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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)**

**VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION;  
APPLICATION FOR WHITEWASH WAIVER;  
PROPOSED INCREASE OF AUTHORISED SHARE CAPITAL;  
PROPOSED SUBDIVISION OF SHARES OF HK\$0.10 EACH INTO  
FIVE SHARES OF HK\$0.02 EACH;  
PROPOSED CHANGE IN BOARD LOT SIZE; AND  
RESUMPTION OF TRADING**

**Financial adviser to Ko Yo Ecological Agrotech (Group) Limited**



**Goldbond Capital (Asia) Limited**

**SALE AND PURCHASE AGREEMENT**

On 17 September 2007, the Purchaser, a wholly owned subsidiary of the Company and the Vendors entered into the Sale and Purchase Agreement, pursuant to which the Purchaser conditionally agreed to acquire and the Vendors conditionally agreed to sell the 4,720,000 Sale Shares for a total consideration of HK\$312.0 million. The consideration will be satisfied by the allotment and issue of the 473,060,000 Consideration Shares at approximately HK\$0.6595, which will be allotted and issued under a special mandate to be obtained at the EGM subject to the Independent Shareholders' approval.

Mr. Li and Mr. Yuan, being two of the Vendors, are the controlling shareholder and the management shareholder of the Company respectively, each is thus regarded as a connected person of the Company under the GEM Listing Rules. Therefore, the Acquisition constitutes a connected transaction to the Company pursuant to Rule 20.13(a) of the GEM Listing Rules. The Acquisition also constitutes a very substantial acquisition to the Company pursuant to Rule 19.06(5) of the GEM Listing Rules. Accordingly, the Acquisition is subject to the Independent Shareholders' approval by way of poll at the EGM. Mr. Li, Mr. Yuan and their respective associates will abstain from voting in respect of the proposed resolution(s) approving the Sale and Purchase Agreement at the EGM.

### **WHITEWASH WAIVER**

As at the date of this announcement, Mr. Li is interested in 206,440,000 Shares, representing approximately 40.81% of the existing issued share capital of the Company. Mr. Li and parties acting in concert with him in aggregate are interested in 241,888,000 Shares, representing approximately 47.82% of the existing issued share capital of the Company. Upon the Completion, Mr. Li will be interested in 584,888,000 Shares, representing approximately 59.75% of the enlarged issued share capital of the Company, while Mr. Li and parties acting in concert with him in aggregate will be interested in approximately 714,948,000 Shares, representing approximately 73.04% of the enlarged issued share capital of Company. As the increase in shareholding of Mr. Li and parties acting in concert with him in the Company exceeds 2% from the lowest collective percentage holding in the past 12-month ending on and inclusive of the date of the Sale and Purchase Agreement, Mr. Li and parties acting in concert with him will then be obliged to make a mandatory general offer for all the Shares not already owned or agreed to be acquired by them pursuant to Rule 26 of the Takeovers Code. Mr. Li and parties acting in concert with him will, in accordance with Note 1 on dispensations from Rule 26 of the Takeovers Code, make an application to the Executive for the Whitewash Waiver to waive their obligations to make a mandatory general offer for all the securities of the Company not already owned or agreed to be acquired by them under Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, will be subject to, among other things, the approval of the Independent Shareholders to be taken by way of a poll at the EGM in accordance with Note 1 on dispensations from Rule 26 of the Takeovers Code. Mr. Li and parties acting in concert with him and those who are interested or involved in the Sale and Purchase Agreement and the Whitewash Waiver will abstain from voting in respect of the proposed resolution to approve the Whitewash Waiver at the EGM. Mr. Li and parties acting in concert with him had not acquired any securities of the Company within the six-month period immediately preceding the date of this announcement.

## **INCREASE IN AUTHORISED SHARE CAPITAL OF THE COMPANY**

The Directors propose to increase the authorised share capital of the Company from HK\$100,000,000 divided into 1,000,000,000 Shares of HK\$0.1 each to HK\$200,000,000 divided into 2,000,000,000 Shares of HK\$0.1 each by creation of an additional 1,000,000,000 new Shares of HK\$0.1 each. The proposed increase in authorised share capital is conditional upon the passing of an ordinary resolution by the Shareholders at the EGM.

## **SUBDIVISION OF SHARES**

The Board proposes that conditional upon and immediately after the Completion taken place, each of the existing issued and unissued shares in the share capital of the Company be subdivided into five Subdivided Shares of HK\$0.02 each. Upon completion of the Share Subdivision, the board lot size of the Shares for trading on the Stock Exchange will be changed from 5,000 Shares to 20,000 Subdivided Shares. The Share Subdivision is conditional upon the passing of an ordinary resolution by the Shareholders at the EGM while the change in board lot size is not subject to the Shareholders' approval.

## **GENERAL**

An independent board committee comprising all of the independent non-executive Directors will be formed to advise the Independent Shareholders on the Sale and Purchase Agreement and the Whitewash Waiver. An independent financial adviser will be appointed to advise the independent board committee and the Independent Shareholders regarding the Sale and Purchase Agreement and the Whitewash Waiver in accordance with the GEM Listing Rules and the Takeovers Code. An announcement will be made upon appointment of independent financial adviser to the independent board committee and the Independent Shareholders.

A circular containing, among other things, (i) further details of the terms of the Sale and Purchase Agreement, the Whitewash Waiver, proposed increase in authorised share capital of the Company, the Share Subdivision, the trading arrangements in respect of the Subdivided Shares and the procedure for the free exchange of existing share certificate of the Company; (ii) the letter from the independent board committee in respect of the Sale and Purchase Agreement and the Whitewash Waiver; (iii) the letter of advice from the independent financial adviser to the independent board committee and the Independent Shareholders in relation to the terms of the Sale and Purchase Agreement and the Whitewash Waiver; and (iv) a notice to convene the EGM will be despatched to the Shareholders as soon as practicable.

The announcement will be published on the Company's website in accordance with Rule 16.19 of the GEM Listing Rules.

### **SUSPENSION AND RESUMPTION OF TRADING**

At the request of the Company, trading in the Shares was suspended with effect from 11:46a.m. on 13 September 2007 pending the release of this announcement. An application has been made by the Company to the Stock Exchange for resumption of trading in the Shares with effect from 9:30a.m. on 24 September 2007.

