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## **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**

### **PLACING OF EXISTING SHARES AND SUBSCRIPTION OF NEW SHARES AND RESUMPTION OF TRADING**



**SBI E2-Capital Securities Limited**

**Placing Agent**

On 3 May, 2006, the Vendors, being parties acting in concert, entered into the Placing Agreement in relation to the placing of up to 84,000,000 Placing Shares at the Placing Price of HK\$0.78 per Placing Share, and the Placing Agent agreed to, on a best effort basis, place up to 84,000,000 Placing Shares. The 84,000,000 Placing Shares represent approximately 19.91% of the Company's existing issued share capital of 421,820,000 Shares and approximately 16.61% of the issued share capital as enlarged by the Subscription of 84,000,000 Subscription Shares. The Placing Agreement is subject to certain conditions (as set out below).

On 3 May, 2006, the Vendors also entered into an agreement with the Company to, subject to certain conditions (as set out below), subscribe for the Subscription Shares at the Subscription Price of HK\$0.78 per Subscription Share.

It is expected that the net proceeds after deduction of related expenses from the Subscription shall be approximately HK\$63 million and are expected to be used as general working capital of the Group.

The Company will apply to the GEM Listing Committee of the Stock Exchange for the granting of the listing of, and permission to deal in, the Subscription Shares.

Trading in the Shares on the Stock Exchange has been suspended from 9:30 a.m. on 4 May, 2006 pending the release of this announcement. Trading in the Shares on the Stock Exchange will resume from 9:30 a.m. on 8 May, 2006.

## **THE PLACING**

### **Parties**

- (1) the Company;
- (2) the Vendors; and
- (3) the Placing Agent.

### **The Placing Shares**

An aggregate of up to 84,000,000 existing Shares, of which Mr. Li agreed to sell up to 63,000,000 Placing Shares and Mr. Yuan agreed to sell up to 21,000,000 Placing Shares. The Placing Agent agreed to, on a best effort basis, place up to 84,000,000 Placing Shares. The 84,000,000 Placing Shares represent approximately 19.91% of the Company's existing issued share capital of 421,820,000 Shares and approximately 16.61% of the issued share capital as enlarged by the Subscription.

### **The Placee(s)**

The Placing Agent expects that there will be not less than six Placees, who will be independent professional, institutional and private investors selected and procured by or on behalf of the Placing Agent.

Each Placee (and its ultimate beneficial owner(s), if applicable) shall be independent of and not connected with the directors, chief executive, management shareholders or substantial shareholders of the Company or any of its subsidiaries or their respective associates (as defined in the GEM Listing Rules).

A further announcement will be made if any of the Placees becomes a substantial shareholder (as defined in the GEM Listing Rules) of the Company as a result of the Placing.

### **The Placing Price and the Placing Commission**

The Placing Price of HK\$0.78 per Share was arrived at after arm's length negotiation between the Company, Vendors and the Placing Agent with reference to the market condition.

The Placing Price represents a discount of approximately 1.27% to the closing price of HK\$0.79 per Share as quoted on the Stock Exchange on 3 May, 2006 (the last trading day prior to the publication of this announcement), a discount of approximately 1.27% to the average closing price of approximately HK\$0.79 per Share as quoted on the Stock Exchange for the last 5 trading days up to and including 3 May 2006, a discount of approximately

0.51% to the average closing price of approximately HK\$0.784 per Share as quoted on the Stock Exchange for the last 10 trading days up to and including 3 May, 2006 and a premium of approximately 68.47% of the net asset value of RMB0.481 (equivalent to approximately HK\$0.463) per Share as at 3 May 2006.

A placing commission of 2.5% of the Placing Price, which was arrived at after arm's length negotiation between the Company, the Vendors and the Placing Agent with reference to the market condition, will be paid to the Placing Agent in relation to the Placing. The net Placing Price after deducting the placing commission and relevant expenses is approximately HK\$0.75 per Placing Share.

### **Rights of the Placing Shares**

The Placing Shares are sold free of all liens, charges and encumbrances, claims, options and third-party rights and together with all rights attaching thereto as at the date of completion of the Placing, including the right to receive all dividends or other distributions declared, made or paid on the Placing Shares at any time after the date of completion of the Placing.

### **Conditions of the Placing**

The Placing is conditional on:-

- (a) the Subscription Agreement having been entered into by the parties thereto and not subsequently having been revoked, terminated, breached or modified; and
- (b) the Placing Agreement is not terminated in accordance with the paragraph headed "Termination of the Placing" below.

If any of the above conditions shall not have been fulfilled or (alternatively) waived by the Placing Agent by the date specified above, the Placing Agreement and the obligations of the Placing Agent under the Placing Agreement shall cease and terminate.

### **Completion of the Placing**

Completion of the Placing shall take place on 9 May 2006 (or such other date and time as may be agreed between the Vendors and the Placing Agent).

