,436

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

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

30. DEFERRED TAX

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

	Depreciation allowance *HK$'000*	**Tax losses** *HK$'000*	**Total** *HK$'000*
At 1 January 2006	12	(12)	–
Deferred tax charged/(credited) to income statement during the year	(12)	12	–
At 31 December 2006 and 1 January 2007	–	–	–
Deferred tax charged/(credited) to income statement during the year	–	–	–
At 31 December 2007	–	–	–

(b) Unrecognised deferred tax assets arising from:

	2007 *HK$'000*	**2006** *HK$'000*
Deductible temporary differences	92	47
Tax losses	33,326	32,267
At the balance sheet date	33,418	32,314

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.

31. 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 date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2007	**2006**
	HK$'000	*HK$'000*
Within one year	1,364	543
In the second to fifth years, inclusive	1,808	430
After five years	1,915	–
	5,087	973

32. COMMITMENTS

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

As at the balance sheet date, the Group had the following commitment regarding this acquisition:

	HK$'000
Convertible bond to be issued	10,000
Promissory note to be issued	15,600
Subscription consideration to be settled by cash	15,800
	41,400

33. RELATED PARTY TRANSACTIONS

In addition to the transactions/information disclosed elsewhere in these financial statements, during the year, the Group had interest on promissory note amounted to approximately HK$236,000 payable to a director, Mr. Yang Pei Gen. As at 31 December 2007, HK$181,000 was paid with the remaining balance of HK$55,000 included in accured liabilities and other payables.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities comprise promissory note and trade payables. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets such as trade receivables as well as prepayments, deposits and other receivables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, liquidity risk and credit risk. The Board reviews and agrees policies for managing each of the risks which are summarized below.

Interest rate risk

The Group does not have material exposure to interest rate risk, as the Group has no financial assets and liabilities of material amount with floating interest rates. A reasonable change in interest rate in the next twelve months is assessed to result in immaterial change in the Group's profits after tax and retained earnings. Changes in interest rates have no impact on the Group's other components of equity.

Foreign 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**	**Increase/ (decrease) in equity**
	%	*HK$'000*	*HK$'000*
2007			
RMB	10	970	1,776
RMB	(10)	(970)	(1,776)
2006			
RMB	10	31	72
RMB	(10)	(31)	(72)

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:

31 December 2007	On Demand HK$'000	Less than 3 months HK$'000	3 to 12 months HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
Promissory note	–	–	–	4,467	–	4,467
Trade payables	61	2,029	–	–	–	2,090
Deferred income	–	762	869	96	–	1,727
Accrued liabilities and other payables	4,941	–	–	55	–	4,996
	5,002	2,791	869	4,618	–	13,280

31 December 2006	On Demand HK$'000	Less than 3 months HK$'000	3 to 12 months HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
Trade payables	–	269	–	–	–	269
Deferred income	–	12	567	57	–	636
Accrued liabilities and other payables	3,084	–	–	–	–	3,084
	3,084	281	567	57	–	3,989

Credit risk

The Group's maximum credit exposure of the financial assets as at 31 December 2007 equals to their carrying amounts. The Group limits its exposure to credit risk by prudently selecting its customers. The Group's trade and other receivables are actively monitored to avoid significant concentrations of credit risk. The Group also continually evaluates the credit risk of its customers to ensure appropriateness of the amount of credit granted. Credit is extended to customers based on the evaluation of individual customer's financial conditions. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider the Group's credit risk is significantly reduced. There is no requirement for collaterals by the Group.

The Group has deposited its cash with various banks. The credit risk on cash and bank balances is limited because most of the Group's bank deposits are deposited with major banks and financial institutions located in Hong Kong and the PRC.

35. 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 Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2007 and 31 December 2006.

The Company monitors capital using a gearing ratio, which is net debt divided by the capital plus net debt. The Company's gearing ratio as at 31 December 2007 was 4%.

36. POST BALANCE SHEET EVENTS

(a) The Company will be renamed as Shen Nong China (Group) Limited (神農中國(集團)有限公司) following the passing of a special resolution at the Company's extraordinary general meeting held on 16 January 2008. The registration of the change of the Company's name at the Companies Registry in Hong Kong is under processing.

The Company will make further announcements as and when appropriate for the change of the Company name, stock short name, trading arrangement and exchange of share certificates as soon as practicable.