### **THE SALE AND PURCHASE AGREEMENT**

Date: 17 September 2007

Parties: Mr. Li, Well Sunshine, Mr. Yuan and Mr. Yan, as the Vendors  
Mr. Lo Wah Wai as guarantor  
The Purchaser

#### **The asset to be acquired**

Pursuant to the Sale and Purchase Agreement, the Purchaser conditionally agreed to acquire and the Vendors conditionally agreed to sell 4,720,000 Sale Shares, representing the entire issued share capital of Hong Kong Cuyo. Pursuant to the loan agreement entered between Mr. Lo Wah Wai and Hong Kong Cuyo dated 24 August 2007, Mr. Lo Wah Wai agreed to provide interest-free and non secured loan facility of HK\$6 million to Hong Kong Cuyo. As at the date of this announcement, Hong Kong Cuyo has drawn down in aggregate HK\$3.0 million. Pursuant to the Sale and Purchase Agreement, HK\$3.0 million of such facility which has been drawn down by Hong Kong Cuyo will be waived by Mr. Lo Wah Wai upon the Completion and the remaining undrawn balance of such facility will be provided to Hong Kong Cuyo by Mr. Lo Wah Wai. In addition, the interest-free and non secured shareholder's loans of approximately RMB\$6.0 million in aggregate owed by Hong Kong Cuyo and Sichuan Cuyo to Mr. Li will be waived upon the Completion.

Upon the Completion, Hong Kong Cuyo will be a wholly owned subsidiary of the Company.

## Consideration

The consideration for the Acquisition is HK\$312.0 million and will be satisfied by the allotment and issue of 473,060,000 Consideration Shares at approximately HK\$0.6595 per Share, which represents:

- (a) a discount of approximately 4.4% to the closing price of HK\$0.69 per Share as quoted on the Stock Exchange on 13 September 2007, being the last trading day immediately before the publication of this announcement;
- (b) a premium of approximately 8.1% to the average closing price of HK\$0.61 per Share as quoted on the Stock Exchange from 7 September 2007 to 13 September 2007, being the five trading days immediately before the publication of this announcement; and
- (c) a premium of approximately 9.9% to the average closing price of HK\$0.60 per Share as quoted on the Stock Exchange from 31 August 2007 to 13 September 2007, being the 10 trading days immediately before the publication of this announcement.

Out of the total Consideration Shares, 378,448,000 Consideration Shares will be allotted to Mr. Li, 47,306,000 Consideration Shares will be allotted to Well Sunshine, 37,844,800 Consideration Shares will be allotted to Mr. Yuan and 9,461,200 Consideration Shares will be allotted to Mr. Yan.

The consideration for the Acquisition of HK\$312.0 million was determined, among other things, the current market price of phosphate rock which ranges from RMB150 to RMB200 per tonne, the Mine's reserve base of 117,300,000 tonnes of phosphate, the financial position of Hong Kong Cuyo and Sichuan Cuyo, the outlook of phosphate and related products prices and comparable market transactions in recent years. The Directors have examined the recent phosphate mine transactions during the period between 2006 and 2007 in the PRC and noted that the consideration per tonne for these transaction ranges from RMB0.92 to RMB32.31. Such recent phosphate mine transactions were based on the recent announcements by the companies listed in the PRC and information from the local department of land and resource in the PRC, and the mines involved have reserves which range from approximately 2.5 million tonnes to approximately 73 million tonnes.

The consideration was determined after arm's length negotiation between the parties to the Sale and Purchase Agreement and on normal commercial terms. After considering the per tonne consideration of the Acquisition of approximately RMB2.66 when compared to that of the recent phosphate mine transactions, the waiver of the shareholders' loans by Mr. Li and Mr. Lo Wah Wai, and the prevailing

trading price of the Shares immediately before the date of the Sale and Purchase Agreement, the Directors (excluding independent non-executive Directors) are of the view that the consideration of the Acquisition and the issue price of the Consideration Shares are fair and reasonable.

The Consideration Shares will be issued under a special mandate to be granted to the Directors to allot, issue and deal with the Consideration Shares at the EGM subject to the Independent Shareholders' approval by way of poll. The Consideration Shares, when issued upon the Completion, will rank pari passu in all respects with the existing Shares in issue.

An application will be made to the Stock Exchange for the listing of and permission to deal in the Consideration Shares.

### **Conditions precedent**

Completion of the Sale and Purchase Agreement will be conditional, inter alia:

- (a) satisfactory due diligence shall have been completed by the Purchaser and/or its professional advisers;
- (b) the approval by the Independent Shareholders by way of a poll with respect to the entering into the Sale and Purchase Agreement and the transaction contemplated under the Sale and Purchase Agreement and the grant of the Whitewash Waiver in accordance with the requirements of the GEM Listing Rules and Takeovers Code, respectively, having been obtained;
- (c) the Listing Committee of the Stock Exchange of the granting the listing of, and permission to deal in the Consideration Shares;
- (d) the Securities and Futures Commission having granted the Whitewash Waiver with respect to the allotment and issue of the Consideration Shares to Mr. Li and parties acting in concert with him;
- (e) all necessary consents and approval (including those required by relevant regulatory authority and the financier(s)) in respect of the Sale and Purchase Agreement and the transactions contemplated therein required by each of the parties being obtained;
- (f) the obtaining of a legal opinion, in form and substance satisfactory to the Purchaser, issued by a firm of lawyers appointed by the Purchaser and qualified to practice the laws of the PRC and addressed to the Purchaser opining on, inter

alias, the operation of the Sichuan Cuyo and its mining right to the Mine and that, there will be no material legal obstacles for the Sichuan Cuyo to obtain all necessary approvals, permits and licences to carry out mining activities on the Mine under the applicable laws and regulations of the PRC; and

- (g) the warranties given by the Vendors and Mr. Lo Wah Wai in the Sale and Purchase Agreement being true, accurate and correct in all respects as at the date of the Sale and Purchase Agreement and as at the date of the Completion.

In the event that the condition (g) above is fulfilled on the date of the seven Business Day following the fulfillment (or waiver) of the conditions (a) to (f) above or such other date as agreed by the Purchaser and the Vendors, then condition (g) shall be deemed to be satisfied on such date and the Completion shall take place on such date accordingly.

