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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)

MAJOR TRANSACTION ACQUISITION OF PRODUCTION FACILITIES AND RESUMPTION OF TRADING

Financial Adviser to the Company



Oriental Patron Asia Limited

Acquisition of Sale Assets

On 29 September 2006, Dazhu Ko Yo Chemical, as the ultimate purchaser, entered into the Sale and Purchase Contract with Sigma Investment as the vendor and Sinosteel as the purchase agent to acquire the Sale Assets for a total consideration of US\$35.90 million (equivalent to approximately RMB290.79 million). The consideration will be settled in cash and 35% of the enlarged registered capital in Dazhu Ko Yo Chemical. The 35% of the enlarged registered capital in Dazhu Ko Yo Chemical will equal to RMB105.00 million and the corresponding amount of which in the US currency will be calculated in accordance with the exchange rate on the effective date of the increase in the registered capital. The balance will be settled in cash.

In connection with the Asset Acquisition, Dazhu Ko Yo Chemical entered into a 二手設備進口代理委託合同 (Second Handed Equipment Import Agency Contract) dated 29 September 2006 with Sinosteel to appoint Sinosteel as its importer to, among other things, (i) sign the Sale and Purchase Contract as the buyer; (ii) execute the payment procedures in relation to the Sale and Purchase Contract and (iii) obtain PRC customs clearance. Total agency fee payable to Sinosteel is RMB3.60 million.

The Directors (including the independent non-executive Directors) consider the terms and conditions of the Asset Acquisition are fair and reasonable and in the interests of the Shareholders as a whole.

The Asset Acquisition and the use of 35% of the enlarged registered capital in Dazhu Ko Yo Chemical as consideration which gives rise a deemed disposal of subsidiary constitutes a major transaction for the Company under Chapter 19 of the GEM Listing Rules and hence is subject to the approval of the Shareholders. A circular containing further information regarding this acquisition will be sent to the Shareholders on or before 26 October 2006. No Shareholders are required to abstain from voting if the Company were to convene a general meeting to approve the Sale and Purchase Contract and the Asset Acquisition. A closely allied group of Shareholders, namely Li Weiruo, Yuan Bai, Chi Chuan and Man Au Vivian, who are also executive Directors, in aggregate hold 260,680,000 Shares or approximately 51.54% of the total issued share capital of the Company and have the right to attend and vote at a general meeting of the Company to approve the Sale and Purchase Contract and the Asset Acquisition, have provided to the Company their written approvals to the Sale and Purchase Contract and the Asset Acquisition pursuant to rule 19.44 of the GEM Listing Rules.

At the request of the Company, trading of the Shares has been suspended with effect from 9:30 a.m. on 3 October 2006, pending the publication of this announcement. Application has been made to the Stock Exchange for the resumption of trading of the shares in the Company with effect from 9:30 a.m. on 6 October 2006.

PARTICULARS OF THE SALE AND PURCHASE CONTRACT

Date of the Agreement:	29 September 2006
End purchaser:	Dazhu Ko Yo Chemical, an indirectly wholly-owned subsidiary of the Company which was incorporated as a foreign invested enterprise in the PRC. Its principal activity is the manufacturing and sale of ammonia, ammonium carbonate and urea.
Purchase agent:	Sinosteel (information on which are set out in the paragraph headed 'Information on purchase agent, vendor and ultimate owners of the Sale Assets' below)
Vendor:	Sigma Investment (information of which are set out in the paragraph headed 'Information on purchase agent, vendor and ultimate owners of the Sale Assets' below) .
Assets to be acquired:	The Sale Assets, being used chemical process equipments and spare parts for producing ammonia compound and urea as shown in the Sale and Purchase Contract. According to the Valuation Report, the value of the Sale Assets as at 1 September 2006 was about US\$36.30 million (equivalent to approximately RMB294.03 million).

The Sale Assets are currently installed in idled urea and ammonia compound plants located at (1) Westwego, Louisiana, the US; (2) Pollock, Louisiana, the US , and (3) Blytheville, Arkansas, the US and are owned by those plants.

