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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**



First Shanghai Securities Limited

Placing Agent

On 18 February, 2008, the Vendors entered into the Placing Agreement in relation to the placing of up to 500,000,000 Placing Shares at the Placing Price of HK\$0.145 per Placing Share, and the Placing Agent agreed to, on a best effort basis, place up to 500,000,000 Placing Shares. The 500,000,000 Placing Shares represent approximately 10.22% of the Company's existing issued share capital of 4,894,400,000 Shares and approximately 9.27% of the issued share capital as enlarged by the Subscription of 500,000,000 Subscription Shares. The Placing Agreement is subject to certain conditions (as set out below).

On 18 February, 2008, 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\$0.145 per Subscription Share.

It is expected that the net proceeds after deduction of related expenses from the Subscription shall be approximately HK\$69 million and are expected to be used to prepare for the future investment in the new urea plant with an annual capacity of 400,000 tonnes of ammonia and 450,000 tonnes of urea in Dazhou, Sichuan Province, the People's Republic of China.

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 19 February, 2008 pending the release of this announcement. Trading in the Shares on the Stock Exchange will resume from 9:30 a.m. on 20 February, 2008.

THE PLACING

Parties

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

The Placing Shares

An aggregate of up to 500,000,000 existing Shares, of which Mr. Li agreed to sell up to 400,000,000 Placing Shares and Mr. Yuan agreed to sell up to 100,000,000 Placing Shares. The Placing Agent agreed to, on a best effort basis, place up to 500,000,000 Placing Shares. The 500,000,000 Placing Shares represent approximately 10.22% of the Company's existing issued share capital of 4,894,400,000 Shares and approximately 9.27% 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\$0.145 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 8.81% to the closing price of HK\$0.159 per Share as quoted on the Stock Exchange on 18 February, 2008 (the last trading day prior to the publication of this announcement), a discount of approximately 5.23% to the average closing price of approximately HK\$ 0.153 per Share as quoted on the Stock Exchange for the last 5 trading days up to and including 18 February, 2008, a discount of approximately 0.68% to the average closing price of approximately HK\$0.146 per Share as quoted on the Stock Exchange for the last 10 trading days up to and including 18 February, 2008.

A placing commission of 3.5% 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 Directors (including the independent non-executive Directors) are of the view that the placing commission is fair and reasonable. The net Placing Price after deducting the placing commission and relevant expenses is approximately HK\$0.138 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.

Completion of the Placing

Completion of the Placing shall take place on 21 February, 2008 (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 and the Company at any time prior to the completion date of the Placing to terminate the Placing Agreement if:

- (a) there has come to the notice of the Placing Agent:-
 - (i) that any statement contained in this announcement was when this announcement was issued, or has become, untrue, incorrect or misleading in any material respect;
 - (ii) any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this announcement, constitute a material omission therefrom;
 - (iii) any of the undertakings, warranties or representations contained herein becomes untrue or incorrect in any material respect;
 - (iv) any material breach of any of the obligations imposed upon any party to the Placing Agreement (other than the Placing Agent);
 - (v) any of the undertakings, warranties and representations set out in the Placing Agreement would not be true in any material respect if given at that time; or
 - (vi) any material adverse change in the business or in the financial or trading position of any member of the Group taken as a whole which is material in the context of the Placing; 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) and which in the reasonable opinion of the Placing Agent would materially prejudice the success of the Placing;
- (ii) the imposition of any moratorium, suspension or material restriction on trading in securities generally on GEM due to exceptional financial circumstances or otherwise and which, in the reasonable opinion of the Placing Agent, would materially prejudice the success of the Placing;
- (iii) any change in conditions of local, national or international securities markets occurs which in the reasonable opinion of the Placing Agent would materially prejudice the success of the Placing;
- (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 the People's Republic of China or any other jurisdiction relevant to the Company and/or its subsidiaries and if in the reasonable opinion of the Placing Agent any such new law or change would materially and adversely affect the business or financial prospects of the Group and/or materially prejudice the success of the Placing;
- (v) a change or development involving a prospective change of taxation or exchange control (or the implementation of exchange control) in Hong Kong or the People's Republic of China or elsewhere which will materially and adversely affect the business or the financial or trading position of the Group as a whole or which would, in the reasonable opinion of the Placing Agent, materially prejudice the success of the Placing; or

- (vi) the instigation of any litigation or claim of material importance by any third party against any member of the Group, which has or may have a material adverse effect on the business or financial prospects of the Group and which in the reasonable opinion of the Placing Agent 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 500,000,000 new Shares, of which Mr. Li agreed to subscribe for up to 400,000,000 Shares and Mr. Yuan to subscribe for up to 100,000,000 Shares. The 500,000,000 Subscription Shares represent approximately 10.22% of the existing issued share capital of the Company and approximately 9.27% of the issued share capital of the Company as enlarged by the Subscription. The respective number of Subscription Shares to be subscribed by Mr. Li and Mr. Yuan will not exceed the respective number of the Placing Shares sold by them under the Placing Agreement.

