

FIRST QUARTERLY REPORT 2008



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)



## **CHARACTERISTIC OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")**

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*This Report, for which the directors of Shen Nong China (Group) Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to Shen Nong China (Group) Limited. The directors, having made all reasonable enquiries, confirmed that, to the best of their knowledge and belief:- (1) the information contained in this Report 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 Report misleading; and (3) all opinions expressed in this Report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*



## FIRST QUARTERLY RESULTS (UNAUDITED)

The board of Directors (the "Board") of Shen Nong China (Group) Limited (the "Company") would like to report the unaudited consolidated results of the Company and its subsidiaries (together, "the Group") for the three months ended 31 March 2008 together with the comparative figures for the corresponding period in 2007 as follows:-

### UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

For the three months ended 31 March 2008

	NOTES	Three months ended 31 March	
		2008 HK\$'000	2007 HK\$'000
Turnover	3	<b>2,247</b>	1,392
Cost of sales		<b>(1,386)</b>	(637)
Gross profit		<b>861</b>	755
Other income		<b>258</b>	408
Research and development expenses		<b>(211)</b>	(356)
Selling and distribution expenses		<b>(340)</b>	(304)
Administrative expenses		<b>(5,148)</b>	(1,506)
Loss before taxation		<b>(4,580)</b>	(1,003)
Taxation	4	-	-
Loss for the period		<b>(4,580)</b>	(1,003)
Attributable to:			
Equity holders of the Company		<b>(3,924)</b>	(1,003)
Minority interests		<b>(656)</b>	-
Loss per share - Basic	6	<b>(0.29 cents)</b>	(0.17 cents)



# UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 31 March 2008

	Share capital	Share premium	Special reserve	Warrant subscription reserve	Convertible bonds reserve	Exchange reserve	Employee share-based compensation reserve	Accumulated losses	Subtotal	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(Note a)								
<b>2007</b>											
At 1 January 2007	29,498	22,821	10,084	1,469	-	(24)	2,314	(43,881)	22,281	-	22,281
Loss for the period	-	-	-	-	-	-	-	(1,003)	(1,003)	-	(1,003)
At 31 March 2007	29,498	22,821	10,084	1,469	-	(24)	2,314	(44,884)	21,278	-	21,278
<b>2008</b>											
At 1 January 2008	66,519	68,861	10,084	-	-	543	-	(46,351)	99,656	18,019	117,675
Share issue expenses	-	759	-	-	-	-	-	-	759	-	759
Acquisition of subsidiary	-	-	-	-	-	-	-	-	-	5,468	5,468
Issue of convertible bonds	-	-	-	-	1,568	-	-	-	1,568	-	1,568
Exchange realignment	-	-	-	-	-	652	-	-	652	661	1,313
Loss for the period	-	-	-	-	-	-	-	(3,924)	(3,924)	(656)	(4,580)
At 31 March 2008	66,519	69,620	10,084	-	1,568	1,195	-	(50,275)	98,711	23,492	122,203

Note:

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



## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. GENERAL

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

The Company and its subsidiaries are 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 Chinese language and the provision of software related services. The Group is also engaged in the agriculture-related businesses in the PRC.

### 2. BASIS OF PREPARATION

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

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



### 3. TURNOVER

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

	Three months ended 31 March	
	2008 HK\$'000	2007 HK\$'000
<b>Software business</b>		
Sales of licensed software	859	987
Software maintenance	288	186
Software rental and subscription income	87	48
Website development	250	–
Putonghua learning platform	230	171
	<b>1,714</b>	1,392
<b>Agriculture-related business</b>		
Sales of organic fertilizers	423	–
Provision of water supply services	110	–
	<b>533</b>	–
	<b>2,247</b>	1,392

### 4. TAXATION

No provision for taxation has been made as the Group had no assessable profit for the three months ended 31 March 2008 (2007: Nil).

### 5. DIVIDEND

The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2008 (2007: Nil).



## 6. LOSS PER SHARE

The computation of the basic loss per share for the three months ended 31 March 2008 is based on the loss for the period of approximately HK\$3,924,000 (2007: HK\$1,003,000) and on the weighted average number of 1,330,375,080 shares (2007: 589,966,720 shares).

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



## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **BUSINESS REVIEW**

#### **Software Business**

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 Chinese language and the provision of software related services.

During the period under review, the software business recorded an increase of approximately 23% in sales. The Board believes that with the continuing growth of economy, the information technology business such as digital content remains a promising business to be developed in the PRC. Hence, the Group continues to engage in its information technology business and to seek for investment opportunities in the information technology business in the PRC.

On 21 April 2008, the Group completed to subscribe 8.26% shareholding interest in Far Glory Limited ("Far Glory"). On 5 May 2008, the Group entered into the conditional agreement in relation to the acquisition of 12% interest in Far Glory. Upon completion of the acquisition, the Group will hold 20.26% shareholding interest in Far Glory. Far Glory 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 Board considers that the subscription of interest in Far Glory will enable the Group to pursue a new line of information technology business in the PRC and to generate an additional income source to the Group.





## **Agriculture-related Business**

In early February 2008, the Company completed the acquisition of the equity interest in Proud Dragon Limited and its subsidiaries ("Proud Dragon Group"). The Proud Dragon Group is principally engaged in the provision of water supply in the rural areas of Anhui, the PRC. The results of the Proud Dragon Group were included in the Company's unaudited financial results in this quarter.

During the period from mid-January to late February 2008, there was a severe snow storm occurred in the PRC which has imposed detrimental effect on the results of agricultural businesses in particular, the provision of water supply services. As a result, turnover generated from the provision of water supply of approximately HK\$110,000 was lower than expected.