### **Termination of the Placing**

The Placing Agent shall be entitled by notice in writing to the Vendors given prior to 12:00 noon on the Business Day immediately before the completion date of the Placing to terminate the Placing Agreement if:

- (a) any of the undertakings, warranties or representations contained therein becomes untrue or incorrect in any material respect; or

(b) there develops, occurs or comes into effect:-

- (i) any event, development or change (whether or not local, national or international or forming part of a series of events, developments or changes occurring or continuing before, on and/or after the date of the Placing Agreement), including an event or change in relation to or a development of an existing state of affairs of a political, military, industrial, financial, economic, fiscal, regulatory or other nature resulting in a material adverse change in, or which might be expected to result in a material adverse change in, political, economic, fiscal, financial, regulatory or stock market conditions in the People's Republic of China (including Hong Kong);
- (ii) the imposition of any moratorium, suspension or material restriction on trading in securities generally on GEM due to exceptional financial circumstances or otherwise;
- (iii) any material adverse change in conditions of local, national or international securities markets;
- (iv) any new law or regulation or change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority in Hong Kong or any other jurisdiction relevant to the Group which will materially and adversely affect the business or the financial or trading position of the Group as a whole;
- (v) a change or development involving a prospective change of taxation or exchange control (or the implementation of exchange control) in Hong Kong or elsewhere which will materially and adversely affect the business or the financial or trading position of the Group as a whole; or
- (vi) the instigation of any litigation or claim of material importance by any third party against any member of the Group,

and which, in the reasonable opinion of the Placing Agent are likely to be materially adverse to the Group or would materially prejudice the success of the Placing.

## **THE SUBSCRIPTION**

### **Parties**

- (1) the Company; and
- (2) the Subscribers.

### **Number of Subscription Shares**

An aggregate of up to 84,000,000 new Shares, of which Mr. Li agreed to subscribe for up to 63,000,000 Shares and Mr. Yuan to subscribe for up to 21,000,000 Shares. The 84,000,000 Subscription Shares represent approximately 19.91% of the existing issued share capital of the Company and approximately 16.61% of the issued share capital of the Company as enlarged by the Subscription.

## **The Subscription Price**

The Subscription Price of HK\$0.78 per Share is equivalent to the Placing Price.

The cost incurred as a result of the Placing and the Subscription is expected to be amounted to approximately HK\$2 million and will be borne by the Company. The net Subscription Price per Subscription Share is approximately HK\$0.75.

## **General mandate to issue new Shares**

The Subscription Shares will be issued and allotted under the general mandate (the “General Mandate”) granted to the Directors at the annual general meeting of the Company held on 26th April, 2006, which authorised the Directors to allot, issue and otherwise deal with new Shares not exceeding 20% of the aggregate nominal amount of the Shares in issue at that date. Based on the total number of Shares in issue was 421,820,000 Shares on 26th April 2006, the maximum amount of Shares to be allotted and issued pursuant to the General Mandate is 84,364,000 Shares. The Company has not issued any Shares pursuant to the General Mandate as at the date of this Announcement.

An application will be made to the GEM Listing Committee of the Stock Exchange for the listing of, and permission to deal in up to 84,000,000 Shares to be issued pursuant to the Subscription.

## **Ranking of the new Shares**

The Subscription Shares will upon issue rank pari passu in all respects with the then existing Shares including the right to receive all dividends and distributions declared, paid or made on or after the date of completion of the Subscription.

## **Conditions of the Subscription**

Completion of the Subscription is conditional upon, among others:-

- (a) completion of the Placing; and
- (b) the GEM Listing Committee of the Stock Exchange granting the listing of, and permission to deal in up to 84,000,000 new Shares to be issued pursuant to the Subscription.

If any of the conditions of the Subscription is not fulfilled on or before 16 May 2006 (or such later date as may be agreed between the parties), the Subscription Agreement and all rights and obligations thereunder will cease and terminate.

## **Completion of the Subscription**

Completion of the Subscription will take place on the next Business Day following the fulfillment of the above conditions or such other day as agreed by the Subscribers and the

Company. If completion of the Subscription does not take place on 17 May 2006, the Company is required to fulfill all the relevant requirements in relation to connected transactions under Chapter 20 of the GEM Listing Rules, including obtaining shareholders' approval.

## **EFFECT ON THE SHAREHOLDING FOLLOWING COMPLETION OF THE PLACING AND THE SUBSCRIPTION**

The shareholding in the Company before and after completion of the Placing and the Subscription are summarised as follows:-

<b>Shareholders</b>	<b>Issued share capital before the Placing and the completion of the Subscription</b>		<b>Issued share capital after completion of the Placing but before completion of the Subscription</b>		<b>Enlarged issued share capital following completion of the Subscription (Note)</b>	
	<i>Shares</i>	<i>%</i>	<i>Shares</i>	<i>%</i>	<i>Shares</i>	<i>%</i>
Mr. Li	206,440,000	48.94	143,440,000	34.00	206,440,000	40.81
Mr. Yuan	35,448,000	8.40	14,448,000	3.43	35,448,000	7.01
Chi Chuan	12,528,000	2.97	12,528,000	2.97	12,528,000	2.48
Man Au Vivian	6,240,000	1.48	6,240,000	1.48	6,240,000	1.23
<i>Public Shareholders:</i>						
Placees	0	0	84,000,000	19.91	84,000,000	16.61
Other shareholders	<u>161,164,000</u>	<u>38.21</u>	<u>161,164,000</u>	<u>38.21</u>	<u>161,164,000</u>	<u>31.86</u>
Total	<u>421,820,000</u>	<u>100</u>	<u>421,820,000</u>	<u>100</u>	<u>505,820,000</u>	<u>100</u>

*Note: Based on the maximum of 84,000,000 Subscription Shares are allotted and issued.*

After completion of the Placing, the aggregate shareholding percentage of the Vendors, being parties acting in concert in the Placing and the Subscription, will decrease from approximately 57.34% to approximately 37.43%. Immediately upon completion of the Subscription, the aggregate shareholding of the Vendors in the Company will increase from approximately 37.43% to approximately 47.82%.