(b) On 29 October 2007, Rise Assets Limited ("Rise Assets") entered into the agreement with Proud Dragon Limited ("Proud Dragon") and Mr. Yip Yuk Tong (the "Vendor") in relation to the acquisition of the equity interest held by the Vendor in Proud Dragon with a consideration of HK$47,600,000 which comprises the Sale Consideration and the Subscription Consideration. The Sale Consideration will be settled as to HK$6,200,000 by cash, HK$10,000,000 by convertible bond and balance of HK$15,600,000 by promissory note, whereas the Subscription Consideration of HK$15,800,000 will be settled by cash. As at 31 December 2007, HK$6,200,000 was paid as earnest money for the acquisition.

Upon reorganization, Proud Dragon will hold 70% equity interest in Dang Tu Xian Zhong Tian Water Supply Limited (當涂縣中天供水有限公司) which is principally engaged in the management of water plants and the provision of water supply in the rural areas of Anhui, the PRC.

On 6 February 2008, the Board announced that completion of the acquisition of the entire issued share capital of Pround Dragon took place on 6 February 2008. Upon Completion, in addition to the cash consideration which was paid, the Company has issued the Convertible Bonds in principal amount of HK$10,000,000 and the Promissory Note in a principal sum of HK$15,600,000 to the Vendor and forthwith upon Completion, the Bond Certificate has been deposited with the Purchaser in accordance with the terms of the Agreement.

(c) On 31 January 2008, Jinan Shiji Jiangshan Resource Recycling Technology Limited ("Shiji Jiangshan") entered into a legal binding agreement with 鍾國山 (the "Vendor") in relation to the acquisition of 75% equity interest held by the Vendor in 來安縣漢河供水有限公司, which was incorporated in the People's Republic of China and principally engaged in the provision of water supply in the rural areas of Anhui, the PRC, with a consideration of RMB2,250,000 (the "Sale Consideration"). The Sale Consideration was settled by cash in February 2008 upon completion.

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 March 2008.

3. INDEBTEDNESS

Borrowings

As at the close of business on 31 March 2008, being the latest practicable date for the purpose of this statement of indebtedness, the Group had outstanding borrowings of approximately HK$16,918,000, details of which are set out below:

	HK$'000
Financial assistance from government (unsecured)	1,295
Promissory notes	15,623
	16,918

As at 31 March 2008, the Group had outstanding borrowings and debts of other loan of approximately HK$1,295,000 due to the 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$15,600,000 which is interest bearing at 1% per annum and matures on 5 February 2011. As at 31 March 2008, the Group had outstanding promissory note of approximately HK$15,623,000 of which a total of approximately HK$23,000 was the accrued interest.

Commitments

As at 31 March 2008, the Group had operating lease commitments of approximately HK$430,000.

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 31 March 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.

4. WORKING CAPITAL

The Directors, after due and careful consideration, are of the opinion that, taking into consideration the financial resources available to the Group including the net proceeds to be received by the Group as a result of the disposal of Proud Dragon Limited as stated in the announcement of the Company dated 22 April 2008, the internally generated funds, the present bank and other facilities, the Group will have sufficient working capital for at least twelve months from the date of this circular.

5. 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 as at 31 December 2007, the date to which the latest published audited financial statements of the Group were made up.

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

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

30 May 2008

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

Dear Sirs,

We report on the unaudited pro forma statement of assets and liabilities (the "Unaudited Pro Forma Financial Information") of Shen Nong Chian (Group) Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") and Far Glory Limited (the "Target") and its subsidiaries (the "Target Group") (together with the Group hereinafter referred to as the "Enlarged Group") which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the proposed acquisition of the Target might have affected the financial information presented, for inclusion as APPENDIX III to the circular of the Company dated 30 May 2008 (the "Circular"). The basis of preparation of the Unaudited Pro Forma Financial Information is set out on pages 90 to 94 to 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 Enlarged Group as at 31 December 2007 or any future date.

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 ENLARGED GROUP

The following unaudited pro forma financial information of the Enlarged Group as if the Subscription and the Acquisition has been completed on 31 December 2007, has been prepared based on the audited consolidated financial statements of the Group for the year ended 31 December 2007. The accompanying unaudited pro forma financial information of the Enlarged Group has been prepared to illustrate the effect of the proposed acquisition and the Subscription of the Target Group at a maximum consideration of HK65,250,000.