According to the Valuation Report, Blytheville Equipment had an operating capacity of 1,450 ton of urea per day and Westwego Equipment and Pollock Equipment had an operating capacity of 1,250 ton and 1,500 ton of ammonia compound per day respectively.

Consideration:

The consideration for the Sale Assets is for a sum of US\$35.90 million (equivalent to approximately RMB 290.79 million), which will be settled in 10 instalments in the following manner:

Payment	Payment date (on or before)	Amount (US\$)	Equivalent approximate amount (RMB)	Payment conditions
1st	1 November 2006	2,500,000	20,250,000	Presentation by Sigma Investment of, among others, transfer of title document of the equipment of the primary reformer of Westwego Equipment
2nd	1 December 2006	21,250,000	172,125,000	Presentation by Sigma Investment of, among others, transfer of title documents of certain Westwego Equipment
3rd	Upon fulfillment of the payment conditions	1,518,750	12,301,875	Presentation by Sigma Investment of, among others, confirmation on the commencement of the dismantling of the Sale Assets
4th	Upon fulfillment of the payment conditions	1,518,750	12,301,875	Presentation by Sigma Investment of, among others, the transfer of title documents of Blytheville Equipment
5th	Upon fulfillment of the payment conditions	1,518,750	12,301,875	Presentation by Sigma Investment of, among others, the transfer of title documents of Pollock Equipment

Payment	Payment date (on or before)	Amount (US\$)	Equivalent approximate amount (RMB)	Payment conditions
6th to 10th	Upon fulfillment of the payment conditions	1,518,750 each	12,301,875 each	Presentation by Sigma Investment of, among others, the full set of shipping and insurance documents in relation to the Sale Assets shipped in each shipment
Total		<u>35,900,000</u>		

The second payment amounted to US\$21.25 million (equivalent to approximately RMB172.13 million) will be settled by 35% of the enlarged registered capital in Dazhu Ko Yo Chemical. The 35% of the enlarged registered capital in Dazhu Ko Yo Chemical will equal to RMB105 million and the corresponding amount of which in the US currency will be calculated in accordance with the exchange rate on the effective date of the increase in the registered capital. The balance will be settled in cash.

Upon completion of the acquisition of the 35% equity interests in Dazhu Ko Yo Chemical, Dazhu Ko Yo Chemical will be held by the Group as to 65% and by Sigma Investment as to 35% and Dazhu Ko Yo Chemical will remain as a subsidiary of the Company. Dazhu Ko Yo Chemical currently has four directors and intends to increase its board seat to seven of which five will be appointed by the Company and two will be appointed by Sigma Investment. No restrictions which apply to the 35% equity interests in Dazhu Ko Yo Chemical are stated in the Sale and Purchase Contract. However, it is the current intention of Sigma Investment to give a first right of refusal to the Group to acquire the equity interests in Dazhu Ko Yo Chemical should Sigma Investment decide to dispose of it.

Currently, the Vendor does not have the legal title of the Sale Assets. Pursuant to the terms of the Sale and Purchase Contract, title of the Sale Assets will be transferred to the Vendor from the ultimate owners i.e. the three plants at which the Sale Assets locate and thereafter be transferred to Dazhu Ko Yo Chemical. All the payments for the instalments will be made against presentation by Sigma Investment of certain title documents including commercial invoices, bill of sale and export license.

Conditions precedent:

Completion of the Sale and Purchase Contract is subject to and conditional upon the following conditions being fulfilled:

- (a) Sinosteel and/or Dazhu Ko Yo Chemical completing to its own satisfaction a due diligence investigation with respect to the Sale Assets;
- (b) the warranties given by Sigma Investment in the Sale and Purchase Contract being complete, true and accurate in all respects;
- (c) approval by the Shareholders to approve (i) the Sale and Purchase Contract; and (ii) all other transactions contemplated therein in compliance with the GEM Listing Rules having obtained;
- (d) all consents or approvals, if any, including but not limited to consents or approvals of any relevant governmental authorities, regulatory bodies in relation to the increase and change in shareholders of the Dazhu Ko Yo Chemical have been obtained;
- (e) the receipt by the Sinosteel and/or Dazhu Ko Yo Chemical of a valuation report on the Sale Assets as at 1 September 2006 of not less than US\$ 35.90 million; and
- (f) the receipt by Dazhu Ko Yo Chemical of a legal opinion issued by a PRC law firm confirming, among others, the matters referred to in paragraph (d) above.