Should the conditions precedent are not fulfilled or waived (other than conditions (b), (c) and (d) which cannot be waived by either party) on or before 31 March 2008, the Purchaser may elect to rescind the Sale and Purchase Agreement.

### **Warranty and guarantee**

Pursuant to the Sale and Purchase Agreement, Mr. Li undertakes and warrants to the Company that, among others, he will procure all the necessary approvals, permits and licences to conduct mining activities of the Mine under the applicable laws and regulations of the PRC will be obtained on or before 17 March 2009, being eighteen (18) months from the date of the Sale and Purchase Agreement. There is no assurance that a mine exploitation license with a 30-year lifespan would be granted by the relevant authorities. Shareholders and investors should refer to the section headed “Risks relating to the mining industry” in this announcement for more detailed discussion in relation to risks to the Group.

Pursuant to the Sale and Purchase Agreement, Mr. Lo Wah Wai will unconditionally and irrevocably guarantees to the Purchaser and the Company the due and punctual performance and observance by Well Sunshine of all its obligations, commitments, undertakings, warranties, indemnities and covenants under or pursuant to this Agreement and agrees to indemnify the Purchaser and the Company against all losses, damages, costs and expenses reasonably and properly incurred (including legal costs and expenses) which the Purchaser or the Company may suffer through or arising from any breach by Well Sunshine of such obligations, commitments, warranties, undertakings, indemnities or covenants.

## Completion

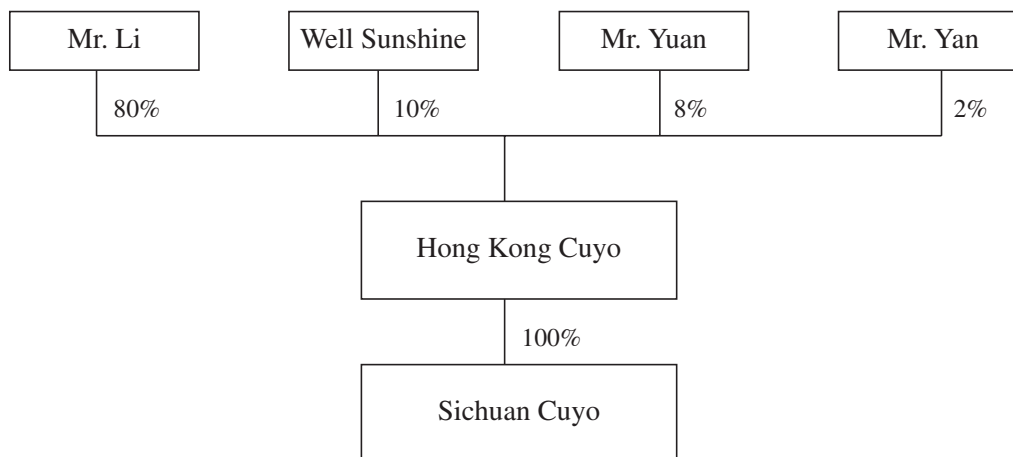
Completion of the Sale and Purchase Agreement shall take place on or before the seventh Business Day after fulfillment or waiver of the conditions precedent to the Sale and Purchase Agreement or such other date as the parties may agree.

## Lock-up

The Consideration Shares to be issued to Mr. Li, Mr. Yuan and Well Sunshine will be subject to moratorium for a six-month period from the issue date of the Consideration Shares.

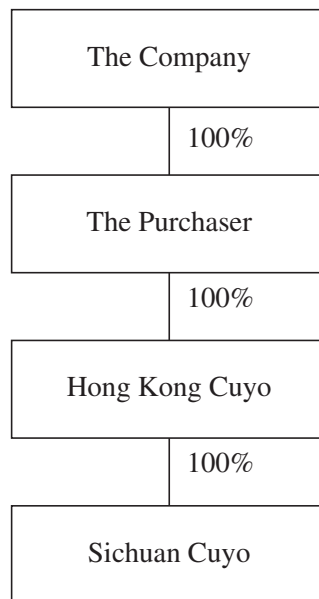
The lock-up arrangement was a commercial decision reached among the Company and the Vendors after arm's length negotiation. After taking into consideration of the relatively small amount of Shares to be issued to Mr. Yan, which is 9,461,200 Consideration Shares representing less than 1% of the enlarged issue share capital of the Company immediately after the Completion, it was agreed among the parties that the Consideration Shares issued to Mr. Yan will not be subject to the abovementioned lock-up arrangement.

*Shareholding chart of Hong Kong Cuyo immediately before the Acquisition*





*Shareholding chart of Hong Kong Cuyo immediately after the Acquisition*



**DUE DILIGENCE**

Pursuant to the Sale and Purchase Agreement, the Purchaser is entitled to carry out a due diligence review and investigation of the business of the Hong Kong Cuyo and Sichuan Cuyo from time to time before 31 March 2008. The Vendors shall provide and make available and procure Hong Kong Cuyo and Sichuan Cuyo to make available for inspection by the authorised representatives of the Purchaser of all such information and materials relating to Hong Kong Cuyo and Sichuan Cuyo. It is also one of the conditions precedent that satisfactory due diligence shall have been completed by the Purchaser and/or its professional advisers.

The Directors has conducted, among others, the following due diligence works regarding the Acquisition:

- reviewed incorporation documents and statutory records of Hong Kong Cuyo and Sichuan Cuyo;
- reviewed the exploration report and geological report in relation to the Mine;
- conducted site visit in Sichuan and met with the management of Sichuan Cuyo; and
- reviewed industry reports regarding phosphate market.

In addition, the Group has appointed King and Wood as legal advisers to the Company as to the PRC laws to conduct due diligence on legal status of Sichuan Cuyo and PricewaterhouseCoopers as reporting accountants to perform audit works on Hong Kong Cuyo and Sichuan Cuyo for the three years ended 31 December 2006 and six months ended 30 June 2007.

The Group has appointed an independent technical adviser, Minarco-MineConsult to perform a technical review on the Mine including, among others, geology, mineral resources and exploitation potential. Technical report prepared by Minarco-MineConsult will be included in the circular of the Company, among others, in relation to the Acquisitions.