The accompanying unaudited pro forma financial information of the Enlarged Group is based on a number of assumptions, estimates, uncertainties and currently available information, and is provided for illustrative purposes. Accordingly, as a result of the uncertain nature of the accompanying unaudited pro forma financial information of the Enlarged Group, it may not give a true picture of the actual financial position or results of the Enlarged Group's operations that would have been attained had the Subscription and the Acquisition actually occurred on the dates indicated herein. Further, the accompanying unaudited pro forma financial information of the Enlarged Group does not purport to predict the Enlarged Group's future financial position or results of operations.

The unaudited pro forma financial information of the Enlarged Group should be read in conjunction with the Accountants' Report of the Target Group as set out in Appendix I and other financial information included elsewhere in this Circular.

Unaudited Pro Forma Financial Statement of the Enlarged Group

	The Group as at 31 December 2007	Acquisition of 20.26% Far Glory Limited		Unaudited Pro forma of the Enlarged Group
	HK$'000		*Notes*	*HK$'000*
NON-CURRENT ASSETS				
Property, plant and equipment	9,070			9,070
Investment in an associate	–	65,250	*(i)*	65,250
Goodwill	51,207			51,207
Other intangible assets	1,387			1,387
	61,664			126,914
CURRENT ASSETS				
Inventories	1,053			1,053
Trade and other receivables	24,772			24,772
Bank balances and cash	48,287	(10,000)	*(ii)*	38,287
	74,112			64,112
CURRENT LIABILITIES				
Trade and other payables	8,813	15,250	*(iii)*	24,063
Financial assistance from government	268			268
Tax payable	3,526			3,526
	12,607			27,857
NET CURRENT ASSETS	61,505			36,256
TOTAL ASSETS LESS CURRENT LIABILITIES	123,169			163,169
NON-CURRENT LIABILITIES				
Financial assistance from government	1,027			1,027
Convertible bonds	–	16,048	*(iv)*	16,048
Other payables	–	22,000	*(v)*	22,000
Promissory note	4,467			4,467
	5,494			43,542
NET ASSETS	117,675			119,627
CAPITAL AND RESERVES				
Issued capital	66,519			66,519
Reserves	33,137	1,952	*(iv)*	35,089
	99,656			101,608
MINORITY INTERESTS	18,019			18,019
TOTAL EQUITY	117,675			119,627

Notes:

For the Subscription and the Acquisition of 20.26% interests in Far Glory Limited, the adjustments reflect the acquisition at the maximum purchase price of HK$65,250,000, which will be satisfied by cash HK$25,250,000, the issue of First Convertible Bond in the principal amount of HK$18,000,000, the issue of Second Convertible Bond in the principal amount of HK$4,000,000 and the issue of Extra Convertible Bond in the principal amount of HK$18,000,000.

(i) The pro forma adjustment of HK$65,250,000 represents the consideration of HK$20,250,000 for the subscription of 8.26% shareholding interest in Far Glory ("Subscription") and the maximum consideration of HK$45,000,000 for the acquisition of 12% shareholding interest in Far Glory ("Acquisition"). Upon completion of the Acquisition and with aggregation of the Subscription, Cheer Plan will own 20.26 % equity interest in Far Glory. As such, Far Glory will be accounted for as the associated company of the Group.

(ii) The pro forma adjustment of HK$10,000,000 represents the payment of HK$5,000,000 to Far Glory as part of the consideration for the Subscription as described in note (i) above and the payment of HK$5,000,000 to Mr. Hsu Tung Chi as a deposit for the Acquisition as described in note (i) above.

(iii) The pro forma adjustment of HK$15,250,000 represents the remaining balance of the consideration for the Subscription payable to Far Glory in cash.

(iv) The Company will issue the First Convertible Bond in the principal amount of HK$18,000,000 upon completion of the Acquisition. The terms of the Convertible Bonds are set out under the headed "Terms of the Convertible Bonds".

Under Hong Kong Accounting Standards 32 and 39, the liability and equity component of convertible bonds are accounted for separately. The liability component is calculated at the discount present value of the cash flows of future principal and interest payments at the market rate of interest applicable to similar liabilities that do not have a conversion option. The equity component is calculated as the excess of the issued proceeds over the liability component.

