

If you are in doubt about this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your Shares in **Ko Yo Ecological Agrotech (Group) Limited** (the “Company”), you should at once hand this circular to the purchaser or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser.



Ko Yo Ecological Agrotech (Group) Limited

玖源生態農業科技(集團)有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8042)

PROPOSED GENERAL MANDATES TO ISSUE SHARES AND REPURCHASE ITS OWN SHARES

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This circular, for which the directors of the Company (“Directors”) 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 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, (i) the information contained in this circular is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this circular misleading; and (iii) 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.

This circular will remain on the “Latest Company Announcements” page of GEM website of the Stock Exchange at www.hkgem.com for at least 7 days from the date of its posting.

DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

“Annual General Meeting”	the annual general meeting of the Company to be held at Suite No. 02, 31st Floor, Sino Plaza, 255-257 Gloucester Road, Causeway Bay, Hong Kong on 26 April 2006, at 11:00 a.m., notice of which is set out on pages 79 to 82 of the annual report of the Company for the year ended 31 December 2005 despatched together with this circular
“Board”	the Board of Directors
“Company”	Ko Yo Ecological Agrotech (Group) Limited, incorporated in the Cayman Islands with limited liability, the Shares of which are listed on GEM
“Director(s)”	the director(s) of the Company
“Existing Issue Mandate”	the general mandate granted to the Directors on 26 April 2005 to exercise the powers of the Company to allot, issue and otherwise deal with Shares during the relevant period of up to 20% of the aggregate nominal value of the issued share capital of the Company as at date of relevant resolution
“Existing Repurchase Mandate”	the general mandate granted to the Directors on 26 April 2005 to exercise the powers of the Company to repurchase Shares during the relevant period of up to 10% of the aggregate nominal value of the issued share capital of the Company as at date of relevant resolution
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Latest Practicable Date”	22 March 2006, being the latest practicable date for the purpose of ascertaining certain information contained in this circular prior to dispatch of its circular
“Proposed Issue Mandate”	a general mandate proposed to be granted to the Directors to exercise the powers of the Company to allot, issue and otherwise deal with Shares during the relevant period of up to a maximum of 20% of issued share capital of the Company as at the date of passing the Resolution No. 6 as set out in the notice of the Annual General Meeting

DEFINITIONS

“Proposed Repurchase Mandate”	a general mandate proposed to be granted to the Directors to exercise the powers of the Company to repurchase Shares during the relevant period up to a maximum of 10% of issued share capital of the Company as at the date of passing the Resolution No. 7 as set out in the notice of the Annual General Meeting
“Shareholder(s)”	shareholder(s) of the Company
“Share(s)”	ordinary share(s) of par value HK\$ 0.1 each in the capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited



Ko Yo Ecological Agrotech (Group) Limited

玖源生態農業科技(集團)有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8042)

Executive Directors:

Mr. Li Weiruo (*Chairman*)

Mr. Yuan Bai

Ms. Chi Chuan

Ms. Man Au Vivian

Mr. Li Shengdi

Registered Office:

Century Yard

Cricket Square

Hutchins Drive

P.O. Box 2681 GT

George Town

British West Indies

Independent Non-executive Directors:

Mr. Hu Xiaoping

Mr. Woo Che-wor, Alex

Mr. Qian Laizhong

*Principal place of business
in Hong Kong:*

Suite No. 02, 31st Floor

Sino Plaza

255-257 Gloucester Road

Causeway Bay

29 March 2006

To the Shareholders

Dear Sir or Madam,

**PROPOSED GENERAL MANDATES TO ISSUE SHARES AND
REPURCHASE ITS OWN SHARES**

INTRODUCTION

The purpose of this circular is to provide you with information in respect of the resolutions to be proposed at the Annual General Meeting for (a) the renewal of the Existing Issue Mandate; (b) the renewal of the Existing Repurchase Mandate; and (c) the extension of the Proposed Issue Mandate by adding to it the aggregate number of the Shares to be repurchased under the Proposed Repurchase Mandate.