Dazhu Ko Yo Chemical shall be entitled at its absolute discretion to waive compliance with any of the conditions set out above (other than the conditions set out in paragraphs (c) and (d)) by giving written notice to that effect to Sigma Investment.

If any of the conditions shall not be fulfilled (or waived by the Dazhu Ko Yo Chemical) by 1 November 2006 (or such other date as agreed by the parties of the Sale and Purchase Contract), the Sale and Purchase Contract shall terminate and shall be of no further effect and no party thereto shall have any liability to any other party under or in connection with the Sale and Purchase Contract.

Warranty:

The Sale Assets shall be purchased on an “as is, where is” basis with no warranty to their condition and performance.

In relation to the Asset Acquisition, Dazhu Ko Yo Chemical entered into a 二手設備進口代理委託合同 (Second Handed Equipment Import Agency Contract) dated 29 September 2006 with Sinosteel to appoint Sinosteel as its purchase agent to, among other things, (i) sign the Sale and Purchase Contract as the buyer; (ii) execute the payment procedures in relation to the Sale and Purchase Contract and (iii) obtain PRC customs clearance. Before appointing Sinosteel, the Directors have also considered other importers. However, taking into account their respective experience and price quoted, the Directors considered that appointing Sinosteel is in the best interest of the Group. Although it is not required by PRC laws to appoint an importer to import the Sale Assets, since the Group does not have the expertise in handling customs clearance procedures, the Directors considered that appointing a professional importer can expedite the process of the Assets Acquisition. Total agency fee payable to Sinosteel is RMB3.60 million. Taking into account the consideration for the Sale Assets amounted to approximately RMB290.79 million, total amount required for the Asset Acquisition is approximately RMB294.39 million.

According to the PRC legal opinion dated 20 September 2006 issued by Sichuan Chuanda Law Firm (四川達律師事務所), a law firm practicing in the PRC, there is no legal impediment in relation to the use of new registered capital in Dazhu Ko Yo Chemical for settlement of consideration for the Sale Assets.

INFORMATION ON PURCHASE AGENT, VENDOR AND ULTIMATE OWNERS OF THE SALE ASSETS

To the knowledge of the Directors, Sinosteel, the importer appointed by Dazhu Ko Yo Chemical to import the Sale Assets, is an enterprise under the administration of the State-Owned Assets Supervision and Administration Commission of the PRC and has the relevant import-export operating right to import the Sale Assets. Sinosteel is a specialized engineering company operating internationally, which integrates domestic and overseas contracting and management of engineering projects, project and equipment supervision, design and manufacture of machinery and electrical products and international trade. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Sinosteel and its ultimate beneficial owners are third parties independent of the Company and its connected persons of the Company.

To the knowledge of the Directors, Sigma Investment, the vendor of the Sale Assets, is a company which has been principally engaging in dismantling and trading of plant equipments for over 20 years, in particular those related to chemical, metallurgy and energy industries. Sigma Investment is headquartered in California, US and has a representative office located in Beijing, the PRC. Sigma Investment has extensive experience in trading of second-handed equipment. Apart from trading of plant equipment, Sigma Investment also provides other services including project management and planning, packaging and domestic and international shipping. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Sigma Investment and its shareholders comprising three individuals who are third parties independent of the Company and its connected persons of the Company.