By taking the discount rate at 5% per annum, the present value of the liability component is approximately HK$16,048,000, with the balance of HK$1,952,000 accounted for as a component of equity.

(v) The Company will issue the Second Convertible Bond in the principal amount of up to HK$4,000,000 upon completion of the Acquisition as escrow until the fulfillment of the Average Guaranteed Profit and Extra Convertible Bond in the principal amount of up to HK$18,000,000, if the Vendor can fulfill the Average Actual Profit. As such Convertible Bonds are not issued currently, they are treated as other payables. Upon the issuance of the Second Convertible Bond and Extra Convertible Bond, the Company will transfer the liability components and the equity components to the non-current liabilities and equity, respectively.

1. RESPONSIBILITY STATEMENT

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

(1) the information contained in this circular is accurate and complete in all material respects and not misleading;

(2) there are no other matters the omission of which would make any statement in this circular misleading; and

(3) all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

2. DISCLOSURE OF INTERESTS

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

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

(i) Interest in Shares

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

(L) denotes long position

(ii) Interest in share options

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

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

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

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

(L) denotes long position

Note:

1. Manciple Enterprises Limited ("**Manciple**") is wholly and beneficially owned by Mr. Lau Kim Hung, Jack ("**Mr. Lau**"). Manciple beneficially owns 299,478,238 Shares. Under the SFO, Mr. Lau is deemed to be interested in 299,478,238 Shares. Ms. Chan Yiu Kan Katie, the wife of Mr. Lau, is also deemed to be interested in 299,478,238 Shares.

2. Digital Epoch Profits Limited ("**Digital Epoch**") is wholly and beneficially owned by Mr. Wong Ming Kerry ("**Mr. Wong**"). Digital Epoch beneficially owns 114,470,000 Shares. Under the SFO, Mr. Wong is deemed to be interested in the said 114,470,000 Shares.

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

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

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

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. INTERESTS IN CONTRACTS AND ASSETS

As at the Latest Practicable Date, no contract or arrangement of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which any of the Directors had a material interest, whether directly or indirectly, subsisted as at the Latest Practicable Date.

None of the Directors nor expert referred to in paragraph 11 has any direct or indirect interests in any assets which had 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 financial statements of the Group were made up, up to and including the Latest Practicable Date.

7. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Group within the 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 Lao Kuai Hong in relation to the disposal of 476 ordinary shares of Proud Dragon, representing 100% of the equity interest in Proud Dragon; and

(h) the Agreement.

8. SHARE CAPITAL

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

Authorised		*HK$*
2,000,000,000	Shares	100,000,000
Issued and to be issued, fully paid or credited as fully paid		
1,330,375,080	Shares in issue as at the Latest Practicable Date	66,518,754
122,222,222	Conversion Shares to be allotted and issued upon full conversion of the Convertible Bonds	6,111,111.10
100,000,000	Extra Conversion Shares to be allotted and issued upon full conversion of the Extra Convertible Bond	5,000,000
1,552,597,302	Shares	77,629,865.10

9. EXPERTS

The following is the qualification of the expert who has given an opinion or advice contained in this Circular:

Name	Qualification
Vision A.S. Limited	Certified Public Accountants

As at the Latest Practicable Date, Vision A.S. Limited did not have any interests, either direct or indirect, in any assets which have been acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2007, the date to which the latest published audited consolidated financial statements of the Group were made up.

As at the Latest Practicable Date, Vision A.S. Limited was not interested beneficially or non-beneficially in any Shares in the Company or any of its subsidiaries or any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Vision A.S. Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its respective letter and/or report and/or reference to its name in the form and context in which it respectively appears.

10. MISCELLANEOUS

(a) The registered office of the Company is located at Caledonian Bank & Trust Limited, Caledonian House, P.O. Box 1043, George Town, Grand Cayman, Cayman Islands.

(b) The head office and principal place of business of the Company in Hong Kong is Unit 1601, Ruttonjee House, Ruttonjee Centre, 11 Duddell Street, Central, Hong Kong.

(c) The branch share registrar and transfer office in Hong Kong of the Company is Tricor Standard Limited located at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

(d) 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.

(e) The compliance officer of the Company is Mr. Mo Wai Ming, Lawrence who is also an executive Director.