The Board anticipates that such severe snow storm will significantly delay the construction of the establishments of the water plants and extra financial resources might also be required to restore the water plants to its normal operation. Accordingly, on 21 April 2008, the Group has entered into the Sales and Purchase Agreement (the "Agreement") for the purpose of disposing its 100% equity interest in Proud Dragon Group for a consideration of HK\$50,000,000. The Agreement is conditional upon the passing of an ordinary resolution by the shareholders at the forthcoming extraordinary general meeting.

## **FINANCIAL REVIEW**

For the three months ended 31 March 2008, the Group recorded a turnover of approximately HK\$2,247,000, representing an increase of 61.4% compared to the same period last year. Turnover from the software business accounted for 76.3% of the Group's total turnover, and also recorded an increase of 23% to approximately HK\$1,714,000 compared to the previous corresponding period.



The agriculture-related business achieved a turnover of approximately HK\$533,000. During the period under review, there was a severe snow storm occurred in the PRC which seriously affected the performance of this business.

The Group reported a gross profit margin of 38.3% compared with 54.2% for the corresponding period in 2007. The decrease in gross profit margin was mainly attributable to the agriculture-related business which contributed low profit margin.

During the period, the Group reported a net loss attributable to shareholders of approximately HK\$3,924,000 compared to net loss of approximately HK\$1,003,000 in the previous corresponding period. Administrative expenses significantly increased by 241.8% to approximately HK\$5,148,000 compared to the same period last year. Such increase was due to the increase in professional expenses incurred for the acquisition of Proud Dragon Limited and the consolidation of operating expenses of Silky Sky Group and Proud Dragon Group.

## **MATERIAL ACQUISITIONS OR DISPOSAL OF SUBSIDIARIES AND AFFILIATED COMPANIES**

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

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



## POST BALANCE SHEET EVENTS

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

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

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

Details of the subscription were set out in the announcement and the circular of the Company dated 15 April 2008 and 5 May 2008 respectively, while the details of acquisition were set out in the announcement dated 6 May 2008.

- (b) On 21 April 2008, Rise Assets, a wholly-owned subsidiary of the Company entered into a conditional Sales and Purchase Agreement (the "Agreement") with Mr. Lao Kuai Hong ("the Purchaser"), in relation to the disposal of the 100% equity interest in Proud Dragon Group held by Rise Assets for a total consideration of HK\$50,000,000.

Proud Dragon Group is principally engaged in the management of water plants and the provision of water supply service in the rural areas of the agricultural province, Anhui in the PRC.

The Agreement is conditional upon the passing of an ordinary resolution by the shareholders at the extraordinary general meeting to be held on 21 May 2008. As of the date of this report, Rise Assets has received HK\$13,500,000 from the Purchaser as a deposit which will be set off as part of the consideration.

Details of the disposal were set out in the announcement and the circular of the Company dated 22 April 2008 and 5 May 2008 respectively.



## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 March 2008, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO, including interests or short positions which they were deemed or taken to have under such provisions of the SFO, or which were required, pursuant to section 352 of the SFO, to be entered in the register to therein, or which were required, pursuant to the rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, to be notified to the Company and the Stock Exchange, were as follows.

### *Long positions in shares*

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



Save as disclosed above, as at 31 March 2008, none of the Directors nor chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO, including interests or short positions which they were deemed or taken to have under such provisions of the SFO, or which were required, pursuant to section 352 of the SFO, to be entered in the register to therein, or which were required, pursuant to the rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, to be notified to the Company and the Stock Exchange

## SHARE OPTION SCHEME

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

Categories of grantees	As at	Options granted	Options exercised	Options Outstanding	Exercise price	Grant date	Exercisable period
	1 January 2008	during the period	during the period	at 31 March 2008			
<i>Directors</i>							
Pang Hong Tao	-	6,300,000	-	6,300,000	0.151	21/12/2007	18/1/2008 - 20/12/2017
Au Shui Ming, Anna	-	6,000,000	-	6,000,000	0.151	21/12/2007	18/1/2008 - 20/12/2017
Employees	-	36,300,000	-	36,300,000	0.151	21/12/2007	18/1/2008 - 20/12/2017
	-	48,600,000	-	48,600,000			



## SUBSTANTIAL SHAREHOLDERS

### Interests of substantial shareholders

So far as is known to the Directors, as at 31 March 2008, the following persons (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and section 336 of the SFO or, who were or were expected, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

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

(L) denotes long position



Notes:

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

Mr. Wong is personally interested in 11,474,400 shares, and his wife, Ms. Wong Chau Wan, Sunny ("**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 31 March 2008, the Directors were not aware of any other person (other than the Directors and the chief executive the Company) who had, or was deemed to have, interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and section 336 of the SFO, or who was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

## COMPETING INTERESTS

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



## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

During the period ended 31 March 2008, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## **CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.68 of the GEM Listing Rules. The Company was not aware of any non-compliance with such required standard of dealings and its code of conduct regarding securities transactions throughout the period ended 31 March 2008.

## **COMPLIANCE WITH CODE OF CORPORATE GOVERNANCE**

During the three months ended 31 March 2008, the Company has complied with the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules except that no nomination committee of the Board is established.

## **PRE-EMPTIVE RIGHTS**

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





## AUDIT COMMITTEE

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

The Group's unaudited consolidated financial statements for the three months ended 31 March 2008 have been reviewed by the audit committee, which was of the opinion that the preparation of such statements complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

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

By Order of the Board

**Pang Hong Tao**

*Chairman*

Hong Kong, 13 May 2008