To the knowledge of the Directors, details of the ultimate owners of the Sales Assets are set out as below:

Cytec Industries, Inc. (“Cytec”) is the ultimate owner of Westwego Equipment. It is headquartered in West Paterson, New Jersey, US and is currently listed on the New York Stock Exchange. Cytec is a specialty chemicals and materials company, engages in the development, manufacture, and sale of chemical products principally in the US. The company also operates in North America, Europe, Asia-Pacific, and Latin America.

Vanguard Synfuels, LLC is the ultimate owner of Pollock Equipment. It is headquartered in Pollock, Louisiana, US and engages in production and sale of ammonia.

Terra Industries, Inc. (“Terra”) is the ultimate owner of Blytheville Equipment. It is headquartered in Iowa and is currently listed on the New York Stock Exchange. Terra engages in the production and marketing of nitrogen and methanol products for agricultural and industrial end use markets in the US and the United Kingdom. It provides nitrogen products, principally fertilizers, such as ammonia, urea, ammonium nitrate, and urea ammonium nitrate solutions. It offers its products to national agricultural retail chains, farm cooperatives, independent dealers, and industrial customers.

To the best knowledge of the Directors, the ultimate owners and their ultimate beneficiaries are parties independent of and not connected to the Company.

BASIS OF THE CONSIDERATION

The consideration for the Sale Assets was arrived at after arm’s-length negotiations between the parties and is on normal commercial terms with reference to the value of the Sale Assets amounted to US\$36.30 million (equivalent to RMB294.03 million) as at 1 September 2006 as shown in the Valuation Report prepared by Sallmanns (Far East) Ltd which is a valuer qualified to carry out the valuation and is independent of and not connected with any connected persons of the Company. As the Group does not have access to the accounting records of the plants which own the Sale Assets, the book value of the Sale Assets cannot be obtained.

The consideration will be satisfied by funding from internal resource, banking borrowings and new equity interest in Dazhu Ko Yo Chemical which represents 35% of its enlarged equity interest. As Dazhu Ko Yo Chemical is not established as a joint-stock company, no shares will be issued to the Vendor. The current registered capital of Dazhu Ko Yo Chemical is RMB48 million which is expected to increase to RMB268 million after the increase in registered capital as a result of the Assets Acquisition. The increased part of the registered capital of RMB220 million will comprise of (i) RMB115 million contributed by the Company in cash and (ii) RMB105 million contributed by the Vendor in equivalent value of the Sale Assets. The purpose of the injection of a sum of RMB115 million by the Company is for the settlement of consideration of the Sale Assets. The Directors consider that the partial settlement of the consideration by equity interest of Dazhu Ko Yo Chemical, which accounts for approximately RMB105.00 million, is determined after arm’s-length negotiation between the Group and the Vendor by making reference to 35% of the expected enlarged registered capital i.e. RMB93.8 million (RMB268 million x 35%), is beneficial to the Shareholders as

it can reduce the Group's need for cash or bank borrowings to settle the consideration for the Sale Assets and subsequent capital expenditure. In addition, the value of the 35% of the enlarged equity interests of Dazhu Ko Yo Chemical i.e. RMB105 million, representing a valuation of the entire equity interests of Dazhu Ko Yo Chemical at about RMB300 million (i.e. RMB105 million/35%), is considered attractive to the Group. The unaudited net asset value as at 30 June 2006 of Dazhu Ko Yo Chemical is approximately RMB51.06 million and the audited net asset value of Dazhu Ko Yo Chemical as at 31 December 2005 is approximately RMB46.47 million. For the year ended 31 December 2005, Dazhu Ko Yo Chemical has an audited total revenue of approximately RMB86.62 million and an audited after-tax net loss of approximately RMB1.53 million. For the six months ended 30 June 2006, Dazhu Ko Yo Chemical has an unaudited total revenue of approximately RMB60.33 million and an unaudited after-tax net profit of approximately RMB4.59 million. Dazhu Ko Yo Chemical was established in December 2004 and has commenced active operation since 2005.