### EFFECTS OF THE ACQUISITION AND THE SHARE SUBDIVISION ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

	As at the date of this announcement		Immediately after the Completion		Immediately after the Completion and the Share Subdivision	
	No. of Shares	%	No. of Shares	%	No. of Shares	%
<b>Mr. Li and his parties acting in concert</b>						
Mr. Li ( <i>note</i> )	206,440,000	40.81	584,888,000	59.75	2,924,440,000	59.75
Mr. Yuan ( <i>note</i> )	35,448,000	7.01	73,292,800	7.49	366,464,000	7.49
Well Sunshine	—	—	47,306,000	4.83	236,530,000	4.83
Mr. Yan	—	—	9,461,200	0.97	47,306,000	0.97
	<u>241,888,000</u>	<u>47.82</u>	<u>714,948,000</u>	<u>73.04</u>	<u>3,574,740,000</u>	<u>73.04</u>
Ms. Chi Chuan ( <i>note</i> )	12,528,000	2.48	12,528,000	1.28	62,640,000	1.28
Ms. Man Au Vivian ( <i>note</i> )	6,264,000	1.24	6,264,000	0.64	31,320,000	0.64
Public Shareholders	<u>245,140,000</u>	<u>48.46</u>	<u>245,140,000</u>	<u>25.04</u>	<u>1,225,700,000</u>	<u>25.04</u>
	<u>505,820,000</u>	<u>100.00</u>	<u>978,880,000</u>	<u>100.00</u>	<u>4,894,400,000</u>	<u>100.00</u>

*Note:* Mr. Li, Mr. Yuan, Ms. Chi Chuan and Ms. Man Au Vivian are executive Directors.

## **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.

The Group has its major production facilities in Xindou District, Chengdu, Sichuan Province, the PRC with an annual production capacity of 90,000 tonnes of urea, 90,000 tonnes of ammonia, 90,000 tonnes of sodium carbonate, 100,000 tonnes of ammonium chloride and 600,000 tonnes of bulk blended (“BB”) & complex fertilisers, respectively. In addition, the Group has two production facilities in Dazhou City, Sichuan Province, the PRC and Dezhou City, Shandong Province, the PRC with 80,000 tonnes of urea and 50,000 tonnes of ammonia and 100,000 tonnes of BB and complex fertilizers, respectively, per annum. The Group also has a complex fertiliser plant in Qingdao, the PRC, with annual production capacity of 300,000 tonnes BB and complex fertilisers, which commenced production in June 2007.

As stated in the interim report of the Group for the six months ended 30 June 2007, the Group has commenced the construction of its new urea plant in Dazhou, Sichuan Province, the PRC. The construction of such plant is expected to be completed by the end of 2008. The Group has already obtained the approval of such project by 四川省商務廳 (Commerce Bureau of Sichuan Province), and has ordered all the necessary equipment to be installed. Such new urea plant is planned to have annual capacity of 400,000 tonnes of ammonia and 450,000 tonnes of urea. Total investment of the new urea plant is estimated to be around RMB897 million, which will be financed by internal resources, debt financing and capital market financing.

## **INFORMATION ON THE VENDORS**

Mr. Li, is the controlling shareholder of the Company, who holds approximately 40.81% of the issued share capital of the Company and 80% of the issued share capital of Hong Kong Cuyo. Therefore, Mr. Li is a connected person of the Company under the GEM Listing Rules.

Well Sunshine, a company incorporated in the British Virgin Islands, is an investment holding company, which is wholly and beneficially owned by Mr. Lo Wah Wai. Well Sunhine currently owns 10% of the issued share capital of Hong Kong Cuyo. To the best of the Directors’ knowledge, information and believes, having made all reasonable enquiries, Well Sunshine and its ultimate beneficial owner are third parties independent of the Company and its connected persons.

Mr. Yuan, is an executive Director and the management shareholder of the Company, who holds approximately 7.01% of the issued share capital of the Company and 8% of the issued share capital of Hong Kong Cuyo. Therefore, Mr. Yuan is a connected person of the Company under the GEM Listing Rules.

Mr. Yan, to the best knowledge of the Directors, information and believes, having made all reasonable enquiries, is a third party independent of the Company and its connected person.

## INFORMATION ON HONG KONG CUYO, SICHUAN CUYO AND THE MINE

### Hong Kong Cuyo

Hong Kong Cuyo is principally engaged in investment holding and the principal assets of which is the entire issued share capital of Sichuan Cuyo. Hong Kong Cuyo was incorporated in October 2001 and does not engage in any business other than the ownership of Sichuan Cuyo as at the date of this announcement. Since 2005, Hong Kong Cuyo was owned by Mr. Li as to 90% and by Logistic Web, a company wholly owned by Mr. Lo Wah Wai as to 10%. Following equity interest transfer of 8% and 2% in Hong Kong Cuyo to Mr. Yuan and Mr. Yan respectively by Mr. Li in September 2007 and equity interest transfer of 10% in Hong Kong Cuyo to Well Sunshine by Logistic Web in September 2007, Hong Kong Cuyo is currently owned by Mr. Li, Well Sunshine, Mr. Yuan and Mr. Yan as to 80%, 10%, 8% and 2% respectively. Total investments of Mr. Li, Mr. Yuan, Well Sunshine and Mr. Yan in Hong Kong Cuyo are approximately RMB10.0 million, RMB0.4 million, RMB3.5 million and RMB0.1 million as at the date of this announcement. The audited financial figures of Hong Kong Cuyo prepared in accordance with the Hong Kong Financial Reporting Standards are set out below:

	<b>For the year ended</b>	
	<b>31 December</b>	
	<b>2005</b>	<b>2006</b>
	<i>(in HK\$'000)</i>	<i>(in HK\$'000)</i>
Loss before tax	8.3	9.1
Loss after tax	8.3	9.1
	<b>As at 31 December</b>	
	<b>2005</b>	<b>2006</b>
	<i>(in HK\$'000)</i>	<i>(in HK\$'000)</i>
Total asset	4,744.1	4,744.1
Net asset value	4,702.5	4,693.4

Losses incurred for the two years ended 31 December 2006, representing administrative expenses incurred during the same period.

### **Sichuan Cuyo**

Sichuan Cuyo was established in July 2002 by 四川永承投資管理有限公司 (Sichuan Yongcheng Investment Company Limited), a company wholly-owned by Mr. Li, and Hong Kong Cuyo. At its incorporation, Sichuan Cuyo was owned as to 75% by Sichuan Yongcheng Investment Company Limited and as to 25% by Hong Kong Cuyo. In November 2003, Hong Kong Cuyo acquired 75% equity interest in Sichuan Cuyo from Sichuan Yongcheng Investment Company Limited at a cash consideration of RMB3,750,000. The registered equity capital of Sichuan Cuyo is RMB5 million.