LETTER FROM THE BOARD

GENERAL MANDATES TO ISSUE AND REPURCHASE SHARES

At the annual general meeting of the Company held on 26 April 2005, ordinary resolutions were passed granting the Existing Issue Mandate and Existing Repurchase Mandate to the Directors. In accordance with the provisions of the GEM Listing Rules and the terms of the Existing Issue Mandate and Existing Repurchase Mandate, the Existing Issue Mandate and Existing Repurchase Mandate will expire at the conclusion of the Annual General Meeting.

Resolutions set out in Resolution No. 6 in the notice of the Annual General Meeting will be proposed at the Annual General Meeting to renew the Existing Issue Mandate. The Proposed Issue Mandate will confer on the Directors the power to allot, issue and otherwise deal with Shares of up to 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing the relevant resolution granting such mandate. Resolutions set out in Resolution No. 7 in the notice of the Annual General Meeting will also be proposed at the Annual General Meeting to renew the Existing Repurchase Mandate. Moreover, resolutions as set out in Resolution No. 8 will be proposed to extend the Proposed Issue Mandate only after exercised the Proposed Repurchase Mandate, provide that such extended amount presenting the aggregate nominal amount of the share capital of the Company purchased under the Proposed Repurchase Mandate shall not exceed 10% of the aggregate nominal value of the share capital of the Company at the date of passing the Resolution No. 7. Such mandates will continue in force until the conclusion of the next annual general meeting of the Company, or the expiration of the period within the next annual general meeting of the Company is required by law or the articles of association to be held, or until the general mandates are revoked or varied by an ordinary resolution of Shareholders in general meeting, whichever is the earliest. With reference to the proposed new general mandates, the Directors wish to state that they have no immediate plans to issue or repurchase any Shares pursuant to the relevant mandates.

An explanatory statement required by the GEM Listing Rules to be sent to the Shareholders in connection with the Proposed Repurchase Mandate containing all information reasonably necessary to enable the Shareholders to make an informed decision on whether to vote for or against the relevant resolutions at the Annual General Meeting is set out in the Appendix to this circular.

ANNUAL GENERAL MEETING

A notice of the Annual General Meeting is set out on pages 79 to 82 of the 2005 annual report of the Company for the year ended 31 December 2005 which is dispatched to the Shareholders with this circular. At the Annual General Meeting, in addition to the ordinary business of the meeting, Resolutions No. 6 to 8 will be proposed as special businesses to approve the general mandate for the issue of Shares, the Proposed Repurchase Mandate and the extension of the general mandate for the issue of Shares.

A form of proxy for use at the Annual General Meeting is enclosed with the Company's annual report. If you do not intend to attend the meeting in person, you are requested to complete the form of proxy in accordance with the instructions printed thereon and deposit the same at the share registrar of the Company in Hong Kong, Union Registrars Limited at Room 311-312, Two Exchange Square, Central, Hong Kong, together with any power of attorney or another authority, under which it is

LETTER FROM THE BOARD

signed, or a notarially certified copy of that power or authority, not less than 48 hours before the time for holding the meeting or any adjournment thereof. The completion and return of the form of the proxy will not preclude you from attending and voting in person at the Annual General Meeting or any adjourned meetings should you so desire.

RECOMMENDATION

The Directors are of the opinion that the proposals referred to above are in the best interests of the Company and therefore recommend you to vote in favour of the relevant resolutions to be proposed at the Annual General Meeting.

PROCEDURES TO DEMAND POLL

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

- (a) by the chairman of such meeting; or
- (b) by at least three 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 a 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 Shareholders having the right to vote at the meeting; or
- (d) by a 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 Shares conferring that right.

A demand by a person as proxy for a Shareholder or in the case of a Shareholder being a corporation by its duly authorized representative shall be deemed to be the same as a demand by a Shareholder.

Yours faithfully,
For and on behalf of the Board of
Ko Yo Ecological Agrotech (Group) Limited
Li Weiruo
Chairman

The explanatory statement contains all the information required to be given to the Shareholders pursuant to the requirement of GEM Listing Rules. The purpose of this explanatory statement is to provide the Shareholders with all information reasonably necessary for them to make an informed decision as to whether to pass the resolution approving the Proposed Repurchase Mandate at the Annual General Meeting.