REASONS AND BENEFITS OF ASSET ACQUISITION

The agricultural industry of the PRC is highly dependent on the PRC's governmental policies. In 2006, the government continued to implement beneficial policies on chemical fertilizers in respect of free duty, preferential transportation, electricity and gas costs for fertilizers. These policies have significantly promoted the use of fertilizers especially for the use of BB fertilizers and complex fertilizers. In view of the favorable market environment, the Directors believe that the development of markets of BB fertilizers and complex fertilizers and the expansion of production facilities for such products are beneficial to the Group.

Urea, primarily made of ammonia compound, is one of the major raw materials of BB fertilizers and complex fertilizers. The Sale Assets, when operating in full capacity, is expected to increase the Group's annual production capacity of urea and ammonia compound by approximately 450,000 tons and 400,000 tons or 281% and 286% over the current capacity respectively. For the first half of year 2006, the utilization of the Group's production facilities of urea and ammonia compound were over 90%. The Asset Acquisition will significantly enhance the Group's production capacity and competitiveness in the fertilizer markets and facilitate the growth of the Group.

The Directors also consider that acquisition of additional used production facilities allows the Group to raise its current production capacity more economically and in shorter time when compared to acquisition and building of new production facilities which, to the best knowledge of the Directors, will cost approximately RMB 2,800 millions and will take 36 months to put them into an operational status. Apart from the site inspection by the Group, the Valuer has carried out inspection of the Sale Assets from 19 June 2006 to 24 June 2006 at Westwego and Pollock, Louisiana, and Blytheville, Arkansas, in US. According to the Valuation Report, Blytheville Equipment was originally installed in 1975 and certain parts were replaced, overhauled and upgraded periodically. It ceased production in 2004 and since then has not been in operation. Westwego Equipment was originally installed in 1966, and upgraded periodically. It ceased operation in 2001 and since then had not been in active production operation. Prior to 2001, a substantial amount was spent to refurbish the plant. Pollock Equipment was originally installed in 1974 and ceased operation in 2001. Major

overhaul of the plant was carried out in 1995. Most of the spare parts including rotors had been used out and subsequently refurbished to serviceable condition pending further usage. To facilitate and reinstall the Sale Assets into an operational condition, the Group expects and plans to spend additional capital expenditures of approximately RMB440 million. It will take 20 to 24 months, which is considered by the Directors as a normal business practice, to complete reinstallation of the Sale Assets and put the Sale Assets into an operational status. The additional capital expenditure is expected to be satisfied by funds from, among others, the Group's internal resource, bank borrowings and equity capital markets.

The Directors (including the independent non-executive Directors) consider the terms and conditions of the Sale and Purchase Contract are fair and reasonable and in the interests of the Shareholders as a whole.

INFORMATION ON THE GROUP

The Group is principally engaged in the research and development, manufacture, marketing and distribution of chemical fertilizers and chemical products in the PRC under the brands of “Hu Guang” (湖光), “Hu Hui” (湖輝) and “Ko Yo” (玫源). The Company is an investment holding company.

GENERAL

The Asset Acquisition and the use of 35% of the enlarged registered capital in Dazhu Ko Yo Chemical as consideration which gives rise a deemed disposal of subsidiary constitutes a major transaction for the Company under Chapter 19 of the GEM Listing Rules and hence is subject to the approval of the Shareholders. A circular containing further information regarding this acquisition will be sent to the Shareholders on or before 26 October 2006.

To the understanding of the Directors, no Shareholders are required to abstain from voting if the Company were to convene a general meeting to approve the Sale and Purchase Contract and the Asset Acquisition. A closely allied group of Shareholders, namely Li Weiruo, Yuan Bai, Chi Chuan and Man Au Vivian, who are also executive Directors, in aggregate hold 260,680,000 Shares or approximately 51.54% of the total issued share capital of the Company directly, have provided to the Company their written approvals dated 29 September 2006 to the Sale and Purchase Contract and the Asset Acquisition pursuant to rule 19.44 of the GEM Listing Rules.