Sichuan Cuyo is principally engaged in the exploration and exploitation of phosphorous mine and production and sale of phosphate related products. Sichuan Cuyo had been granted by 四川省國土資源廳 (Department of Land and Resources of Sichuan Province) an exploration rights with 26.2 sq. km, including the Mine with effective period between December 2002 and December 2003 in December 2002. However, only 6.5 sq. km has been explored by 四川省化工地質勘察院 (Sichuan Province Chemicals Geological Exploration Centre) during the period from May 2001 to September 2002. As such, Sichuan Cuyo subsequently applied for another exploration right for such area with effective period between March 2004 and March 2006 in March 2004 for the purpose of application relevant mine exploitation license. The audited financial figures of Sichuan Cuyo prepared by Sichuan Wan Bang CPA in accordance with the PRC GAAP are set out below:

	<b>As at 31 December</b>	
	<b>2005</b>	<b>2006</b>
	<i>(in RMB'000)</i>	<i>(in RMB'000)</i>
<b>Total asset</b>	11,613.9	11,858.8
<b>Net asset value</b>	5,000.4	5,000.4

Since its establishment and up to the date of this announcement, Sichuan Cuyo has been engaged in mine exploration and has not yet commenced any production activities, and thus, no profit or loss was recorded for the two years ended 31 December 2006. According to Sichuan Cuyo, all expenses incurred during the same period were capitalised, which will be then subject to amortisation and/or depreciation upon commencement of the operation of the Mine.

## **The Mine**

The Mine is located at 綿竹市清平鄉 (Qingping Village, Mianzhu City), Sichuan Province, the PRC with area of approximately 6.5 sq. km. According to geological exploration and reserves report prepared by Sichuan Province Chemicals Geological Exploration Centre in October 2002 and a letter issued by Department of Land and Resources of Sichuan Province in March 2005, the Mine contains approximately 117,300,000 tonnes mineral reserve. As at the date of this announcement, exploration of the Mine has been completed. Sichuan Cuyo has surrendered the exploration permit of the Mine to Department of Land and Resources of Sichuan Province for the purpose of applying for the mine exploitation license in November 2005. According to a letter from the Department of Land and Resources of Sichuan Province dated 28 March 2007, such application has been approved by the Department of Land and Resources of Sichuan Province. As such, the legal adviser to the Company as to PRC laws, King and Wood, advised that the obtaining of mine exploitation license will then be subject to final approval by 國土資源部 (PRC Ministry of Land and Resources). As at the date of this announcement, no mine exploitation license of the Mine has been obtained. The Directors expects to obtain such mine exploitation license in 2008. The legal advisers to the Company as to the PRC laws is evaluating if there is any obstacle for the Company to obtain relevant mine exploitation license to the Mine, their opinion will be subsequently disclosed in the circular of the Company. The obtaining of such legal opinion is one of the conditions precedent to the Sale and Purchase Agreement.

### **Summary of key steps required for application for mine exploitation license**

Given Sichuan Cuyo was granted the exploration rights to the Mine, it is qualified to apply for mine exploitation license in respect of the Mine. Sichuan Cuyo should apply to the registration and administration authority for designated mining areas based on the approved geological exploration and reserves report together with relevant documents such as their qualifications certificate, proposal for development and use of mineral resources and environmental report. When the application for registration is approved, they shall pay the royalty for the mine exploitation rights.

### **Renewal of mine exploitation license**

According to the relevant PRC laws, the mine exploitation license of the Mine may have lifespan of 30 years subject to renewal within 30 days before the expiry date of such mine exploitation license. The relevant PRC authority may consider various matters including the conduct of the applicant and the term of the mine exploitation license in approving the application.

## **Risks relating to the mining industry**

**Risks relating to the industry are set out as below:**

- 1. Advised by the legal advisers to the Company as to PRC laws, King and Wood, mine exploitation license from the appropriate PRC government authorities is required for the exploitation of the Mine. As at the date of this announcement, application for the mine exploitation license for the exploitation of the Mine has been submitted to the appropriate PRC government authorities. However, any problem, delay, rejection arises in obtaining or completing these approvals, licenses, tests or steps may result in delay or prohibition in carrying out the mining operations on the Mine by the Group.**
- 2. The profitability of the Group's exploitation operations on the Mine may be affected by fluctuations in the market price of phosphate and phosphate related products which may be influenced by numerous factors beyond the control of the Group.**
- 3. The phosphate industry in the PRC is subject to regulation by the PRC government. The operations under the Mine may be materially and adversely affected by any future changes in the government regulations and policies.**
- 4. Phosphate mine operations are subject to environmental protection laws and regulations in the PRC. The expenditure for environmental regulatory compliance will increase if the environment protection laws become more stringent.**
- 5. The operations of the Mine are carried out in the PRC. Any adverse changes in economic policy and legal development in the PRC will affect the revenue generated.**
- 6. The Group may face many operational risks, which include risk related to the geological structure of the Mine and geological disasters that occur during the mining process; and catastrophic events such as fires, earthquakes, floods or other natural disasters.**
- 7. This is the Group's first venture into the phosphate mining industry which could present management challenges. The Company and its current management have no experience in the mining industry. However, the Company intends to build up a professional management and technical team with expertise in the mining area as soon as possible after the completion of the Sale and Purchase Agreement to cope with the possible challenges.**

- 8. According to the legal advisers to the Company, the Mine is entitled to apply for mine exploitation license for a maximum of 30 years. However, there is no assurance that a mine exploitation license with a 30-year lifespan would be granted by the relevant authorities. Should the lifespan of the mine exploitation license to be granted by the relevant authorities be less than 30 years, the profitability of the Group's exploitation operations on the Mine may be adversely affected.**

## **REASONS FOR THE ACQUISITION**

It has been the Group's strategy to vertically expand its business. The Directors are of the view that the Acquisition enables the Group to expand its business scope to the exploration and exploitation of phosphate.