1. Relevant Legal and Regulatory Requirements in Hong Kong

(a) *Shareholders' approval*

All repurchase of Shares, which must be fully paid up, on GEM, by the Company on GEM must be approved in advance by an ordinary resolution of Shareholders of the Company, either by way of a general mandate or by specific approval in relation to specific transactions.

(b) *Source of funds*

All repurchases by the Company must be funded out of funds legally available for the purpose in accordance with the applicable laws of the Cayman Islands and the articles of association of the Company. The Company may not repurchase its own Shares on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange. Under Cayman Islands law, any repurchases by the Company may be made out of profits of the Company or out of the proceeds of a fresh issue of Shares made for the purposes of the repurchase or, under certain circumstances, out of capital. Any premium payable on a repurchase must be made out of the profits of the Company or out of the Company's share premium account before or at the time the shares are purchased or, under certain circumstances, out of capital. If payment is made out of capital, the Company must be able to pay its debts as they fall due in the ordinary course of business.

There might be a material adverse impact on the working capital or gearing position of the Company as compared with the position disclosed in the latest published audited consolidated accounts contained in the annual report for the year ended 31 December 2005 in the event that the Share Repurchase Mandate is exercised in full. However, the Directors do not propose to exercise the Share Repurchase Mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or the gearing levels which in the opinion of the Directors are from time to time appropriate for the Company.

(c) *Trading restrictions*

The Company is authorized to repurchase on GEM or other stock exchange recognized by the Securities and Futures Commission and the Stock Exchange the total number of Shares which represent up to a maximum of 10% of the aggregate nominal value of the issued share capital of the Company as at the date of the passing of the relevant resolution granting the repurchase mandate.

The Company may not issue or announce an issue of new Shares for a period of 30 days immediately following a repurchase whether on GEM or otherwise (except pursuant to the exercise of warrants, share option or similar instruments requiring the Company to issue Shares which were outstanding prior to the repurchase) without the prior approval of the Stock Exchange. The Company is also prohibited from making share repurchases on GEM if the repurchases would result in the number of Shares in public hands falling below the relevant prescribed minimum percentage for the Company as required by the Stock Exchange.

(d) *Status of repurchased Shares*

The listing of all Shares repurchased (whether effected on GEM or otherwise) is automatically cancelled and the relevant Share certificates must be cancelled and destroyed as soon as practicable following settlement of such repurchases. Under Cayman Islands law, the Company's repurchased Shares will be treated as cancelled and the amount of the Company's issued share capital will be reduced by the aggregate nominal value of the repurchased Shares accordingly although the authorized share capital of the Company will not be reduced.

(e) *Suspension of repurchase*

Pursuant to the GEM Listing Rules, the Company may not make any repurchase of Shares after a price sensitive development has occurred or has been the subject of a decision until such time as the price sensitive information has been made publicly available. In particular, during the period of one month immediately preceding either the preliminary announcement of the Company's annual results or the publication of its interim report or quarterly report, the Company may not repurchase its Shares on the Stock Exchange unless the circumstances are exceptional. In addition, the Stock Exchange may prohibit a repurchase of the Shares on the Stock Exchange if the Company has breached the GEM Listing Rules.

(f) *Reporting requirements*

As required by the GEM Listing Rules, repurchases of Shares on GEM or otherwise must be reported to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or pre-opening session on the following business day. In addition, the Company's annual report and accounts are required to include a monthly breakdown of share repurchases made during the financial year under review, showing the number of Shares purchased each month (whether on GEM or otherwise), the purchase price per Share or the highest and lowest prices paid for all such repurchases and the total price paid by the Company. The Directors' report is also required to contain reference to the repurchases made during the year and the Directors' reasons for making such repurchases.

The Company shall procure its broker who effects the repurchase to provide the Company in a timely fashion with the necessary information in relation to the repurchase made on behalf of the Company to enable the Company to report to the Stock Exchange.