Details of the closely allied group of Shareholders are summarized in the table below:

Shareholder	Relationship	Number of Shares held	% of total issued share capital of the Company
Li Weiruo	Directors	206,440,000	40.81
Yuan Bai	Directors	35,448,000	7.01
Chi Chuan	Directors	12,528,000	2.48
Man Au Vivian	Directors	<u>6,264,000</u>	<u>1.24</u>
		<u>260,680,000</u>	<u>51.54</u>

RESUMPTION OF TRADING

At the request of the Company, trading in the Shares was suspended with effect from 9:30 a.m. on 3 October 2006 pending the release of this announcement. Application has been made by the Company to the Stock Exchange for resumption of trading in the Shares with effect from 9:30 a.m. on 6 October 2006.

DEFINITIONS

In this announcement, the following expressions shall have the meanings stated below unless the context otherwise requires:

“Asset Acquisition”	the conditional acquisition of the Sale Assets by Dazhu Ko Yo Chemical pursuant to the Sale and Purchase Contract
“BB fertilizers”	bulk blended fertilizers, according to the PRC national standard, being a chemical compound containing at least two elements among nitrogen, phosphate and potassium.
“Blytheville Equipment”	production equipment (together with available associated spare parts and documents) of the idled urea plant in Blytheville, Arkansas, the US as shown in the Sale and Purchase Contract.
“Board”	the board of Directors
“Company”	Ko Yo Ecological Agrotech (Group) Limited, an exempted company incorporated in the Cayman Islands with limited liability on 11 February 2002, the shares of which are listed on GEM
“connected person”	has the meaning ascribed to it in the GEM Listing Rules

“Dazhu Ko Yo Chemical”	Dazhou City Dazhu Ko Yo Chemical Industry Co. Ltd. (達州市大竹玖源化工有限公司), a limited liability company established in the PRC and an indirectly wholly-owned subsidiary of the Company
“Director(s)”	the director(s) of the Company
“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
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Pollock Equipment”	production equipment (together with available associated spare parts and documents) of the idled ammonia plant in Pollock, Louisiana, the US as shown in the Sale and Purchase Contract.
“PRC”	the People’s Republic of China
“Sale and Purchase Contract”	the conditional sale and purchase contract dated 29 September 2006 between Sigma Investment as vendor, Sinosteel as purchase agent and Dazhu Ko Yo Chemical as ultimate purchaser in connection with the Asset Acquisition
“Sale Assets”	the Blytheville Equipment, the Pollock Equipment and the Westwego Equipment
“Share(s)”	shares with a nominal value of HK\$0.1 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Sigma Investment” or “Vendor”	Sigma Investment Holdings, L.L.C., headquartered in California, the United States, is principally engaged in dismantling and trading of plant equipments, in particular those related to chemical, metallurgy and energy industries
“Sinosteel”	Sinosteel Equipment & Engineering Company, an enterprise under the administration of the State-Owned Assets Supervision and Administration Commission of the PRC, is a specialized engineering company operating internationally, which integrates domestic and overseas contracting and management of engineering projects, project and equipment supervision, design and manufacture of machinery and electrical products and international trade

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“US”	the United States of America
“Valuer”	Sallmanns (Far East) Limited
“Valuation Report”	the valuation report dated 22 September 2006 prepared by the Valuer, for the purpose of appraising the value of Sale Assets to be acquired by Dazhu Ko Yo Chemical
“Westwego Equipment”	production equipment (together with available associated spare parts and documents) of the idled ammonia plant in Westwego, Louisiana, the US as shown in the Sale and Purchase Contract.
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“US\$”	United States dollars, the lawful currency of the United States
“%”	Per cent

In this announcement, unless otherwise stated, certain amounts denominated in US\$ have been converted (for information only) into RMB using an exchange rate of US\$1.00 to RMB8.10 respectively.

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

Chengdu, the PRC, 5 October 2006

As at the date of this announcement, the Board comprises five directors, namely Mr. Li Weiruo, Mr. Yuan Bai, Ms Chi Chuan, Ms. Man Au Vivian, Mr. Li Shengdi and three independent non-executive Directors, namely 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 issuer. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this announcement 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 announcement misleading; and (3) 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.

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