Phosphate has wide variety of usage, such as farming, husbandry, steel production, and the manufacture of soda beverages, toothpaste, laundry detergent and industrial products. In agriculture, phosphate is one of the three primary plant nutrients and is a component of fertilisers. According to 磷肥工業“十一五”發展規劃思路 (11th Five-Year Development Plan for Phosphate Fertiliser Industry) issued by 中國磷肥工業協會 (China Phosphate Fertilisers Industry Association) in January 2006, it is the intention of the PRC Government to improve the business environment of the agriculture industry and it is expected that the demand for phosphate will increase in the coming years and there will be a shortage of phosphate of about 8 million tonnes in 2010. In addition, according to China Phosphate Fertilisers Industry Association, it is expected that the annual demand for phosphate fertilisers will reach 12 million tonnes in the PRC in 2010. The Directors therefore are optimistic about the future prospect of the demand for phosphate in the PRC and consider the Acquisition to be an opportunity to investment in the phosphate industry.

At the same time, the Acquisition will also secure supply of raw material for the Group's production of phosphate-related fertilisers. The Directors believe that with a secured supply of raw material, the Group is in a better position to expand its fertiliser business and to face any competition in the fertiliser industry due to its cost advantage.

Given the fact that Sichuan Cuyo has submitted its application for the mine exploitation license in respect of the Mine, that Mr. Li has provided a guarantee for the obtaining of such mine exploitation license, and the discount of the consideration in relation to the consideration of recent comparable transactions in the PRC, the Directors (excluding independent non-executive Directors) consider that the terms of the Sale and Purchase Agreement and the transaction contemplated therein are fair and reasonable, on normal commercial terms and are in the interests of the Company and the Shareholders as a whole.



Although the Company will pay a significant premium over original acquisition cost of equity interest in Hong Kong Cuyo paid by the Vendors, after considering factors as disclosed under the section headed “Consideration” of the announcement and the reasons stated herein, the Directors (excluding independent non-executive Directors) are of the view that the consideration of the Acquisition is fair and reasonable.

### **THE WHITEWASH WAIVER**

As at the date of this announcement, Mr. Li is interested in 206,440,000 Shares, representing approximately 40.81% of the existing issued share capital of the Company. Mr. Li and parties acting in concert with him in aggregate are interested in 241,888,000 Shares, representing approximately 47.82% of the existing issued share capital of the Company. Mr. Li and parties acting in concert with him had not acquired any securities of the Company within the six-month period immediately preceding the date of this announcement. Mr. Li and parties acting in concert with him will not deal in the securities of the Company prior to the Completion unless otherwise permitted under the Takeovers Code or with the prior written consent of the Executive.

Immediately after the Completion, Mr. Li will be interested in 584,888,000 Shares, representing approximately 59.75% of the enlarged issued share capital of the Company, while Mr. Li and parties acting in concert with him in aggregate will be interested in approximately 714,948,000 Shares, representing approximately 73.04% of the enlarged issued share capital of Company. As the increase of in shareholding of Mr. Li and parties acting in concert with him in the Company in aggregate exceeds 2% from the lowest collective percentage holding in the past 12-month ending on and inclusive of the date of the Sale and Purchase Agreement, Mr. Li and parties acting in concert with him will then be obliged to make a mandatory general offer for all the Shares not already owned or agreed to be acquired by them pursuant to Rule 26 of the Takeovers Code. Mr. Li and parties acting in concert with him will, in accordance with Note 1 on dispensations from Rule 26 of the Takeovers Code, make an application to the Executive for the Whitewash Waiver to waive their obligations to make a mandatory general offer for all the securities of the Company not already owned or agreed to be acquired by Mr. Li and parties acting in concert with him under Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, would be subject to, among other things, the approval of the Independent Shareholders to be taken by way of a poll at the EGM in accordance with Note 1 on dispensations from Rule 26 of the Takeovers Code. Mr. Li and parties acting in concert with him and those who are interested or involved in the Sale and Purchase Agreement and Whitewash Waiver will abstain from voting in respect of the proposed resolution to approve the Whitewash Waiver at the EGM. The Executive may or may not grant the Whitewash Waiver.

As Mr. Li will be interested in over 50% of the voting rights of the Company after the Completion, Mr. Li may further acquire the Shares at any time after the Completion without incurring any obligation to make general offers to acquire all the Shares, other than those already owned by Mr. Li and parties acting in concert with him, under Rule 26.1 of the Takeovers Code.

## **PROPOSED INCREASE OF AUTHORISED SHARE CAPITAL**

The current authorised share capital of the Company is HK\$100,000,000 divided into 1,000,000,000 Shares of HK\$0.1 each. As at the date of this announcement, the issued share capital of the Company is 505,820,000 Shares. To ensure that there is sufficient authorised unissued share capital to accommodate future expansion of the Group and to give flexibility for the Directors to raise fund by allotting and issuing Shares in the future, as and when necessary, the Directors propose to increase the authorised share capital of the Company from HK\$100,000,000 divided into 1,000,000,000 Shares to HK\$200,000,000 divided into 2,000,000,000 Shares by the creation of an additional 1,000,000,000 new Shares after the Completion. The additional new Shares shall rank pari passu in all respects with existing Shares. The Directors expect that the increase in the authorised share capital of the Company will facilitate its future equity fund raising activities. The proposed increase in authorised share capital is conditional upon the passing of an ordinary resolution by the Shareholders at the EGM

## **SHARE SUBDIVISION AND CHANGE IN BOARD LOT SIZE**

The Board proposes that conditional upon and immediately after the Completion taken place, each of the existing issued and unissued Shares be subdivided into five Subdivided Shares of HK\$0.02 each. Upon completion of the Share Subdivision, the board lot size of the Shares for trading on the Stock Exchange will be changed from 5,000 Shares to 20,000 Subdivided Shares. The Board believes that the Share Subdivision will lower the minimum investment amount in the Shares thereby enhancing the liquidity in trading of the Shares and widening its Shareholders' base. Hence, the Board is of the view that the Share Subdivision is in the interests of the Company and its Shareholders as a whole. The Share Subdivision is conditional upon the passing of an ordinary resolution by the Shareholders at the EGM while the change in board lot size is not subject to the Shareholders' approval.