## **REASONS FOR THE PLACING AND THE SUBSCRIPTION AND USE OF PROCEEDS**

The Company is an investment holding company and the principal activities of the Group include research and development, manufacture, marketing and distribution of chemical fertilizers and chemical products in the People's Republic of China. As at 31st December, 2005, the cash balance of the Group was approximately RMB47,758,000 and the Group's short-term bank loans amounted to approximately RMB135,870,000 as published in the Company's annual report.

The Directors consider that the Placing and the Subscription will strengthen the capital base of and the financial position of the Company, and enable the Company to capture any long-term investment opportunity. As at the date of this announcement, no specific investment target has been identified by the Company. The expenses to be incurred by the Company in respect of the Placing and the Subscription amount to approximately HK\$2 million and will be borne by the Company.

The entire net proceeds from the Subscription, after deduction of the placing commission and other related expenses, are expected to amount to approximately HK\$63 million and will be applied as general working capital of the Group. The Company will make an announcement should there is any new development of investment plans or projects to which the net proceeds from the Subscription are to be applied.

In view of the reasons above, the Directors are of the view that the Placing are in the interests of the Company and its shareholders as a whole and the terms are fair and reasonable (including the timing of the Placing and the Placing Price).

Within the 12 months period immediately prior to the date of this announcement, the Company has not conducted any fund raising activities.

Trading in the Shares on the Stock Exchange has been suspended from 9:30 a.m. on 4 May, 2006 pending the release of this announcement. Trading in the Shares on the Stock Exchange will resume from 9:30 a.m. on 8 May, 2006.

## **DEFINITIONS**

“Business Day”	a day (other than Saturday) on which banks in Hong Kong are open for business
“Company”	Ko Yo Ecological Agrotech (Group) Limited, a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the GEM of the Stock Exchange
“Director(s)”	the director(s) of the Company
“GEM”	the Growth Enterprise Market operated by the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Mr. Li”	Li Weiruo, an executive Director
“Mr. Yuan”	Yuan Bai, an executive Director
“Placees”	the placees of the Placing Shares under the Placing

“Placing”	placing of Placing Shares pursuant to the Placing Agreement
“Placing Agent”	SBI E2-Capital Securities Limited, which and its ultimate holding company did not hold any Shares as at the date of this announcement and are independent of and not connected with nor parties acting in concert with the directors, chief executive, management shareholders or substantial shareholders of the Company or any of its subsidiaries or their respective associates (as defined in the GEM Listing Rules)
“Placing Agreement”	the agreement entered into by the Company, the Vendors and the Placing Agent on 3 May, 2006 in relation to the Placing
“Placing Price”	price payable for the Placing Shares at HK\$0.78 per Placing Share
“Placing Shares”	up to 84,000,000 existing Shares available for the Placing
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	subscription for up to 84,000,000 new Shares by the Subscribers pursuant to the Subscription Agreement
“Subscription Agreement”	the agreement entered into between the Company and the Subscribers on 3 May, 2006 in relation to the Subscription
“Subscription Price”	price payable for the new Shares in respect of the Subscription at HK\$0.78 per Share
“Subscription Share(s)”	up to 84,000,000 new Shares which is equivalent to the number of Placing Shares placed by the Placing Agent under the Placing Agreement to be issued and allotted under the Subscription Agreement
“Vendor(s)” or “Subscriber(s)”	Mr. Li and Mr. Yuan



“HK\$” Hong Kong dollar, the lawful currency of Hong Kong

“RMB” Renminbi, the lawful currency of the People’s Republic of China

By order of the board  
**Ko Yo Ecological Agrotech (Group) Limited**  
**Li Weiruo**  
*Chairman*

Hong Kong, 4 May, 2006

*As at the date of this announcement, the executive Directors are Mr. Li Weiruo, Mr. Yuan Bai, Ms. Chi Chuan, Ms. Man Au Vivian and Mr. Li Shengdi; the independent non-executive Directors are Mr. Hu Xiaoping, Mr. Woo Che-wor, Alex and Mr. Qian Laizhong.*

*This announcement, 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: (a) the information contained in this announcement is accurate and complete in all material respects and not misleading; (b) there are no other matters the omission of which would make any statement in this announcement misleading; and (c) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

*This announcement will remain on the GEM website at <http://www.hkgem.com> on the “Latest Company Announcements” page for at least seven days form the date of its posting.*