The Company shall report the outcome of the general meeting called to consider the proposed repurchase to the Stock Exchange immediately following such meeting taking place. In the event that such resolution is passed, the Company shall furnish a copy of such resolution signed by the Chairman of the meeting to the Stock Exchange within 15 days after the resolution is passed, together with a certified copy of the explanatory statement.

(g) *Connected parties*

The Company shall not knowingly repurchase Shares on GEM from a “connected person”, that is, a director, chief executive, substantial shareholder or management shareholder of the Company or any of their associates (as defined in the GEM Listing Rules) and a connected person shall not knowingly sell his Shares to the Company on GEM.

2. Reasons for repurchases

The Directors believe that it is in the best interests of the Company and its Shareholders for the Directors to have general authority from the Shareholders to enable the Company to repurchase Shares on the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made where the Directors believe that such repurchases will benefit the Company and its Shareholders.

3. Share capital

As at the Latest Practicable Date, the issued share capital of the Company comprised 421,820,000 Shares of par value HK\$ 0.1 each. Subject to the passing of the resolution granting the Proposed Repurchase Mandate and on the basis that no further Shares are issued or repurchased before the Annual General Meeting, the Company will be allowed to repurchase a maximum of 42,182,000 Shares during the period ending on the earlier of the conclusion of the next annual general meeting of the Company or the date by which the next annual general meeting of the Company is required to be held by applicable laws of the Cayman Islands or the date upon which such authority is revoked or varied by a resolution of the Shareholders in general meeting.

4. Securities Prices

The following table shows the highest and lowest prices at which the Shares have been traded on the Stock Exchange in each of the previous twelve months before the Latest Practicable Date:

Month	Highest trade price HK\$	Lowest trade price HK\$
2005		
March	0.295	0.250
April	0.355	0.260
May	0.350	0.295
June	0.425	0.315
July	0.380	0.340
August	0.395	0.340
September	0.375	0.335
October	0.350	0.270
November	0.345	0.300
December	0.350	0.295
2006		
January	0.465	0.305
February	0.540	0.390
March (up to the Latest Practicable Date)	0.940	0.450

5. General

To the best of their knowledge, having made all reasonable enquiries, none of the Directors nor any of their associates currently intends to sell any Shares to the Company or its subsidiaries in the event that the Proposed Repurchase Mandate is approved.

The Directors have undertaken to the Stock Exchange to exercise the power of the Company to make purchases pursuant to the proposed resolution in accordance with the GEM Listing Rules and the laws of the Cayman Islands.

If a Shareholder's proportionate interest in the voting rights of the Company increases on the Company exercising its powers to repurchase securities pursuant to the Repurchase Mandate, such increase will be treated as an acquisition for the purpose of Rule 32 of the Hong Kong Code on Takeover and Mergers (the "Code"). As a result, a Shareholder or group of Shareholders acting in concert could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with Rules 26 and 32 of the Code.

As at the Latest Practicable Date, Directors of the Company, Mr. Li Weiruo and Mr. Yuan Bai, who respectively held approximately 48.94% and 8.40% of the issued share capital of the Company, were substantial shareholders (within the meaning of the GEM Listing Rules) of the Company. In the

event that the Directors exercise in full the power to repurchase Shares in accordance with the terms of the ordinary resolution to be proposed at the Annual General Meeting, the shareholding of Mr. Li Weiruo and Mr. Yuan Bai would be increased to approximately 54.38% and 9.34% respectively and such increase in shareholding of Mr. Li Weiruo would give rise to an obligation to make a mandatory offer under the Code. Should such case arise, the Company may apply to the Securities and Futures Commission for a waiver from such obligation under the relevant provisions of the Codes on Takeovers and Mergers.

The GEM Listing Rules prohibit a company from making repurchase on the Stock Exchange if the result of the repurchase would be that less than 25 per cent. (or such other prescribed minimum percentage as determined by the Stock Exchange) of the issued share capital would be in public hands. The Directors do not propose to repurchase Shares which would result in less than the prescribed minimum percentage of Shares in public hands.

There have been no repurchases of any securities of the Company made in the previous six months (whether on GEM or otherwise). The Directors have no present intention to exercise in full the power to repurchase Shares proposed to be granted pursuant to the Proposed Repurchase Mandate.