## **Conditions**

The Share Subdivision is conditional upon (i) the passing of an ordinary resolution by the Shareholders at the EGM, and (ii) the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the Subdivided Shares and any new Subdivided Shares which may fall to be issued pursuant to the exercise of options granted under the Share Option Scheme. Apart from the payment of the expenses for the Share Subdivision, the implementation of the Share Subdivision will not, of itself, alter the underlying assets, business operations, and management or financial position of the Company or the proportional interests of the Shareholders in the Company.

## **Change in authorised and issued share capital**

As at the date of this announcement, the authorised share capital of the Company is HK\$100,000,000 which is divided into 1,000,000,000 Shares of HK\$0.1 each of which 505,820,000 Shares of HK\$0.1 each are in issue. Immediately upon the Share Subdivision taking effect and on the basis that 505,820,000 Shares of HK\$0.1 each are in issue, 2,529,100,000 Subdivided Shares of HK\$0.02 each will be in issue pursuant to the Share Subdivision and the authorised share capital of the Company will be divided into 5,000,000,000 Subdivided Shares of HK\$0.02 each. Following completion of the proposed increase in authorised share capital, authorised share capital will be increased to HK\$200,000,000 which is divided into 10,000,000,000 Shares of HK\$0.02 each. The Subdivided Shares will rank *pari passu* in all respects with each other and the Share Subdivision will not result in any change in the relevant rights of the Shareholders.

## **Arrangement on odd lot trading**

In order to facilitate the trading of odd lots of Subdivided Shares as a result of the Share Subdivision, the Company will appoint the Agent to act as agent in providing a “matching service” to those shareholders who wish to top-up or sell their holdings of odd lots of the Subdivided Shares. The Agent will provide the service to match the sale and purchase of odd lots of Subdivided Shares. Holders of Subdivided Shares in odd lots who wish to take advantage of this facility either to dispose of or top-up their odd lots to a board lot of 20,000 Subdivided Shares may, directly or through their brokers, contact the Agent during such period. Further details of which will be provided in the circular to be despatched to the Shareholders. Shareholders should note that successful matching of the sale and purchase of odd lots of Subdivided Shares is not guaranteed and will depend on there being adequate amounts of odd lots of Subdivided Shares available for such matching. Shareholders are recommended to consult their professional advisers if they are in any doubt about the matching facility described above.

## **Exchange of certificates**

New certificates for Subdivided Shares will be issued in yellow in order to distinguish them from certificates for existing Shares which are green in colour. Shareholders are urged to exchange their certificates for existing Shares for new certificates for Subdivided Shares as soon as possible. This may be done free of charge by delivering the certificates for existing Shares to the branch share registrar of the Company in Hong Kong, Union Registrars Limited, Rooms 1901-02, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong for a period of time specified in the detailed timetable to be announced under separate announcement. Thereafter, certificates for existing Shares will be accepted for exchange only on payment of a fee of HK\$2.50 (or such higher amount as may from time to time be allowed by the Stock Exchange) for each new certificate for Subdivided Shares. A Shareholder will be entitled to aggregate his/her Shares registered in his/her name in order to obtain new certificates for Subdivided Shares.

Certificates for existing Shares will only be valid for delivery and settlement in respect of dealings for a period up and thereafter will not be accepted for dealing purposes. However, the certificates for existing Shares will continue to be good evidence of legal title to the Subdivided Shares on the basis of one Share for five Subdivided Shares and may be exchanged for new certificates for Subdivided Shares at any time. Such Shareholders shall be entitled to tender their certificates for existing Shares in exchange for new certificates for the Subdivided Shares in board lots of 20,000 Subdivided Shares so that their shareholding may be accurately represented by the new certificates for the Subdivided Shares.

## **Share Options**

As at the date of this announcement, the Company has outstanding 41,340,000 share options granted under the Share Option Scheme, which represented approximately 8.2% of the Company's Shares in issue as at the date of this announcement. Save as disclosed, there are no other warrants, convertible securities or options in issue as at the date of this announcement.

## **Expected Timetable of the Share Subdivision**

An announcement will be made when the detailed timetable of the Share Subdivision is fixed.

**EFFECTS OF THE ACQUISITION, THE PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL AND THE SHARE SUBDIVISION ON THE AUTHORISED SHARE CAPITAL, ISSUED SHARE CAPITAL AND UNISSUED SHARE CAPITAL OF THE COMPANY**

	<b>As at the date of this announcement</b>	<b>Immediately after the Completion</b>	<b>Immediately after the Completion and proposed increase of authorised share capital</b>	<b>Immediately after the Completion, proposed increase of authorised share capital and the Share Subdivision</b>
	<i>No. of Shares</i>	<i>No. of Shares</i>	<i>No. of Shares</i>	<i>No. of Shares</i>
Authorised Shares	1,000,000,000	1,000,000,000	2,000,000,000	10,000,000,000
Issued Shares	505,820,000	978,880,000	978,880,000	4,894,400,000
Unissued Shares	494,180,000	21,120,000	1,021,120,000	5,105,600,000

**GENERAL**

Mr. Li and Mr. Yuan, being two of the Vendors, are the controlling shareholder and the management shareholder of the Company respectively, each is thus regarded as a connected person of the Company under the GEM Listing Rules. Therefore, the Acquisition constitutes a connected transaction to the Company pursuant to Rule 20.13(a) of the GEM Listing Rules. The Acquisition also constitutes a very substantial acquisition to the Company pursuant to Rule 19.06(5) of the GEM Listing Rules. Accordingly, the Acquisition is subject to the Independent Shareholders' approval by way of poll at the EGM. Mr. Li, Mr. Yuan and their respective associates will abstain from voting in respect of the proposed resolution(s) approving the Sale and Purchase Agreement at the EGM.

Pursuant to the Takeovers Code, the Whitewash Waiver is subject to, among others, the approval by the Independent Shareholders at the EGM by way of a poll. Mr. Li and parties acting in concert with him and those who are interested or involved in the Sale and Purchase Agreement and Whitewash Waiver will abstain from voting in respect of the proposed resolution to approve the Whitewash Waiver at the EGM.

An independent board committee comprising all of the independent non-executive Directors will be formed to advise the Independent Shareholders on the Sale and Purchase Agreement and the Whitewash Waiver. An independent financial adviser will be appointed to advise the independent board committee and the Independent Shareholders regarding the Sale and Purchase Agreement and the Whitewash Waiver in accordance with the GEM Listing Rules and the Takeovers Code. An announcement will be made upon the appointment of independent financial adviser to the independent board committee and the Independent Shareholders.