(f) The Company has established an audit committee with written terms of reference prepared and adopted with reference to the guidelines recommended by the Hong Kong Institute of Certified Public Accountants. The audit committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the Group's audit. It also reviews the effectiveness of both the external and internal audit and of internal controls and risk evaluation. The audit committee comprises three members, namely Mr. Hsu William Shiu Foo, Mr. Lee Kun Hung and Mr. Kwok Chi Sun, Vincent who are all independent non-executive Directors. Further details of them are set out below:

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

Mr. Hsu William Shiu Foo, 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 in 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.

(g) 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 are available for inspection at the principal place of business of the Company at Unit 1601, Ruttonjee House, Ruttonjee Centre, 11 Duddell Street, Central, Hong Kong during normal business hours on any weekday other than public holidays, from the date of this circular up to and including the date of the EGM:

(a) the memorandum and articles of association of the Company;

(b) the material contracts referred to in the paragraph headed "Material contracts" in this appendix;

(c) the accountants' report on the Target Group, the text of which is set out in Appendix I to this circular;

(d) the annual reports of the Company for each of the three financial years ended 31 December 2007;

(e) the letter from Vision A.S. Limited in respect of the unaudited pro forma financial information on the Enlarged Group, the text of which is set out in Appendix III to this circular;

(f) the written consent from Vision A.S. Limited referred to in paragraph 9 of this appendix;

(g) the circular of the Company dated 5 May 2008 in relation to the disposal of the entire issued share capital of Proud Dragon;

(h) the circular of the Company dated 5 May 2008 in relation to the subscription of approximately 8.26% shareholding interest in Far Glory; and

(i) 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)

Notice is hereby given that an extraordinary general meeting (the "**Meeting**") of Shen Nong China (Group) Limited (the "**Company**") will be held at Unit 1601, Ruttonjee House, Ruttonjee Centre, 11 Duddell Street, Central, Hong Kong on Monday, 16 June 2008 at 11:00 a.m. for the purpose of considering and, if thought fit, passing the following resolution:

ORDINARY RESOLUTION

"THAT

(a) the conditional sale and purchase agreement (the "**Agreement**") dated 5 May 2008 and entered into among Cheer Plan Limited ("**Purchaser**"), a wholly-owned subsidiary of the Company, as a purchaser, Mr. Hsu Tung Chi (the "**Vendor**") as a vendor and Mr. Hsu Tung Sheng as a guarantor in relation to the sale and purchase of 1,308 shares of Far Glory Limited (the "**Sale Shares**") of US$1.00 each in the share capital of Far Glory Limited at a maximum consideration of HK$45,000,000 (subject to adjustment) (copy of the Agreement has been produced to the Meeting marked "A" and signed by the chairman of the Meeting for the purpose of identification) and the transactions contemplated thereunder, be and are hereby approved, confirmed and ratified;

(b) any one or more of the directors (the "**Directors**") of the Company be and is/are hereby authorised to do all other acts and things and execute all documents which he/they consider necessary or expedient for the implementation of and giving effect to the Agreement and the transactions contemplated thereunder;

(c) the issue of (i) a convertible bond (the "**First Convertible Bond**") in the principal amount of HK$18,000,000, (ii) a convertible bond (the "**Second Convertible Bond**") in the principal amount of HK$4,000,000 and (iii) a convertible bond (the "**Extra Convertible Bond**") in the principal amount of up to HK$18,000,000 by the Company to the Vendor in accordance with the terms and conditions of the Agreement and the transactions contemplated thereunder be and is hereby approved;

(d) any one or more of the Directors be and is/are hereby authorised to take all steps necessary or expedient in his/their opinion to implement and/or give effect to the issue of the First Convertible Bond, the Second Convertible Bond and the Extra Convertible Bond, including but not limited to the allotment and issue of ordinary shares of HK$0.05 each in the share capital of the Company of which may fall to be issued upon the exercise of the conversion rights attached to the First Convertible Bond, the Second Convertible Bond and the Extra Convertible Bond."

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

Hong Kong, 30 May 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 entitled to attend and vote at the Meeting convened by the above notice is entitled to appoint one or more proxy to attend and, subject to the provisions of the articles of association of the Company, vote in his stead. 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 Hong Kong share registrar in Hong Kong, Tricor Standard Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not 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 share 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.