The Subscription Price

The Subscription Price of HK\$0.145 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\$3.5 million and will be borne by the Company.

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, 2007, 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 on that date. Based on the total number of Shares in issue on 26th April, 2007, which was 505,820,000 Unsubdivided Shares (equivalent to 2,529,100,000 Shares after the sub-division of each of the issued and unissued Undivided Shares into five Shares, as set out in the announcement of the Company dated 21 September, 2007), the maximum amount of Shares to be allotted and issued pursuant to the General Mandate is 101,164,000 Undivided Shares (equivalent to 505,820,000 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 500,000,000 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 500,000,000 new Shares to be issued pursuant to the Subscription.

If any of the conditions of the Subscription is not fulfilled on or before 2 March, 2008 (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 or before 3 March, 2008, which is 14 days from the date of the Placing Agreement, the Subscription will constitute a connected transaction and 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:-

Shareholders	Issued share capital before the Placing and the completion of the Subscription		Issued share capital after completion of the Placing but before completion of the Subscription		Enlarged issued share capital following completion of the Subscription <i>(Note)</i>	
	Shares	%	Shares	%	Shares	%
Mr. Li	2,924,440,000	59.75	2,524,440,000	51.58	2,924,440,000	54.21
Mr. Yuan	366,464,000	7.49	266,464,000	5.44	366,464,000	6.79
Well Sunshine Trading Limited	236,530,000	4.83	236,530,000	4.83	236,530,000	4.39
Chi Chuan	62,640,000	1.28	62,640,000	1.28	62,640,000	1.16
Man Au Vivian	31,320,000	0.64	31,320,000	0.64	31,320,000	0.58
<i>Public Shareholders:</i>						
Places	0	0	500,000,000	10.22	500,000,000	9.27
Other shareholders	<u>1,273,006,000</u>	<u>26.01</u>	<u>1,273,006,000</u>	<u>26.01</u>	<u>1,273,006,000</u>	<u>23.60</u>
Total	<u>4,894,400,000</u>	<u>100</u>	<u>4,894,400,000</u>	<u>100</u>	<u>5,394,400,000</u>	<u>100</u>

Note: Based on the maximum of 500,000,000 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 67.24% to approximately 57.02%. Immediately upon completion of the Subscription, the aggregate shareholding of the Vendors in the Company will increase from approximately 57.02% to approximately 61.00%.

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 30 June, 2007, the cash balance of the Group was approximately RMB31,787,000 and the Group's short-term bank loans amounted to approximately RMB179,976,000 as published in the Company's interim report.

The Directors consider that the Placing and the Subscription will strengthen the capital base of and the financial position of the Company, and prepare for the future investment in the new urea plant with an annual capacity of 400,000 tonnes of ammonia and 450,000 tonnes of urea in Dazhou, Sichuan Province, the People's Republic of China. The expenses to be incurred by the Company in respect of the Placing and the Subscription amount to approximately HK\$3.5 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\$69 million. 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).

FUND RAISING ACTIVITIES FOR THE PAST 12 MONTHS

Apart from the fund raising activity mentioned below, within the 12 months period immediately prior to the date of this announcement, the Company has not conducted any fund raising activities.

Description	Date of announcement	Net proceeds	Intended use of proceeds as announced	Actual use of proceeds
issue of 473,060,000 Undivided Shares as consideration for the acquisition of the entire issued share capital of Hong Kong Cuyo Investment Limited	21 September, 2007	HK\$312.0 million	acquisition of the entire issued share capital of Hong Kong Cuyo Investment Limited	acquisition of the entire issued share capital of Hong Kong Cuyo Investment Limited

RESUMPTION OF TRADING

Trading in the Shares on the Stock Exchange has been suspended from 9:30 a.m. on 19 February, 2008 pending the release of this announcement. Trading in the Shares on the Stock Exchange will resume from 9:30 a.m on 20 February, 2008.

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 the 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”	First Shanghai 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 18 February, 2008 in relation to the Placing

“Placing Price”	price payable for the Placing Shares at HK\$0.145 per Placing Share
“Placing Shares”	the 500,000,000 existing Shares available for the Placing
“Share(s)”	ordinary share(s) of HK\$0.02 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	subscription for 500,000,000 new Shares by the Subscribers pursuant to the Subscription Agreement
“Subscription Agreement”	the agreement entered into between the Company and the Subscribers on 18 February, 2008 in relation to the Subscription
“Subscription Price”	price payable for the new Shares in respect of the Subscription at HK\$0.145 per Share
“Subscription Share(s)”	up to 500,000,000 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
“Unsubdivided Shares”	the ordinary share(s) of HK\$0.10 each in the share capital of the Company before the sub-division of each of the issued and unissued Undivided Shares into five Shares, details are set out in the announcement of the Company dated 21 September, 2007
“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, 19 February, 2008

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 from the date of its posting and on the Company’s website at <http://www.koyochem.com>.