A circular containing, among other things, (i) further details of the terms of the Sale and Purchase Agreement the Whitewash Waiver, proposed increase in authorised share capital of the Company, the Share Subdivision, the trading arrangements in respect of the Subdivided Shares and the procedure for the free exchange of existing share certificate of the Company; (ii) the letter from the independent board committee in respect of the Sale and Purchase Agreement and the Whitewash Waiver; (iii) the letter of advice from the independent financial adviser to the independent board committee of the Company and the Independent Shareholders in relation to the terms of the Sale and Purchase Agreement and the Whitewash Waiver; and (iv) a notice to convene the EGM will be despatched to the Shareholders as soon as practicable.

The announcement will be published on the Company's website in accordance with Rule 16.19 of the GEM Listing Rules.

## **SUSPENSION AND RESUMPTION OF TRADING**

Trading in the Shares on the GEM was suspended with effect from 11:46 a.m. on 13 September 2007 at the request of the Company pending the release of this announcement. Application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares with effect from 9:30 a.m. 24 September 2007.

## DEFINITION

“associates”	the term as prescribed under the GEM Listing Rules
“Acquisition”	the acquisition of 100% equity interest in Hong Kong Cuyo from the Vendors pursuant to the terms and conditions of the Sale and Purchase Agreement
“Agent”	Goldbond Securities Limited, the agent providing matching services to those Shareholders who wish to top-up or sell their holdings of odd lots of the Subdivided Shares
“Board”	the board of Directors
“Business Day(s)”	a day (excluding Saturday, Sunday and any day on which a tropical cyclone warning no.8 or above is hoisted or remains hoisted between 9:00 a.m. and 12:00 noon and is not lowered at or before 12:00 noon or on which a “black” rainstorm warning is hoisted or remains in effect between 9:00 a.m. and 12:00 noon and is not discontinued at or before 12:00 noon) on which licensed banks are generally open for business in Hong Kong
“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
“Completion”	completion of the Sale and Purchase Agreement
“Consideration Shares”	473,060,000 new Shares to be issued as consideration for the proposed acquisition of the Sales Shares
“Directors”	the directors of the Company
“EGM”	extraordinary general meeting of the Company to be convened and held for the purpose of considering and, if thought fit, approving the Sale and Purchase Agreement and the transactions contemplated thereunder, the Whitewash Waiver, proposed increase in authorised share capital of the Company and the Share Subdivision

“Executive”	the Executive Director of the Corporate Finance Division of the Securities and Futures Commission and any delegate of such Executive Director
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on the GEM
“Group”	the Company and the subsidiaries
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Cuyo”	Hong Kong Cuyo Investment Limited, a company incorporated in Hong Kong
“Independent Shareholder(s)”	Shareholders (other than Mr. Li, Mr. Yuan and their respective associates) who are not required to abstain from voting on the resolution(s) to be proposed at the EGM to approve the Sale and Purchase Agreement and the Whitewash Waiver
“Logistic Web”	Logistic Web Limited, a company incorporated in the British Virgin Islands, which is wholly owned by Mr. Lo Wah Wai
“Mine”	a phosphorous mine located at 綿竹市清平鄉 (Qingping Village, Mianzhu City), Sichuan Province, the PRC with area of approximately 6.5 sq. km
“Mr. Li”	Mr. Li Weiruo, the controlling shareholder and Chairman of the Company
“Mr. Yan”	Mr. Yan Wei, to the best knowledge of the Directors, information and believes, having made all reasonable enquiries, is an independent third party.
“Mr. Yuan”	Mr. Yuan Bai, an executive Director and a management shareholder of the Company
“PRC”	the People’s Republic of China and for the purpose of this announcement shall exclude Hong Kong, Macau Special Administrative Region and Taiwan



“Purchaser”	Bright Bridge Investments Limited, a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of the Company
“RMB”	Reminbi, the lawful currency of the PRC
“Sale and Purchase Agreement”	the sale and purchase agreement dated 17 September 2007 entered between, among others, the Purchaser and the Vendors, pursuant to which the Purchaser conditionally agreed to acquire and the Vendors conditionally agreed to sell the Sale Shares for a total consideration of HK\$312.0 million
“Sale Shares”	the 4,720,000 existing shares in issue, representing the entire issued share capital of Hong Kong Cuyo
”Share(s)”	ordinary shares of par value HK\$0.1 each in the share capital of the Company
“Share Option Scheme”	the share option scheme adopted by the Company on 10 June 2003 and was amended on 28 July 2004
“Share Subdivision”	the proposed subdivision of each of the issued and unissued Shares into five Subdivided Shares
“Shareholder(s)”	shareholder(s) of the Company
”Sichuan Cuyo”	四川承源化工有限公司 (Sichuan Chengyuan Chemical Company Limited), a wholly-foreign owned enterprise established in the PRC and is wholly-owned by Hong Kong Cuyo
“sq. km”	square kilometre
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subdivided Share(s)”	ordinary share(s) of HK\$0.02 each in the share capital of the Company upon the Share Subdivision taking effect
“Takeover Code”	the Codes on Takeovers and Mergers
“Well Sunshine”	Well Sunshine Trading Limited, a company incorporated in the British Virgin Islands, which is wholly owned by Mr. Lo Wah Wai

“Whitewash Waiver” a waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code of the obligations on Mr. Li and parties acting in concert with him to make a mandatory general offer under Rule 26 of the Takeovers Code for all the securities of the Company not already owned or agreed to be acquired by Mr. Li and parties acting in concert with him

“Vendors” Mr. Li, Well Sunshine, Mr. Yuan and Mr. Yan

“%” per cent.

By order of the Board  
**Koyo Ecological Agrotech (Group) Limited**  
**Li Weiruo**  
*Chairman*

Hong Kong, 21 September 2007

*As at the date of this announcement, the Board comprises five executive Directors, being Mr. Li Weiruo, Mr. Yuan Bai, Ms. Chi Chuan, Ms. Man Au Vivian, Mr. Li Shengdi and three independent non-executive Directors of 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:- (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.*

*This announcement will remain on the “Latest Company Announcements” page of the GEM website for at least 7 days from the date of its posting.*